# 2002 HSBC Holdings plc

*Annual Review*


The world's local bank

HSBC

## HSBC

Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. HSBC's international network comprises over 8,000 offices in 80 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 and Paris stock exchanges, shares in HSBC Holdings plc are held by around 190,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

Through an international network linked by advanced technology, including a rapidly growing e-commerce capability, HSBC provides a comprehensive range of financial services: personal financial services; commercial banking; corporate, investment banking and markets; private banking; and other activities.

**Illustrative Theme**

***New HSBC Group Head Office***

HSBC reached a milestone in 2002 when it began to move into a state-of-the-art, purpose-built new headquarters building — the sixth in its 138-year history. The cover photograph captures 8 Canada Square early in the morning — a sleek steel and glass structure rising 210 metres or 45 storeys from the ground, making it one of the tallest buildings in the United Kingdom. The building brings together some 8,000 members of staff previously working in different buildings across the City of London under one roof in Canary Wharf, the new and vibrant financial and business district centred around the River Thames in east London.

The objective was clear in creating the largest single-occupier building in the UK: to improve communications between business units, to enhance service for customers, and to increase synergy benefits for the Group as a whole. The building encourages teamwork — one of HSBC's great strengths.

The main photographs in this *Annual Review* reveal the many interesting features of 8 Canada Square, as well as an impressive range of facilities to enhance the working environment and staff amenities that are second to none. Accompanying these photos are small comparative shots (in monochrome) of similar scenes taken at various stages since the building's construction began in January 1999. Together, the pictures showcase the rise of a landmark in HSBC's history.

## Contents



This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2002.* 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.*

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2002* 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; Group Public Affairs, HSBC Bank USA, 452 Fifth Avenue, New York, NY 10018, USA; or from CCF S.A., Direction de la Communication, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 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 *Annual Report and Accounts 2002* may be viewed on our web site: www.hsbc.com.

# Annual Review 2002

## Financial Highlights

| 2001[5] | Year ended 31 December | **2002** | *2002* | *2002* |
|---|---|---|---|---|
| US$m | For the year | **US$m** | *£m* | *HK$m* |
| | **Cash basis**[1] | | | |
| 8,807 | Profit before tax | **10,513** | *7,002* | *81,991* |
| 5,799 | Profit attributable | **7,102** | *4,730* | *55,388* |
| | **After goodwill amortisation — reported earnings** | | | |
| 8,000 | Profit before tax | **9,650** | *6,427* | *75,261* |
| 4,992 | Profit attributable | **6,239** | *4,155* | *48,658* |
| 4,467 | Dividends | **5,001** | *3,331* | *39,003* |
| | **At year-end** | | | |
| 46,388 | Shareholders' funds | **52,406** | *32,492* | *408,662* |
| 50,854 | Capital resources | **57,430** | *35,607* | *447,839* |
| 503,631 | Customer accounts and deposits by banks | **548,371** | *339,991* | *4,276,196* |
| 696,245 | Total assets | **759,246** | *470,733* | *5,920,600* |
| 391,478 | Risk-weighted assets | **430,551** | *266,942* | *3,357,437* |
| US$ | **Per share** | **US$** | *£* | *HK$* |
| 0.63 | Cash earnings[1] | **0.76** | *0.51* | *5.93* |
| 0.54 | Basic earnings | **0.67** | *0.45* | *5.23* |
| 0.53 | Diluted earnings | **0.66** | *0.44* | *5.15* |
| | Dividends | | | |
| 0.19 | — first interim | **0.205** | *0.13* | *1.60* |
| 0.29 | — second interim[2] | **0.325** | *0.20* | *2.53* |
| 4.96 | Net asset value | **5.53** | *3.43* | *43.12* |
| | **Share information** | | | |
| 9,355m | US$0.50 ordinary shares in issue | **9,481m** | | |
| US$109b | Market capitalisation | **US$105b** | | |
| £8.06 | Closing market price per share | **£6.87** | | |
| | Total shareholder return against peer index[3] | **HSBC** | **Benchmark** | |
| | — over 1 year | **89** | **76** | |
| | — since 1 January 1999 | **155** | **95** | |
| % | **Ratios** | **%** | | |
| 10.4 | Return on average shareholders' funds | **12.3** | | |
| 0.86 | Post-tax return on average assets | **0.97** | | |
| 1.55 | Post-tax return on average risk-weighted assets | **1.74** | | |
| | **Ratios — cash basis**[1] | | | |
| 17.4 | Return on net tangible equity[4] | **19.8** | | |
| 1.00 | Post-tax return on average tangible assets | **1.11** | | |
| 1.76 | Post-tax return on average risk-weighted assets | **1.95** | | |
| | **Capital ratios** | | | |
| 9.0 | — tier 1 capital | **9.0** | | |
| 13.0 | — total capital | **13.3** | | |
| 56.4 | **Cost:income ratio** (excluding goodwill amortisation) | **56.2** | | |

1 *Cash-based measurements are after excluding the impact of goodwill amortisation.*

2 *The second interim dividend of US$0.325 per share is translated at the closing rate on 31 December 2002. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 28 April 2003.*

3 *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.*

4 *Cash basis attributable profit divided by average shareholders' funds after deduction of average purchased goodwill.*

