HSBC HOLDINGS PLC
Form 6-K
March 02, 2009

**FORM 6-K**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a - 16 or 15d - 16 of**

**the Securities Exchange Act of 1934**

For the month of March 2009

**HSBC Holdings plc**

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

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2 March 2009

**HSBC HOLDINGS PLC**
**2008 FINAL RESULTS - HIGHLIGHTS**

**Profitable business model**

- Pre-tax profit for 2008, excluding goodwill impairment, of US$19.9 billion, down 18 per cent. On a reported basis, pre-tax profit was US$9.3 billion, down 62 per cent.

- Diversified business model delivers profits in every region except North America and every customer group except Personal Financial Services.

- Earnings per ordinary share excluding goodwill impairment down 18 per cent to US$1.36 (2007: US$1.65). On a reported basis, earnings per share was US$0.47, down 72 per cent (2007: US$1.65).

**Maintaining our traditional financial strength**

- Capital generation remains strong. Tier 1 ratio of 8.3 per cent and total capital ratio of 11.4 per cent at 31 December 2008.

- Fully underwritten Rights Issue announced to enhance our capital strength.

- Subject to shareholder approval on 19 March 2009, Rights Issue will add 150 basis points to our capital ratios, strengthening the core equity tier 1 ratio to 8.5 per cent and the tier 1 ratio to 9.8 per cent, both on a pro forma basis as at 31 December 2008.

- Enhances our ability to respond to unforeseen events as well as provide opportunities to grow through targeted acquisitions.

- Total dividends in respect of 2008 of US$0.64 including fourth interim dividend of US$0.10, down 29 per cent, around 15 per cent in sterling terms. Total value of dividends for 2008 of US$7.7 billion.

- Customer advances to deposits ratio of 84 per cent at 31 December 2008.

**Managing our business in a challenging environment**

- Supporting our customers: grew our lending to personal, commercial and corporate customers by 9 per cent on an underlying basis.

· Writing no further consumer finance business in the US through the HFC and Beneficial brands and closing the majority of the network.

· Growing in emerging markets:

- Mainland China profit before tax of US$1.6 billion, up 25 per cent excluding 2007 dilution gains;

- India profit before tax of US$666 million, up 26 per cent;

- Middle East profit before tax of US$1.7 billion, up 34 per cent.

· Emerging markets acquisitions in banking in Taiwan and Indonesia and in retail brokerage in India.

· Difficult outlook for 2009.

· Strong performance in January 2009 ahead of expectations, particularly in Global Banking and Markets.

**HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US$9,307 MILLION**

HSBC made a profit before tax of US$9,307 million, a decrease of US$14,905 million, or 62 per cent, compared with 2007.

Net interest income of US$42,563 million was US$4,768 million, or 13 per cent, higher than 2007.

Net operating income before loan impairment charges and other credit risk provisions of US$81,682 million was US$2,689 million, or 3 per cent, higher than 2007.

Total operating expenses (excluding goodwill impairment) of US$38,535 million declined by US$507 million, or 1 per cent, compared with 2007. On an underlying basis, and expressed in terms of constant currency, operating expenses were broadly unchanged.

HSBC's cost efficiency ratio* was 47.2 per cent compared with 49.4 per cent in 2007.

Loan impairment charges and other credit risk provisions were US$24,937 million in 2008, US$7,695 million higher than 2007.

The tier 1 ratio and total capital ratio for the Group remained strong at 8.3 per cent and 11.4 per cent, respectively, at 31 December 2008.

The Group's total assets at 31 December 2008 were US$2,527 billion, an increase of US$173 billion, or 7 per cent, since 31 December 2007.

* *Excluding goodwill impairment. The cost efficiency ratio including goodwill impairment was 60.1 per cent.*

**Geographical distribution of results**

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **US$m** | **%** | US$m | % |
| Europe | **10,869** | **116.7** | 8,595 | 35.5 |
| Hong Kong | **5,461** | **58.7** | 7,339 | 30.3 |
| Rest of Asia-Pacific | **6,468** | **69.5** | 6,009 | 24.8 |
| North America | **(15,528)** | **(166.8)** | 91 | 0.4 |
| Latin America | **2,037** | **21.9** | 2,178 | 9.0 |
| Profit before tax | **9,307** | **100.0** | 24,212 | 100.0 |
| Tax expense | **(2,809)** | | (3,757) | |
| Profit for the year | **6,498** | | 20,455 | |
| Profit attributable to shareholders of the parent company | **5,728** | | 19,133 | |
| Profit attributable to minority interests | **770** | | 1,322 | |

**Distribution of results by customer group and global business**

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **US$m** | **%** | US$m | % |
| Personal Financial Services | **(10,974)** | **(117.9)** | 5,900 | 24.4 |
| Commercial Banking | **7,194** | **77.3** | 7,145 | 29.5 |
| Global Banking and Markets | **3,483** | **37.4** | 6,121 | 25.3 |
| Private Banking | **1,447** | **15.6** | 1,511 | 6.2 |

| | | | | |
|---|---|---|---|---|
| Other | **8,157** | **87.6** | 3,535 | 14.6 |
| Profit before tax | **9,307** | **100.0** | 24,212 | 100.0 |

**Statement by Stephen Green, Group Chairman**

2008 was the most extraordinary year for the global economy and financial services in well over half a century. It marked the first crisis of the era of globalised securitisation. And it also marked the first crisis of the just-in-time global economy as the impact of the financial crisis fed rapidly straight into the performance of the real economy.

**Causes of the crisis**

The causes of the crisis are complex and interrelated. But we can clearly see that a number of different factors contributed:

- First, the global financial imbalances that arose from the accelerating global economic shift towards emerging markets. The rapid growth of emerging economies created a macro-economic triangle, made up of: the major consumer markets, in particular the US but also a number of other Western economies; major producer nations - notably a number of fast-growing emerging markets which have been manufacturing a vast range of goods for consumption in the West; and resource providers whose wealth of hydrocarbons and other commodities have helped power the producer economies and have thus commanded such high prices until recently. This macro-economic triangle delivered high rates of growth, but also created major financial imbalances as producer nations and resource providers accumulated massive reserves whilst the US and other consumer markets ran significant and growing deficits.

- Second, cheap credit. A large proportion of the accumulated savings of the producers and resource providers were invested in the world's reserve currency, the US dollar, keeping rates low. This cheap money fuelled a consumer boom and rising house prices. It encouraged increased borrowing by banks and by their customers, fuelling asset price bubbles particularly in housing markets. Loose monetary conditions in the US and in much of the emerging world gave added strength to this already potent cocktail.

- Third, securitisation based on overly complex product structures. The complexity and opacity of certain financial instruments reached a point where even senior and experienced bankers and professional investors had trouble understanding them. This meant that people were selling and buying assets whose risks they had not properly assessed.

- And finally, excessive gearing. Many banks became overgeared and too dependent on wholesale funding, which they assumed, incorrectly, would never dry up. Assets were created on the back of ever higher leverage, both direct and indirect. And when the securitisation market began to collapse, banks found themselves with assets that they could neither sell nor fund, so forcing large losses on the asset side and a funding challenge on the liability side for which they were entirely unprepared.

The result has been unprecedented stress in the financial system, and it has led to a major breakdown in trust. In many countries, huge support from taxpayers has been required in order to stabilise the system.

**Failings in the banking industry**

The industry has done many things wrong. It is important to remember that many ordinary bankers have always sought to provide good service to their customers; but we must also recognise that there have been too many who have profoundly damaged the industry's reputation.

Inappropriate products were sold inappropriately by many. Compensation practices ran out of control and perverse incentives led to dangerous outcomes. There is genuine and widespread anger that the contributors to the crisis were in some cases amongst the biggest beneficiaries of the system.

Underlying all these events is a question about the culture and ethics of the industry. It is as if, too often, people had given up asking whether something was the right thing to do, and focused only whether it was legal and complied with the rules. The industry needs to recover a sense of what is right and suitable as a key impulse for doing business.

**HSBC strategy intact**

We at HSBC were not immune from the crisis. But we have built our business on very strong foundations and are able to report results which demonstrate our ability to withstand the storm.

