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HSBC TO EXPAND INTO CENTRAL AMERICA BY ACQUIRING GRUPO BANISTMO

An agreement has been entered into with Grupo Banistmo S.A. ('Banistmo'), the leading banking group in Central America, to make a tender offer to acquire all the outstanding shares of Banistmo, for cash. The transaction values Panama-based Banistmo at US\$1.77 billion.

The Banistmo group's principal area of operation is Panama but the group also has a significant presence elsewhere in the region where HSBC does not already operate, providing a solid platform for future growth.

Banistmo owns 99.39 per cent of **Panama's** largest bank, Primer Banco del Istmo ('Banco del Istmo'), which offers a full range of personal, commercial and investment banking services through 42 branches. The Banistmo group also owns the country's largest insurance company, Compania Nacional de Seguros ('Conase').

These operations in Panama will complement HSBC's existing presence in the country, where HSBC's wholly owned subsidiary, HSBC Bank (Panama) S.A., provides services to personal and corporate customers through 19 branches.

The Banistmo group also has a significant presence across Central America, providing a full range of personal and commercial banking services through a further 106 branches in **Costa Rica, Honduras, Colombia** and **Nicaragua**. Additionally, in February 2006, Banistmo completed the acquisition of a 56 per cent stake in Inversiones Financieras Bancosal SA, the holding company for Banco Salvadoreño which operates through 72 branches in **El Salvador**.

more...

HSBC to expand into Central America by acquiring Grupo Banistmo/2

At 31 December 2005, Banistmo had total assets of US\$6,973 million and shareholders' funds of US\$695 million. It made a profit after tax¹ of US\$115 million in 2005. At 31 December 2005, Banco Salvadoreño had total assets of US\$1,778 million, shareholders' funds of US\$160.45 million and made a profit after tax² of US\$16.9 million during the year.

Stephen Green, Group Chairman of HSBC Holdings plc, said: "We are delighted to have reached agreement to acquire control of the leading banking group in Central America. This is the culmination of two and a half years' work examining the region and choosing our partner.

"This exciting development will give HSBC a strong presence across a fast growing economic region which, with the ratification of the Central American Free Trade Agreement ('CAFTA'), has encouraging prospects. It will allow us to expand into new markets, in a region of 83 million people, including Colombia, and in which large sections of the population do not currently have bank accounts.

"We look forward to welcoming Banistmo's customers to HSBC. Banistmo will bring us significant market share and growth opportunities in all markets. We have little overlap except in Panama, and we expect to benefit from the scale and knowledge that Banistmo brings from operating in the region. This acquisition will enable us to better serve the needs of our regional and international customers."

Alberto Vallarino, CEO of Banistmo, added: "With its significant international network, I know that HSBC's acquisition of Banistmo will bring real benefits to our customers. HSBC has recognised the value of Banistmo's business model and leadership position in this promising market. This transaction will be a positive contributor to the region's development."

more...

HSBC to expand into Central America by acquiring Grupo Banistmo/3

Upon completion of the acquisition, a senior management team will be selected from both organisations, and will be led by Sandy Flockhart, an HSBC Group General Manager and Chairman and CEO of Grupo Financiero HSBC in Mexico.

Under the terms of the agreement, Banistmo shareholders will be entitled to receive US\$52.63 for each share of Banistmo common stock held. The proposed offer has been unanimously approved and recommended by Banistmo's board of directors.

Additionally, shareholders holding in aggregate 65 per cent of the issued share capital of Banistmo have entered into an agreement with HSBC to tender their shares in accordance with the terms of the proposed offer.

The transaction is subject to certain conditions, including the receipt of regulatory approvals and at least 65 per cent of all the outstanding shares of Banistmo being tendered in the offer.

HSBC expects to complete the transaction during the fourth quarter of 2006.

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