Our strategy has been tested and remains intact. We will continue to build our business by focusing on faster-growing markets around the world and on businesses where international connectivity is important - all from a position of financial strength. If anything, the current crisis validates our renewed focus over the last few years on fast growing economies, since it will accelerate the shift in the world's centre of economic gravity from west to east.

Our robust balance sheet and liquidity means that we have continued to lend. In 2008, we grew our lending to commercial customers by 10 per cent on an underlying basis. Lending to personal customers increased in all regions except North America. And our brand strength continues to underpin our performance. It was noticeable that, at times of stress in many markets, HSBC was a beneficiary of funds flowing in. Recently, the HSBC brand was recognised as the number one brand in banking by Brand Finance.

**Profitable from a broad-based earnings platform**

Excluding the goodwill impairment on our North American Personal Financial Services business, HSBC reported a pre-tax profit for 2008 of US$19.9 billion, a decline of 18 per cent. On a reported basis, pre-tax profit was US$9.3 billion, down 62 per cent. Within this were some strong regional and business line performances which are covered in the Group Chief Executive's review. However, there is one area on which I would like to comment.

For North America, we reported a loss of US$15.5 billion including the goodwill impairment charge of US$10.6 billion in Personal Financial Services. The significant deterioration in US employment and economic outlook in the fourth quarter of 2008 were the primary factors in causing us to write off all the remaining goodwill carried on our balance sheet in respect of our Personal Financial Services business in North America.

The management team has worked tirelessly to address this problem acquisition in the US and we have considered all viable options. We saw the disruption in sub-prime lending as early as 2006 and sharply scaled back in 2007 while others continued to grow. We also devoted considerable resources to helping our customers. Virtually no one then foresaw the subsequent scale of the deterioration in the US economy and financial markets. It is now clear that models of direct personal lending that depend on wholesale markets for funding are no longer viable. In light of this, we have taken the difficult decision that, with the exception of credit cards, we will write no further consumer finance business through the HFC and Beneficial brands in the US and close the majority of the network. Thus, in terms of new business, we are drawing a line and we will run off our existing business, providing all necessary support to HSBC Finance to enable it to do so in a measured way and meet all its commitments.

HSBC has a reputation for telling it as it is. With the benefit of hindsight, this is an acquisition we wish we had not undertaken.

The US remains the world's largest economy and HSBC remains committed to the US, which we see as a core market for HSBC. HSBC Bank in the US is not affected by the restructure. In the immediate future we will focus on those businesses and customers for whom our global connectivity gives us advantage - primarily in corporate and commercial business, and in Private and Premier banking.

**Performance overview and strategic activity**

In this difficult environment, we missed our profitability targets. We hit our capital target with our tier 1 ratio at 8.3 per cent. We maintained a very conservative advances to deposits ratio of 84 per cent. We grew lending in each region outside North America on an underlying basis. And we constrained costs, with the cost efficiency ratio improving to 47.2 per cent, excluding the goodwill impairment mentioned above. We also continued implementation of OneHSBC, our programme to enhance customer experience and improve cost efficiency through standardising products, processes and technology around the world.

We also acquired businesses in strategic areas - we acquired the assets, liabilities and operations of The Chinese Bank in Taiwan in March; IL&FS Investsmart, a retail brokerage in India in May; and, in October, the acquisition of Bank Ekonomi in Indonesia was announced. The first two are complete and being integrated, the last is expected to be completed in the second quarter. The most notable disposal was the sale of our regional branch network in France for a consideration of US$3.2 billion.

**Thank you to our people**

This was an extraordinary year and made extraordinary demands on many of our people. I want to express my sincere thanks for all their efforts and achievements. Our industry has rightly been under considerable public scrutiny and banks have been indiscriminately bunched together. It is through our staff that HSBC's distinctive character stands out for our customers and it is they who ensure that not all banks are the same.

**Dividend declaration and progressive dividend policy**

The directors have declared a fourth interim dividend for 2008 of US$0.10 per ordinary share (in lieu of a final dividend) which, together with the first three interim dividends for 2008 of US$0.18 already paid, will make a total distribution in respect of the year of US$0.64 per ordinary share. The payments in total represent a decrease of 29 per cent in US dollar terms compared with 2007 and of 15 per cent in sterling terms. The dividend will be payable on 6 May 2009, to shareholders on the register at the close of business on 20 March 2009.

After 15 years of double-digit dividend growth, we did not make the decision to lower the dividend lightly. Very careful consideration was given to the current operating environment and the increased uncertainty over both the supply of capital required in an increasingly volatile financial world and a pro-cyclical regulatory capital framework.

For 2009, HSBC has rebased the envisaged dividend per share for the first three interim dividends to US$0.08 to reflect the impact of the enlarged ordinary share capital following the Rights Issue we are announcing today, prevailing business conditions and capital requirements. The dividend payments remain substantial and reflect management's long-term confidence in the business. HSBC will continue to aim to pay progressive dividends in line with the long-term growth of the business.

**Maintaining HSBC's financial strength**

The logic of maintaining HSBC's distinctive financial strength which we have applied to our dividend also applies to our capital position. We have announced today a Rights Issue to strengthen further our capital ratios. We propose to raise, on a fully underwritten basis, approximately US$17.7 billion of equity which will increase our capital ratios by 150 basis points, strengthening the core equity tier 1 ratio to 8.5 per cent and the tier 1 ratio to 9.8 per cent, both on a pro-forma basis as at 31 December 2008. I shall be writing to all shareholders with full details.

Over the past 12 months, many of our competitors have received significant government capital injections - something we said we could not envisage - or have raised capital from shareholders and other investors. Higher regulatory capital requirements, in part from the effect of the economic downturn on capital requirements under the Basel II regime, as well as changing market sentiment on appropriate levels of leverage, have also raised expectations regarding capital levels. We are determined that HSBC should maintain its signature financial strength and we are now raising the top of our target range for our tier 1 ratio so that the range will be from 7.5 per cent to 10 per cent.

Planned internal capital generation remains strong and this capital raising will enhance our ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events. Importantly, it will also give us options with respect to opportunities which we believe will present themselves to those with superior financial strength. These may involve organic investment in the continued taking of market share from more capital constrained competitors. There may also be opportunities to grow through targeted acquisitions by taking advantage of attractive valuations where the opportunities in question align with our strategy and the risks are understood.

**Culture and compensation**

We believe in the profound importance of culture and ethics in business. HSBC's longstanding traditions of financial strength, long-term customer relationships and conservative management are as important today as ever. They have not always been fashionable and we have not always been perfect. One of the consequences of the crisis - and rightly - is that we are going to see a fundamental re-evaluation of the rules and regulations that govern our business. But we should remember that no amount of rules and regulation will be sufficient if the culture does not encourage people to do the right thing. It is the responsibility of boards to supervise and management to embed a sustainable culture into the very fibre of the organisation. For HSBC, there is nothing more important.

We also intend to play our part in rebuilding public trust in our industry. This means we must be willing to take part in and shape the debate on how our industry should evolve in the coming years, based on the lessons which must be learnt from this crisis. In particular, we strongly believe that the industry must respond to the requirement for a more sober and reasonable approach to compensation. At HSBC, we are committed to the principle of sensible market-related pay, structured to align executive actions with long-term shareholder interests. A small number of individuals in a market system will inevitably receive compensation that is high in absolute terms, but this must be genuinely linked to long-term shareholder interests. It is clear that the banking industry got it wrong in the go-go years: we will play our part in helping the industry respond appropriately to the new realities.

It is right therefore that in HSBC's case, I outline our present position. As Chairman I elected in 2007 to no longer receive any cash bonus award; any variable compensation would be delivered through performance share awards - which would only vest if performance hurdles are met. No performance share awards will be made in the Group in respect of 2008. Mike Geoghegan, Group Chief Executive, Stuart Gulliver, Chief Executive of Global Banking and Markets and HSBC Global Asset Management, and Douglas Flint, Group Finance Director have asked the Remuneration Committee not to consider them for any bonus award for 2008. No cash bonus award will be made to any Executive Director for 2008. Full details on Directors' remuneration can be found in the *Annual Report*.

**Learning the lessons**

We are living through a genuinely global crisis; it cannot be solved by one nation alone. Governments need to work together with our industry to tackle the root causes of the crisis, while maintaining the open, globalised markets that have helped spread prosperity in the last two decades. Protectionism, both in trade and in capital flows, is a threat and in all its forms must be resisted.

We must also urgently improve governance and regulation to create a more stable financial framework. The globalisation of financial markets contrasts sharply with the domestic agenda of the regulatory regimes that underpin it. We support intergovernmental efforts to enhance the coordination of regulatory oversight, since we believe that this is essential to the stable development of the international capital markets for the benefit of the common good.

**Continued economic strain**

The coming twelve months will be difficult. We expect parts of Asia, the Middle East and Latin America to continue to outperform Western economies, but to be constrained by the global downturn.

We see unemployment rising through 2009 into 2010 in both the US and the UK, together with continuing declines in housing markets. We should remember that the US is the driver of the global economy and global growth depends on the US recovery.

We remain confident that HSBC is well-placed in today's environment and that our strength leads to opportunity. Our strategy has served HSBC well and positions it for long-term growth with attractive returns. HSBC continues to combine its position as the world's leading emerging markets bank with an extensive international network across both developed and faster growing markets. At the same time, as the financial system exhibits stress, our competitive position is improving as the capacity and capabilities of financial institutions are constrained by lack of capital and funding; many of them are also focusing more on their domestic markets.

Further strengthening our capital base will enhance our ability to deal with the impact of an uncertain economic environment and to respond to unforeseen events, as well as giving us options regarding opportunities which will undoubtedly present themselves to those with superior financial strength.

**Review by Michael Geoghegan, Group Chief Executive Officer**

The world today faces exceptionally challenging economic circumstances. 2008 was a very difficult year for the financial sector, and 2009 will be no less so, as the global downturn intensifies.

We have always talked openly about the challenges of the environment we operate in, rather than how we would like it to be. Today those challenges are many. We saw the downturn coming early, so we were able to position ourselves for it early. This has offered us some protection in the current turmoil, as have HSBC's trademark strengths of diversification, financial strength and self-funding. No one market accounts for more than a quarter of our total revenues.

All business lines except Personal Financial Services, and all regions except North America, were profitable in 2008. Many of our businesses have delivered strong results, despite very tough market conditions, and these offset the ongoing difficulties in the US business which the Group Chairman has mentioned.

Profits in Europe were US$10.9 billion, up 26 per cent. The results included a number of acquisition gains, and fair value gains on own debt, which were offset by write-downs in Global Banking and Markets. There was underlying growth in Personal Financial Services and Private Banking.

Asia produced pre-tax profits of some US$11.9 billion, 11 per cent down on a reported basis from the record performance of 2007, which had benefited from very strong equity market-based revenues and dilution gains from our mainland China and other associates.

Profits in Hong Kong declined 26 per cent to US$5.5 billion from 2007's record levels, mainly reflecting lower wealth management and insurance income in the deteriorating economic climate, in addition to impairment charges on some investments arising from sharp falls in equity market prices.

Outside Hong Kong, the Rest of Asia-Pacific (including the Middle East), grew pre-tax profits by 27 per cent to US$6.5 billion on an underlying basis. Many individual markets performed strongly, with profits in India some 26 per cent stronger at US$666 million, and our mainland China operations grew 64 per cent to US$319 million (excluding income from associates and dilution gains). Our operations in the Middle East increased pre-tax profits by US$439 million or 34 per cent to US$1.7 billion.

Pre-tax profits in Latin America were US$2 billion, down by 6 per cent, as a result of higher impairment changes.

We also reported a gain of US$6.6 billion on the fair value on own debt. As this will be reversed in later years we consider it a special item and it is not attributed to any business line.

**Protecting our business and supporting our customers in challenging times**

Although we were prepared for a significant global slowdown, it became clear last year that some markets were facing financial meltdown, driven by a lack of confidence in financial institutions not seen before. What began as a financial crisis has turned into a broader economic crisis that will affect virtually every economy in the world.

In this environment, we have taken measures to protect the business. Early on, we introduced more conservative lending criteria, for example, tightening loan-to-value ratios in the UK and reducing unsecured lending. In 2008, we have continued to focus our attention on the core banking principles that are fundamental to HSBC. Maintaining our capital strength and our conservative advances-to-deposits ratio of 84 per cent enables us to be self-funding. We are working hard to reduce non-core wholesale Global Banking and Markets assets and US-based sub-prime consumer assets. We are increasing liquidity and managing our risk-weighted assets carefully to protect our capital position. In many of our businesses, we saw a flight to quality from banks badly affected by the crisis, and in many markets we have helped provide liquidity to the interbank market.

I would like to emphasise that HSBC remains very much open for business. Our strong and diversified deposit base means we can continue to lend when our competitors are withdrawing. With the exception of North America, HSBC grew its lending in support of customers strongly in all regions in 2008. In our key markets of the UK and Hong Kong, we grew personal and commercial lending by 12 per cent and 11 per cent respectively, on an underlying basis. In the UK, where we called the top of the market and reduced our lending in 2006, we came back into the market to assist customers and almost doubled our gross mortgage lending in 2008 to £17 billion. In Hong Kong, savings and deposit balances grew strongly, as did customer lending, particularly in mortgages, cards and commercial lending. We are focusing all our lending growth carefully, to maintain high asset quality and to support our customers across the world.

**Commercial Banking - maintained profitability despite difficult economic climate**

Commercial Banking continues to be the jewel in the crown for HSBC. We have the broadest and best commercial banking franchise in the world, and our strengths as an international bank remain a compelling proposition for our customers.

In 2008, Commercial Banking profit before tax was modestly up on 2007 at US$7.2 billion, as strong revenue growth of 10 per cent more than offset the rise in loan impairments. To maintain our profitability in such a difficult year is a significant achievement.

Our international connectivity is driving increasing revenues. We grew international revenues - trade and supply chain and foreign exchange services - by a third. Our Global Links cross-border referral system helped us conclude over 5,600 transactions, almost double the volume in 2007, with an aggregate transaction value of over US$11 billion.

We are also supporting customers and expanding lending responsibly, growing deposits and lending, by 15 and 10 per cent respectively on an underlying basis. To provide extra support to smaller companies at a time when credit is scarce, we have established a US$5 billion global SME fund to support this important customer group.

**Personal Financial Services - North America drives PBT loss, reasonable performance in other markets**

Overall our Personal Financial Services business reported a loss before tax of US$11 billion in 2008, driven by loan impairment charges and a goodwill impairment charge related to North America.

Excluding the North America business, PFS remained profitable and we maintained revenue at 2007 levels despite pressure on interest margins and on fee income. Low interest rates are affecting savers, and the economics of running branch networks become more challenging in a low interest-rate environment.

We continued to focus on serving affluent customers who value the unique international banking and wealth management services HSBC can provide. We grew our HSBC Premier client base to 2.6m customers, up 22 per cent on 2007. Eight out of ten new Premier clients were new to HSBC. We achieve average income of US$2,000 per Premier customer and our proposition clearly meets the needs of affluent, internationally mobile customers. We launched Premier in six new markets, taking the total to 41.

In Europe, our Personal Financial Services business performance was resilient. Performance was solid in the UK, where we continued to strengthen our position in the mortgage market with the launch of a RateMatcher promotion to attract quality customers facing interest rate resets. This promotion resulted in new business totalling £5.4 billion, whose quality can be seen in the low LTV ratios which averaged 59 per cent. We have established a £15 billion mortgage fund in the UK for 2009 to build on this success.

Fee income fell in most regions due to a lack of confidence in investments, which resulted in lower fees from retail securities and investments.

**HSBC Finance Corporation**

The satisfactory performance of our Personal Financial Services businesses outside the US was obscured by substantial losses in HSBC Finance in the US. Loan impairment charges and other credit risk provisions in the US were US$16.3 billion, and we incurred a goodwill impairment charge of US$10.6 billion, representing all of our remaining North America Personal Financial Services goodwill. In these tough times, we must be, and we are, prepared to take tough action to work through this troubled business.

As the Chairman has said, the US economy deteriorated severely towards the end of 2008. Although it serves a large part of the population, it is clear that the sub-prime mortgage refinance model no longer operates effectively. Due to the lack of home equity, the deteriorating outlook for house price appreciation and very limited refinancing opportunities available to this customer segment in the near future, we will cease to write new consumer finance business through the HFC and Beneficial brands in the US, and will concentrate on running-off the outstanding real estate-secured and unsecured portfolio of US$62 billion.

As a result, we will close the majority of the HFC and Beneficial-branded US branch network, regrettably with the loss of 6,100 jobs. This will result in a restructuring charge of US$265 million in the first half of 2009, inclusive of closure costs and non-cash charges, and annualised cost savings of approximately US$700 million. With downside risks for unemployment and residential real estate in the US, we expect credit provisioning to remain elevated and operating losses to continue in 2009 and 2010.

With the future of subprime finance in the US uncertain, we no longer consider sub-prime finance in the US to be a core business to HSBC. We continue to make strenuous efforts to help customers in financial difficulty and avoid foreclosure. We modified almost 100,000 loans in 2008 and our foreclosure rate only increased slightly, despite the deterioration in the economy.

As the Chairman has said, we remain committed to the US. HSBC will continue to offer card finance, with the majority of assets held and funded through HSBC Bank USA. The personal finance operations of HSBC Bank USA, including its network of retail branches, are also unaffected by this decision.

**Global Banking and Markets**

Global Banking and Markets posted pre-tax profits of US$3.5 billion. This performance reflects the success of our emerging markets-led and financing-focused strategy, introduced in 2006, which is creating a leading wholesale bank offering global connectivity and a sophisticated range of services.

Global Banking and Markets revenues were affected by US$6.1 billion in write-downs of which US$5.4 billion were in respect of credit trading, leveraged and acquisition financing positions and monoline credit exposures and US$0.7 billion were impairments on available-for-sale asset-backed securities and holdings of debt and preferred shares of financial institutions.

Our focus on connecting emerging and developed markets has helped us grow profits from emerging markets, which now contribute two thirds of Global Banking and Markets profit before tax, up from a half in 2006.

Core businesses such as foreign exchange, Rates, Balance Sheet Management and Financing and Equity Capital Markets achieved record revenues. Foreign exchange revenues rose to a record US$3.8 billion due to increased market volatility and higher levels of customer activity, with notably strong performance in Europe and Rest of Asia-Pacific.

Robust growth in Global Banking was driven by improved margins in the credit and lending business, as well as substantial gains on credit default swaps in certain portfolios.

Loan impairments and other credit risk provisions rose to US$1.5 billion, reflecting the deteriorating credit environment as well as a number of bank failures in 2008.

Global Transaction Banking generated revenues of US$9.1 billion across Commercial Banking and Global Banking and Markets, an increase of 7 per cent over 2007. Trade and Supply Chain and Securities Services performed strongly with growth of 29 per cent and 10 per cent respectively, notably in Asia Pacific and the Middle East. Payments & Cash Management revenues remained robust, in spite of global interest rate cuts.

We recognised impairment losses of US$279 million in relation to our portfolio of securities held available for sale during 2008, although the value of these securities declined by some US$16.5 billion. The significant difference between these figures reflects illiquidity for all asset backed securities, and the low level of impairment losses reflects the seniority of the tranches held by HSBC. Please see the 2008 Annual Report and Accounts for more details.

**Private Banking - a leading international private bank**

In a world where the private banking industry saw major reductions in overall assets, HSBC Private Bank continued to perform strongly. Pre-tax profit held up well at just 4 per cent below 2007's record figure. Strong revenue growth in Europe, especially in Switzerland and the UK, was offset by reduced trading income in Asia, lower fee income, higher staff costs and loan impairment charges and other credit risk provisions.

Client assets decreased 16 per cent to US$352 billion, despite strong net new money flow of US$24 billion of which US$16.5 billion was in Europe. The decline in market values in all regions was the major reason for this decline. Although total client assets under management fell as a result of economic conditions, we attracted net new money of US$30 billion. Intra-Group referrals resulted in US$6.8 billion of net new money, compared with US$5.7 billion in 2007.

We continued to build our Private Banking franchise, opening offices in Guangzhou, Shanghai and Beijing, in mainland China, and expanding our domestic business in other emerging markets, especially India, Panama and Brazil.

**Insurance - strong premium growth but profits affected by reduced investment income**

We signalled our intention to grow Insurance to become a more significant contributor to the Group's profits. In 2008, pre-tax profits totalled US$2.6 billion, a decline of 19 per cent driven by lower investment returns and a reduced contribution from Ping An due to the Fortis impairment. Both Latin America and North America achieved higher profits than in 2007. Premiums grew by 20 per cent to US$11 billion, proving the resilience of the bancassurance model in all regions. In Asia, we continued to build our insurance franchise, opening businesses in both India and Korea.

**Joining up the Company**

Our customers rightly expect a consistently high quality of service wherever they deal with us around the world, consistent with our ranking as the number 1 financial brand. Our programme to 'join up' HSBC aims to make the brand promise a reality. Now in its third year, the positive results of Joining up the Company can be seen in many of our businesses - in Global Links referrals, Private Banking and Premier growth. We are also two years into a five-year plan to develop and deploy common systems throughout the Group under the One HSBC banner. This programme is core to Joining up the Company. It is delivering higher quality IT and Operations at lower cost across the Group. It allows us to service individual and corporate customer needs seamlessly across borders. It means we can deliver a consistently high-quality customer experience.

We cannot Join up the Company without joining up our people, my colleagues who deliver on our brand promise to our customers every day. Throughout the year, the Group Chairman and I visit almost half of the markets in which we operate. We know from the many colleagues we meet how difficult 2008 has been for them, as they have tried to support our customers and our business through the turmoil. I would like to thank them for their commitment and hard work through these tough times. It is a measure of the strength of this company that employee engagement, as recorded in our annual employee survey, rose to a new high in 2008 and exceeds both global and sector norms. As 93 per cent of colleagues completed the survey, this is a tremendous accolade and we are privileged to have such talented and loyal employees.

**Operating outlook for 2009**

Banks are a leveraged play on the economies they serve, and thus are a reflection of their customers' success. With most developed markets in recession, and emerging markets slowing sharply, we are seeing increased levels of stress in both consumer and commercial books. With the exception of North America, HSBC grew its lending in support of customers strongly in 2008. However, the general lack of international lending is a cause for concern, and will put further pressure on the availability of credit, especially in emerging markets.

As the Chairman has outlined, the outcome for 2009 is extremely hard to predict. In these challenging times, we are focusing on staying close to our loyal customers. We will concentrate on the opportunities our scale, international connectivity and emerging market dominance provide to do profitable, responsible business, despite the downturn. I am pleased to report that our business performance in January 2009 has been strong, and ahead of our expectations.

**Financial Overview**

| Year ended 31 December | | | Year ended 31 December | |
|---|---|---|---|---|
| **2008** | | | **2008** | 2007 |
| **£m** | **HK$m** | | **US$m** | US$m |
| | | **For the year** | | |
| 5,072 | 72,474 | Profit before tax | **9,307** | 24,212 |
| 3,122 | 44,604 | Profit attributable to shareholders of the parent company | **5,728** | 19,133 |
| 6,159 | 88,001 | Dividends | **11,301** | 10,241 |
| | | **At the year-end** | | |
| 64,203 | 725,330 | Total shareholders' equity | **93,591** | 128,160 |
| 90,182 | 1,018,815 | Capital resources *** | **131,460** | 152,640 |
| 854,352 | 9,651,935 | Customer accounts and deposits by banks | **1,245,411** | 1,228,321 |
| 1,733,841 | 19,587,854 | Total assets | **2,527,465** | 2,354,266 |
| 787,510 | 8,896,799 | Risk-weighted assets *** | **1,147,974** | 1,123,782 |
| **£** | **HK$** | | **US$** | US$ |
| | | **Per ordinary share** | | |
| 0.26 | 3.66 | Basic earnings | **0.47** | 1.65 |
| 0.26 | 3.66 | Diluted earnings | **0.47** | 1.63 |
| 0.74 | 10.59 | Basic earnings excluding goodwill impairment | **1.36** | 1.65 |
| 0.51 | 7.24 | Dividends * | **0.93** | 0.87 |
| 5.10 | 57.65 | Net asset value | **7.44** | 10.72 |
| | | **Share information** | | |

| | | |
|---|---|---|
| US$0.50 ordinary shares in issue | **12,105m** | 11,829m |
| Market capitalisation | **US$114bn** | US$198bn |
| Closing market price per share | **£6.62** | £8.42 |

| | **Over 1 year** | **Over 3 years** | **Over 5 years** |
|---|---|---|---|
| Total shareholder return to 31 December 2008 ** | **84.5** | **84.5** | **98.5** |
| Benchmarks: FTSE 100 | **71.7** | **88.1** | **118.3** |
| MSCI World | **81.8** | **93.6** | **123.7** |
| MSCI Banks | **63.0** | **60.8** | **82.7** |

* *Under IFRSs accounting rules, the dividend per share of US$0.93 shown in the accounts is the total of the dividends declared during 2008. This represents the fourth interim dividend for 2007 and the first, second and third interim dividends for 2008. As the fourth interim dividend for 2008 was declared in 2009 it will be reflected in the accounts for 2009.*

** *Total shareholder return ('TSR') is as defined in the Annual Report and Accounts 2008.*

*** *The calculation of capital resources, capital ratios and risk-weighted assets for 31 December 2008 is on a Basel II basis. Comparatives are on a Basel I basis.*

| | **Year ended 31 December** | |
|---|---|---|
| | **2008** | 2007 |
| | **%** | % |
| **Performance ratios** | | |
| Return on average invested capital^ | **4.0** | 15.3 |
| Return on average total shareholders' equity | **4.7** | 15.9 |
| Post-tax return on average total assets | **0.26** | 0.97 |
| Post-tax return on average risk-weighted assets ** | **0.55** | 1.95 |
| **Efficiency and revenue mix ratios** | | |
| Cost efficiency ratio | | |
| - reported | **60.1** | 49.4 |
| - excluding goodwill impairment | **47.2** | 49.4 |
| As a percentage of total operating income: | | |
| - net interest income | **48.1** | 43.1 |
| - net fee income | **22.6** | 25.1 |

| | | |
|---|---|---|
| - net trading income | **7.4** | 11.2 |
| | | |
| **Capital ratios **** | | |
| - Tier 1 ratio | **8.3** | 9.3 |
| - Total capital ratio | **11.4** | 13.6 |

^ *Return on invested capital is based on the profit attributable to ordinary shareholders. Average invested capital is measured as average total shareholders' equity after adding back goodwill previously written-off directly to reserves, deducting average equity preference shares issued by HSBC Holdings and deducting/(adding) average reserves for unrealised gains/(losses) on effective cash flow hedges and available-for-sale securities. This measure reflects capital initially invested and subsequent profit.*

** *The calculation of capital resources, capital ratios and risk-weighted assests for 31 December 2008 is on a Basel II basis. Comparatives are on a Basel I basis.*

**Consolidated Income Statement**

| **Year ended 31 December 2008** | | | **Year ended 31 December** | |
|---|---|---|---|---|
| | | | **2008** | 2007 |
| **£m** | **HK$m** | | **US$m** | US$m |
| 49,759 | 710,961 | Interest income | **91,301** | 92,359 |
| (26,562) | (379,523) | Interest expense | **(48,738)** | (54,564) |
| 23,197 | 331,438 | **Net interest income** | **42,563** | 37,795 |
| 13,496 | 192,837 | Fee income | **24,764** | 26,337 |
| (2,583) | (36,910) | Fee expense | **(4,740)** | (4,335) |
| 10,913 | 155,927 | **Net fee income** | **20,024** | 22,002 |
| 462 | 6,594 | Trading income excluding net interest income | **847** | 4,458 |

| | | | | |
|---|---|---|---|---|
| 3,113 | 44,489 | Net interest income on trading activities | **5,713** | 5,376 |
| 3,575 | 51,083 | **Net trading income** | **6,560** | 9,834 |
| 3,640 | 52,009 | Changes in fair value of long-term debt issued and related derivatives | **6,679** | 2,812 |
| (1,541) | (22,013) | Net income/(expense) from other financial instruments designated at fair value | **(2,827)** | 1,271 |
| 2,099 | 29,996 | **Net income from financial instruments designated at fair value** | **3,852** | 4,083 |
| 107 | 1,534 | Gains less losses from financial investments | **197** | 1,956 |
| - | - | Gains arising from dilution of interests in associates | **-** | 1,092 |
| 148 | 2,118 | Dividend income | **272** | 324 |
| 5,913 | 84,489 | Net earned insurance premiums | **10,850** | 9,076 |
| 1,333 | 19,039 | Gains on disposal of French regional banks | **2,445** | - |
| 986 | 14,078 | Other operating income | **1,808** | 1,439 |
| 48,271 | 689,702 | **Total operating income** | **88,571** | 87,601 |
| (3,754) | (53,644) | Net insurance claims incurred and movement in liabilities to policyholders | **(6,889)** | (8,608) |
| 44,517 | 636,058 | **Net operating income before loan impairment charges and other credit risk provisions** | **81,682** | 78,993 |
| (13,591) | (194,185) | Loan impairment charges and other credit risk provisions | **(24,937)** | (17,242) |
| 30,926 | 441,873 | **Net operating income** | **56,745** | 61,751 |
| (11,332) | (161,907) | Employee compensation and benefits | **(20,792)** | (21,334) |
| (8,316) | (118,829) | General and administrative expenses | **(15,260)** | (15,294) |
| (954) | (13,625) | Depreciation and impairment of property, plant and equipment | **(1,750)** | (1,714) |
| (5,758) | (82,265) | Goodwill impairment | **(10,564)** | - |
| (399) | (5,708) | Amortisation and impairment of intangible assets | **(733)** | (700) |
| (26,759) | (382,334) | **Total operating expenses** | **(49,099)** | (39,042) |
| 4,167 | 59,539 | **Operating profit** | **7,646** | 22,709 |
| 905 | 12,935 | Share of profit in associates and joint ventures | **1,661** | 1,503 |
| 5,072 | 72,474 | **Profit before tax** | **9,307** | 24,212 |
| (1,531) | (21,874) | Tax expense | **(2,809)** | (3,757) |
| 3,541 | 50,600 | **Profit for the year** | **6,498** | 20,455 |
| | | **Profit attributable to shareholders of the parent** | | |

| | | | | |
|---|---|---|---|---|
| 3,122 | 44,604 | **company** | **5,728** | 19,133 |
| 419 | 5,996 | Profit attributable to minority interests | **770** | 1,322 |

**Consolidated Balance Sheet**

| **At 31 December 2008** | | | **At 31 December** | |
|---|---|---|---|---|
| | | | **2008** | 2007 |
| **£m** | **HK$m** | | **US$m** | US$m |
| | | **ASSETS** | | |
| 35,944 | 406,069 | Cash and balances at central banks | **52,396** | 21,765 |
| 4,118 | 46,523 | Items in the course of collection from other banks | **6,003** | 9,777 |
| 10,536 | 119,024 | Hong Kong Government certificates of indebtedness | **15,358** | 13,893 |
| 293,148 | 3,311,800 | Trading assets | **427,329** | 445,968 |
| 19,574 | 221,131 | Financial assets designated at fair value | **28,533** | 41,564 |
| 339,485 | 3,835,289 | Derivatives | **494,876** | 187,854 |
| 105,483 | 1,191,687 | Loans and advances to banks | **153,766** | 237,366 |
| 639,947 | 7,229,727 | Loans and advances to customers | **932,868** | 981,548 |
| 205,961 | 2,326,821 | Financial investments | **300,235** | 283,000 |
| 7,914 | 89,412 | Interests in associates and joint ventures | **11,537** | 10,384 |
| 18,767 | 212,017 | Goodwill and intangible assets | **27,357** | 39,689 |
| 9,621 | 108,694 | Property, plant and equipment | **14,025** | 15,694 |
| 25,945 | 293,120 | Other assets | **37,822** | 39,493 |
| 1,751 | 19,778 | Current tax assets | **2,552** | 896 |
| 4,810 | 54,335 | Deferred tax assets | **7,011** | 5,284 |
| 10,837 | 122,427 | Prepayments and accrued income | **15,797** | 20,091 |
| 1,733,841 | 19,587,854 | Total assets | **2,527,465** | 2,354,266 |

| **At 31 December 2008** | | | **At 31 December** | |
|---|---|---|---|---|
| | | | **2008** | 2007 |
| **£m** | **HK$m** | | **US$m** | US$m |
| | | **LIABILITIES AND EQUITY** | | |
| | | **Liabilities** | | |
| 10,536 | 119,024 | Hong Kong currency notes in circulation | **15,358** | 13,893 |
| 89,238 | 1,008,151 | Deposits by banks | **130,084** | 132,181 |

| | | | | |
|---|---|---|---|---|
| 765,114 | 8,643,784 | Customer accounts | **1,115,327** | 1,096,140 |
| 4,961 | 56,048 | Items in the course of transmission to other banks | **7,232** | 8,672 |
| 169,889 | 1,919,303 | Trading liabilities | **247,652** | 314,580 |
| 51,167 | 578,050 | Financial liabilities designated at fair value | **74,587** | 89,939 |
| 334,123 | 3,774,715 | Derivatives | **487,060** | 183,393 |
| 123,269 | 1,392,621 | Debt securities in issue | **179,693** | 246,579 |
| 2,667 | 30,132 | Retirement benefit liabilities | **3,888** | 2,893 |
| 49,655 | 560,975 | Other liabilities | **72,384** | 35,013 |
| 1,250 | 14,121 | Current tax liabilities | **1,822** | 2,559 |
| 29,967 | 338,543 | Liabilities under insurance contracts | **43,683** | 42,606 |
| 10,597 | 119,722 | Accruals and deferred income | **15,448** | 21,766 |
| 1,187 | 13,408 | Provisions | **1,730** | 1,958 |
| 1,273 | 14,376 | Deferred tax liabilities | **1,855** | 1,859 |
| 20,191 | 228,106 | Subordinated liabilities | **29,433** | 24,819 |
| 1,665,084 | 18,811,079 | Total liabilities | **2,427,236** | 2,218,850 |
| | | **Equity** | | |

4,152 15. The Committee shall annually prepare a report to stockholders as required to be included in the Corporation s annual proxy statement filed with the Securities and Exchange Commission.

The foregoing list is not intended to be exhaustive, and the Committee shall, in addition, have such powers as may be necessary or appropriate in furtherance of the objectives set forth in this Charter or as may, from time to time, be delegated by the Board. The adoption of this Amended and Restated Charter shall not be construed to reduce any power or authority previously delegated to the Committee by the Board.

The Committee shall have the power to delegate its authority to subcommittees or individual members of the Committee as it deems appropriate, to the full extent permitted under applicable law and applicable listing standards of The NASDAQ Stock Market; provided, however, that any decision made pursuant to the foregoing delegation of authority with respect to the Committee authority under Paragraph 6 of this Section D shall be presented to the Committee at its next regularly-scheduled meeting. In addition, the Committee shall have the power to delegate its authority to other members of the Board who meet the Independence Requirements as it deems appropriate, to the full extent permitted by applicable law and the listing standards of The NASDAQ Stock Market applicable to the Corporation; provided, however, that in no event may it delegate its authority to such other members of the Board under Paragraphs 1 through 8 or Paragraph 15 of this Section D. The Committee shall have the power to delegate its authority under Paragraph 14 of this Section D with respect to administration of the Corporation s Code of Business Conduct to the General Counsel of the Corporation, except with respect to the authority to amend the Code and to grant waivers to the Corporation s directors, executive officers and senior financial officers.

The Committee shall have the power to conduct or authorize investigations into any matters within the scope of its responsibilities. The Committee shall have the power to retain consultants, accountants and other outside advisors to advise and assist it in any manner it deems appropriate. The Committee may also retain outside legal counsel, as it deems appropriate. The Committee shall have the sole authority to retain and terminate such consultants, accountants, advisors and counsel and to review and approve their fees and other retention terms and shall have the authority to cause the payment of such fees by the Corporation.

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**ANNEX B**

**WEBMD CORPORATION COMPENSATION COMMITTEE CHARTER AS ADOPTED ON FEBRUARY 23, 2005**

**A. Purpose**

1. *General.* The Compensation Committee (the Committee ) has been established by the Board of Directors (the Board ) of WebMD Corporation (the Corporation ) to determine the compensation arrangements of the executive officers of the Corporation, to assist the Board in providing oversight of the compensation programs applicable to other employees of the Corporation and to provide assistance and recommendations to the Board with respect to various other aspects of the Corporation s compensation policies and practices and related matters.

2. *Equity Compensation Plans.* The Committee has the authority under the Corporation s existing equity compensation plans (and shall have the authority under any future equity compensation plans that so provide) to make awards in any form permitted under the respective plans.

**B. Composition**

1. *Members.* The Committee shall consist of as many members as the Board shall determine, but in any event not fewer than three members. Members of the Committee shall be appointed by the Board in accordance with the By-laws of the Corporation. Committee members shall serve until the earliest of their resignation or their replacement or removal by the Board in accordance with this Charter and the By-laws of the Corporation.

2. *Qualifications.* Each member of the Committee shall, in the judgment of the Board, meet the following requirements (the Independence Requirements ):

all independence requirements, under applicable law, for members of compensation committees of companies listed for quotation on the NASDAQ NMS;

all applicable independence requirements of The NASDAQ Stock Market for members of compensation committees of companies listed for quotation on the NASDAQ NMS; and

being free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Committee.

In addition, each member shall, in the judgment of the Board, also meet the following additional requirements (together with the Independence Requirements, the Qualification Requirements ):

being non-employee directors (within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended); and

being outside directors (within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder) ( Section 162(m) ).

In the event that the Board determines that a member ceases to meet the Qualification Requirements, the Board shall consider the removal and replacement of such member; provided, however, that the Board may, if necessary or appropriate in its judgment, appoint or retain Committee members in reliance on any available exceptions to any of the Qualification Requirements for the time period such exceptions are available. A failure by one or more Committee members to meet any of the Qualification Requirements shall not invalidate decisions made, or actions taken, by the Committee.

3. *Chairperson.* A Chairperson of the Committee may be appointed by the Board or the Committee.

4. *Removal and Replacement.* The members of the Committee may be removed or replaced, and any vacancies on the Committee shall be filled, by the Board in accordance with the By-laws of the Corporation.

**C. Operations**

1. *Meetings.* The Committee shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least twice per year. Minutes of these meetings shall be kept and filed with the Secretary of the Corporation.

2. *Agenda; Reports.* The Committee shall determine the agenda for its meetings. The Committee may invite other Board members, members of management and others to attend meetings and provide pertinent information and reports, as it deems necessary; provided, however, that the Chief Executive Officer of the Corporation may not be present during voting or deliberations with respect to his or her own compensation arrangements. Nothing in this Charter shall be construed to restrict the reliance by any member of the Committee, to the full extent permitted by law, on information, opinions, reports or statements presented to the Committee by any of the Corporation s officers or employees, or other committees of the Board, or by any other person selected with reasonable care by or on behalf of the Corporation or the Committee as to matters the Committee member reasonably believes are within such other person s professional or expert competence.

3. *Report to Board.* The Committee shall report its actions and recommendations to the Board at the next Board meeting after each Committee meeting or, if so determined by the Committee, by distribution to the members of the Board of the minutes of a meeting, a unanimous written consent or other relevant documents.

**D. Authority and Responsibilities Delegated to the Committee**

1. The Committee shall review and approve compensation arrangements for the Corporation s Chief Executive

Officer and other executive officers and shall have the authority to make any determinations and take any actions it determines to be necessary or appropriate in administering any such compensation arrangements.

2. The Committee shall provide general oversight with respect to compensation policies relating to the Corporation s other officers and employees and make recommendations to the Board for any changes to such policies that the Committee determines to be necessary or appropriate.

3. The Committee shall review and approve compensation arrangements for non-employee directors in their capacity as directors and members of the standing committees of the Board. The Committee shall review and approve compensation arrangements for any non-employee directors who provide services to the Corporation other than in their capacity as directors.

4. The Committee shall evaluate the Chief Executive Officer s performance in light of the Corporation s goals and objectives.

5. The Committee shall assist the Board in overseeing the development of executive succession plans.

6. The Committee shall review the Corporation s incentive compensation and equity compensation plans and recommend to the Board any changes in such plans that the Committee determines to be necessary or appropriate.

7. The Committee shall administer the Corporation s equity compensation plans and such other compensation plans as the Board may determine (the Plans ) in accordance with their terms, shall construe all terms, provisions, conditions and limitations of the Plans and shall make factual determinations required for the administration of the Plans.

*AS ADOPTED ON FEBRUARY 23, 2005*
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8. The Committee shall oversee the Company s policies on structuring compensation for executive officers to preserve tax deductibility and, as and when required, establish and certify the attainment of performance goals pursuant to Section 162(m).

9. The Committee shall assess the adequacy of this Charter and the procedures developed by the Committee to implement this Charter on at least an annual basis and shall submit any proposed amendments to this Charter that the Committee recommends be made to the Board for its approval.

10. The Chairperson of the Committee shall serve on the Governance & Compliance Committee of the Board and, through such service by the Chairperson, the Committee shall coordinate with the Governance & Compliance Committee on matters relating to the Corporation s compliance programs, senior executive recruitment and management development, corporate governance and such other matters as the Committee may determine to be appropriate.

11. The Committee shall produce a report on executive compensation as required to be included in the Corporation s annual proxy statement filed with the Securities and Exchange Commission.

The foregoing list is not intended to be exhaustive, and the Committee shall, in addition, have such powers as may be necessary or appropriate in furtherance of the objectives set forth in this Charter or as may, from time to time, be delegated by the Board. The adoption of this Charter shall not be construed to reduce any power or authority previously delegated to the Committee by the Board.

The Committee shall, to the full extent permitted by applicable law and the listing standards of The NASDAQ

Stock Market applicable to the Corporation, have the power to delegate its authority to subcommittees or individual members of the Committee as it deems appropriate. In addition, the Committee shall have the power to delegate its authority to other members of the Board and to members of management as it deems appropriate, to the full extent permitted by applicable law and the listing standards of The NASDAQ Stock Market applicable to the Corporation; provided, however, that in no event may it delegate its authority under Paragraphs 1, 3, 4, 6, 7 and 9 of this Section D.

The Committee shall have the power to retain consultants, accountants and other outside advisors to advise and assist it in any manner it deems appropriate. The Committee may also retain outside legal counsel, as it deems appropriate. The Committee shall have the sole authority to retain and terminate such consultants, accountants, advisors and counsel and to review and approve their fees and other retention terms and shall have the authority to cause the payment of such fees by the Corporation.

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**ANNEX C**

**WEBMD CORPORATION AMENDED AND RESTATED NOMINATING COMMITTEE CHARTER AS AMENDED THROUGH FEBRUARY 23, 2005**

**A. Purpose**

1. *General.* The Nominating Committee (the Committee ) has been established by the Board of Directors (the Board ) of WebMD Corporation (the Corporation ) to assist the Board by actively identifying individuals qualified to become Board members and making recommendations to the Board regarding (a) the persons to be nominated by the Board for election as director at each annual meeting of stockholders, (b) appointments of directors to fill vacancies occurring between annual meetings and (c) appointments of directors to fill newly created directorships, if any, created by expansion of the size of the Board between annual meetings.

2. *Diversity.* The Board believes that diversity is a critical attribute of a well-functioning board. It is the responsibility of the Nominating Committee to seek qualified candidates to fill vacancies on the Board that contribute distinctive and useful perspectives to governance that best serves the interests of the Company and its stockholders. The Committee shall advise the Board on matters of diversity, including gender, race, culture, thought and geography, and recommend, as necessary, procedures for achieving diversity of viewpoint, background, skills, types of experience, and areas of expertise on the Board.

**B. Composition**

1. *Members.* The Committee shall consist of as many members as the Board shall determine, but in any event not fewer than three members.

Members of the Committee shall be appointed by the Board in accordance with the By-laws of the Corporation. Committee members shall serve until the earliest of their resignation or their replacement or removal by the Board in accordance with this Charter and the By-laws of the Corporation.

2. *Qualifications.* Each member of the Committee shall, in the judgment of the Board, meet the following requirements (the Independence Requirements ):

- all independence requirements, under applicable law, for members of nominating committees of companies listed for quotation on the NASDAQ NMS;

- all applicable independence requirements of The NASDAQ Stock Market for members of nominating committees of companies listed for quotation on the NASDAQ NMS; and

- being free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a member of the Committee.

In the event that the Board determines that a member ceases to meet the Independence Requirements, the Board shall consider the removal and replacement of such member; provided, however, that the Board may, if necessary or appropriate in its judgment, appoint or retain Committee members in reliance on any available exceptions to any of the Independence Requirements for the time period such exceptions are available. A failure by one or more Committee members to meet any of the Independence Requirements shall not invalidate decisions made, or actions taken, by the Committee.

3. *Chairperson.* A Chairperson of the Committee may be appointed by the Board or the Committee.

4. *Removal and Replacement.* The members of the Committee may be removed or replaced, and any vacancies on the Committee shall be filled, by the Board in accordance with the By-laws of the Corporation.

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**C. Operations**

1. *Meetings.* The Committee shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least once per year in advance of the Board s nomination of directors for election at the Corporation s annual meeting. Minutes of these meetings shall be kept and filed with the Secretary of the Corporation.

2. *Agenda; Reports.* The Committee shall determine the agenda for its meetings. The Committee may invite other Board members, members of management and others to attend meetings and provide pertinent information and reports, as it deems necessary. Nothing in this Charter shall be construed to restrict the reliance by any member of the Committee, to the full extent permitted by law, on information, opinions, reports or statements presented to the Committee by any of the Corporation s officers or employees, or other committees of the Board, or by any other person selected with reasonable care by or on behalf of the Corporation or the Committee as to matters the Committee member reasonably believes are within such other person s professional or expert competence.

3. *Report to Board.* The Committee shall report its actions and recommendations to the Board at the next Board meeting after each Committee meeting or, if so determined by the Committee, by distribution to the members of the Board of the minutes of a meeting, a unanimous written consent or other relevant documents.

**D. Authority and Responsibilities Delegated to the Committee**

1. The Committee shall establish and review with the Board the qualifications and characteristics that it determines should be sought with respect to individual Board members

and the Board as a whole and shall review with the Board any changes thereto that it may, from time to time, determine to be appropriate. These qualifications and characteristics shall be designed to assist the Board in meeting the objectives set forth in Section A.2 of this Charter with respect to diversity.

2. The Committee shall assess the adequacy of this Charter and the procedures developed by the Committee to implement this Charter on at least an annual basis and shall submit any proposed amendments to this Charter that the Committee recommends be made to the Board for its approval. This assessment shall include a review of procedures developed to assist the Board in meeting the objectives set forth in Section A.2 of this Charter with respect to diversity.

3. In order to assist the Board in meeting the objectives set forth in Section A.2 of this Charter with respect to diversity, the Committee shall develop director search processes that identify qualified Board candidates both in the corporate environment as well as other enterprises, such as government, academia, private enterprise, complex non-profit organizations, and professions that serve them, such as accounting, human resources, and legal services. The search process will be designed so that candidates are not systematically eliminated from the search process due solely to background or organizational affiliation and so that each director search affirmatively seeks to include candidates with diverse backgrounds and skills.

4. The Committee shall, in accordance with (a) the policies and principles set forth in this Charter and (b) the relevant requirements of applicable law and requirements applicable to companies listed for quotation on the NASDAQ NMS, identify and recommend to the Board

i. the persons to be nominated by the Board for election as director at each annual meeting of stockholders,

ii. persons to be appointed as directors to fill vacancies occurring between annual meetings, and

iii. persons to be appointed as directors to fill newly created directorships, if any, created by expansion of the size of the Board between annual meetings.

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5. The Committee shall review candidates for the Board recommended by stockholders pursuant to policies and procedures established by the Committee from time to time.

6. The Committee shall consider whether to recommend to the Board increases or decreases in the size of the Board. The Committee shall consider whether to recommend to the Board (a) changes in the Board committee assignments of existing directors, (b) committee assignments for new directors and (c) the formation of additional Board committees.

7. The Chairperson of the Committee shall serve on the Governance & Compliance Committee of the Board and, through such service by the Chairperson, the Committee shall coordinate with the Governance & Compliance Committee on matters relating to the Corporation s corporate governance and such other matters as the Committee may determine to be appropriate.

The foregoing list is not intended to be exhaustive, and the Committee shall, in addition, have such powers as may be necessary or appropriate in furtherance of the objectives set forth in this Charter, including the objectives set forth in Section A.2 of this Charter with respect to diversity, or as may, from time to time, be delegated by the Board. The adoption of this Amended and Restated Charter shall not be construed to reduce any power or authority previously delegated to the Committee by the Board.

The Committee shall, to the full extent permitted by applicable law and the listing standards of The NASDAQ Stock Market applicable to the Corporation, have the power to delegate its authority to subcommittees or individual members of the Committee as it deems appropriate.

The Committee shall have the power to retain search firms or other advisors to identify director candidates. The Committee may also retain counsel or other advisors, as it deems appropriate. The Committee shall have the sole authority to retain and terminate such search firms, advisors or counsel and to review and approve their fees and other retention terms and shall have the authority to cause the payment of such fees by the Corporation.

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**ANNEX D**
**WEBMD CORPORATION**
**GOVERNANCE & COMPLIANCE**
**COMMITTEE CHARTER**
**AS ADOPTED ON OCTOBER 28, 2004**

**A. Purpose; Membership**

1. *Purpose.* The Governance & Compliance Committee (the Committee ) has been established by the Board of Directors (the Board ) of WebMD Corporation (the Corporation ): (a) to evaluate and make recommendations to the Board regarding matters relating to the governance of the Corporation; (b) to assist the Board in coordinating the activities of the Board s other standing committees, including with respect to the Corporation s compliance programs, and to provide additional oversight of those compliance programs; and (c) to provide oversight of senior executive recruitment and management development.

2. *Membership.* The Committee shall consist of the Chairpersons of the Board s Nominating Committee, Compensation Committee and Audit Committee. Unless otherwise determined by the Committee, the Chairperson of the Nominating Committee shall serve as the Chairperson of the Committee. Committee members shall serve until the earliest of their resignation or their replacement or removal by the Board as Chairpersons of the Nominating, Compensation or Audit Committee, as the case may be.

**B. Operations**

1. *Meetings.* The Committee shall determine the schedule and frequency of the Committee meetings, provided that the Committee shall meet at least four times per year, one of which meetings shall be held in advance of the Board s determination regarding

proposals to be included in the Proxy Statement for the Annual Meeting of Stockholders.

2. *Agenda; Reports.* The Committee shall determine the agenda for its meetings. The Committee may invite other Board members, members of management and others to attend meetings and provide pertinent information and reports, as it deems necessary. Nothing in this Charter shall be construed to restrict the reliance by any member of the Committee, to the full extent permitted by law, on information, opinions, reports or statements presented to the Committee by any of the Corporation s officers or employees, or other committees of the Board, or by any other person selected with reasonable care by or on behalf of the Corporation or the Committee as to matters the Committee member reasonably believes are within such other person s professional or expert competence.

3. *Report to Board.* The Committee shall report its actions and recommendations to the Board at the next Board meeting after each Committee meeting or, if so determined by the Committee, by distribution to the members of the Board of the minutes of a meeting, a unanimous written consent or other relevant documents.

**C. Authority and Responsibilities Delegated to the Committee**

1. The Committee shall evaluate and make recommendations to the Board regarding (a) the governance of the Corporation; (b) Board procedures; and (c) related matters. Recommendations may include possible changes to the Corporation s Certificate of Incorporation, By-laws, Board committee charters and other relevant constitutive documents, policy statements or similar materials.

2. The Committee shall evaluate and make recommendations to the Board regarding any proposals for which a stockholder has provided

required notice that such stockholder intends to make at the Annual Meeting of Stockholders, including recommendations regarding the Board s response and regarding whether to include such proposal in the Corporation s proxy statement.

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3. The Committee shall develop and present to the Board for its adoption a set of Corporate Governance Guidelines, which shall set forth guidelines in areas such as the function and operations of the Board and its committees.

4. The Committee shall assess the adequacy of this Charter and the Corporate Governance Guidelines on at least an annual basis and shall submit any proposed amendments to this Charter or the Corporate Governance Guidelines that the Committee recommends be made to the Board for its approval.

5. The Committee shall be responsible for making any required determinations regarding the independence of the members of the Board.

6. The Committee shall assist the Board in coordinating the activities of the Board s other standing committees, including with respect to the Corporation s compliance programs, and shall provide additional oversight of those compliance programs and related matters.

7. The Committee shall provide oversight with respect to matters relating to recruitment of senior executives of the Corporation and development of management talent.

The foregoing list is not intended to be exhaustive, and the Committee shall, in addition, have such powers as may be necessary or appropriate in furtherance of the objectives set forth in this Charter or as may, from time to time, be delegated by the Board.

The Committee shall, to the full extent permitted by applicable law and the listing standards of The NASDAQ Stock Market applicable to the Corporation, have the power to delegate its authority to subcommittees or individual members of the Committee as it deems appropriate.

The Committee shall have the power to retain counsel or other advisors, as it deems appropriate. The Committee shall have the sole authority to retain and terminate such advisors or counsel and to review and approve their fees and other retention terms and shall have the authority to cause the payment of such fees by the Corporation.

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**WEBMD CORPORATION ANNUAL MEETING OF STOCKHOLDERS September 29, 2005**

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints each of Andrew C. Corbin, Lewis H. Leicher and Charles A. Mele as proxies, each with full power of substitution, to represent the undersigned and to vote all shares of stock which the undersigned is entitled in any capacity to vote at the 2005 Annual Meeting of Stockholders of WEBMD CORPORATION, to be held at the Sheraton Crossroads Hotel, 12th Floor, One International Boulevard, Mahwah, New Jersey 07495 on September 29, 2005 at 10:00 a.m, Eastern time, and at any adjournment or postponement thereof, on the matters set forth below and, in their discretion, upon all matters incident to the conduct of the Annual Meeting and upon such other matters as may properly be brought before the Annual Meeting. This proxy revokes all prior proxies given by the undersigned.

**WHEN PROPERLY EXECUTED AND RETURNED IN A TIMELY MANNER, THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER OR, IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR EACH OF THE PROPOSALS SET FORTH BELOW.**

**Please date, sign and mail your proxy card in the envelope provided as soon as possible.**

x Please mark your votes as in this example.

**The Board of Directors recommends a vote FOR Proposals 1, 2 and 3.**

| | | |
|---|---|---|
| | **WITHHOLD** | **FOR ALL** |
| **FOR** | **AUTHORITY** | **EXCEPT** |

| | ALL NOMINEES | FOR ALL NOMINEES | (See instructions below) |
|---|---|---|---|
| 1. To elect the persons listed below to each serve a three year term as a Class I director. Nominees: Neil F. Dimick and Joseph E. Smith (INSTRUCTION: *To withhold authority to vote for any individual nominee, mark FOR ALL EXCEPT and strike a line through the individual s name in the list above.*) | o | o | o |
| | **FOR** | **AGAINST** | **ABSTAIN** |
| 2. To approve an amendment to WebMD s Certificate of Incorporation to change the corporate name of WebMD to Emdeon Corporation. | o | o | o |
| 3. To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm to serve as WebMD s independent auditor for the fiscal year ending December 31, 2005. | o | o | o |

**The undersigned acknowledges receipt of the accompanying Notice of Annual Meeting and Proxy**

**Statement.**

Signature:

Date:

Signature:

Date:

**NOTE:** Please sign exactly as your name or names appear on this Proxy Card. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give your full title as such. If the signer is a corporation, please print the full corporate name and the full title of the duly authorized officer executing on behalf of the corporation. If the signer is a partnership, please print full partnership name and the full title of the duly authorized person executing on behalf of the partnership.