5 *Figures for 2001, excluding average risk-weighted assets, have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on the Summary Financial Statement on page 49.*

# Overview of Results

## Geographical Distribution of Results

| *Figures in US$m* | **Year ended 31 December 2002** | | Year ended 31 December 2001† | |
|---|---|---|---|---|
| Profit/(loss) before tax — cash basis | | | | |
| | | % | | % |
| Europe | **4,160** | **39.5** | 4,182 | 47.5 |
| Hong Kong | **3,710** | **35.3** | 3,883 | 44.1 |
| Rest of Asia-Pacific | **1,293** | **12.3** | 1,096 | 12.4 |
| North America | **1,384** | **13.2** | 648 | 7.4 |
| South America* | **(34)** | **(0.3)** | (1,002) | (11.4) |
| | **10,513** | **100.0** | 8,807 | 100.0 |
| Goodwill amortisation | **(863)** | | (807) | |
| Group profit before tax | **9,650** | | 8,000 | |
| Tax on profit on ordinary activities | **(2,534)** | | (1,988) | |
| Profit on ordinary activities after tax | **7,116** | | 6,012 | |
| Minority interests | **(877)** | | (1,020) | |
| Profit attributable | **6,239** | | 4,992 | |
| Profit attributable — cash basis | **7,102** | | 5,799 | |

## Distribution of Results by Line of Business

| *Figures in US$m* | **Year ended 31 December 2002** | | Year ended 31 December 2001¶ | |
|---|---|---|---|---|
| Profit/(loss) before tax — cash basis | | | | |
| | | % | | % |
| Personal Financial Services | **3,543** | **33.7** | 3,457 | 39.3 |
| Commercial Banking | **3,034** | **28.8** | 2,385 | 27.1 |
| Corporate, Investment Banking and Markets | **3,717** | **35.4** | 4,033 | 45.8 |
| Private Banking | **420** | **4.0** | 456 | 5.2 |
| Other | **(201)** | **(1.9)** | (1,524) | (17.4) |
| Group profit before tax — cash basis | **10,513** | **100.0** | 8,807 | 100.0 |
| Goodwill amortisation | **(863)** | | (807) | |
| Group profit before tax | **9,650** | | 8,000 | |

* *Formerly described as Latin America, which included Group entities in Panama and Mexico, which are now included in North America. Figures for 2001 have been restated to reflect this change.*

† *Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on the Summary Financial Statement on page 49.*

¶ *The figures for 2001 have been restated to reflect a reclassification of US domestic private banking business, previously included within the Personal Financial Services segment.*

# Five-Year Comparison

| | 1998 | 1999 | 2000[4] | 2001[4] | **2002** |
|---|---|---|---|---|---|
| | US$m | US$m | US$m | US$m | **US$m** |
| **At year-end** | | | | | |
| Share capital | 3,443 | 4,230 | 4,634 | 4,678 | **4,741** |
| Shareholders' funds | 27,402 | 34,402[4] | 46,393 | 46,388 | **52,406** |
| Capital resources | 41,092 | 44,270 | 50,964 | 50,854 | **57,430** |
| Customer accounts | 308,910 | 359,972 | 427,069 | 449,991 | **495,438** |
| Undated subordinated loan capital | 3,247 | 3,235 | 3,546 | 3,479 | **3,540** |
| Dated subordinated loan capital | 7,597 | 12,188 | 12,676 | 12,001 | **14,831** |
| Loans and advances to customers[1] | 235,295 | 253,567 | 289,837 | 308,649 | **352,344** |
| Total assets | 483,128 | 569,908[4] | 674,265 | 696,245 | **759,246** |
| **For the year** | | | | | |
| Net interest income | 11,547 | 11,990 | 13,723 | 14,725 | **15,460** |
| Other operating income | 8,508 | 9,012 | 10,850 | 11,163 | **11,135** |
| Operating profit before provisions | 9,051 | 9,653 | 10,486 | 10,484 | **10,787** |
| Provisions for bad and doubtful debts | (2,637) | (2,073) | (932) | (2,037) | **(1,321)** |
| Pre-tax profits | 6,571 | 7,982 | 9,775 | 8,000 | **9,650** |
| Profit attributable to shareholders | 4,318 | 5,408 | 6,457 | 4,992 | **6,239** |
| Dividends | (2,495) | (2,872) | (4,010) | (4,467) | **(5,001)** |
| | US$ | US$ | US$ | US$ | **US$** |
| **Per ordinary share[2]** | | | | | |
| Cash earnings | 0.54 | 0.66 | 0.80 | 0.63 | **0.76** |
| Basic earnings | 0.54 | 0.65 | 0.74 | 0.54 | **0.67** |
| Diluted earnings | 0.53 | 0.65 | 0.73 | 0.53 | **0.66** |
| Dividends | 0.308 | 0.340 | 0.435 | 0.480 | **0.53** |
| Net asset value | 3.38 | 3.95 | 5.01 | 4.96 | **5.53** |
| Share information[2] | | | | | |
| US$0.50 ordinary shares in issue | 8,067m | 8,458m | 9,268m | 9,355m | **9,481m** |
| | % | % | % | % | **%** |
| **Financial ratios** | | | | | |
| Dividend payout ratio[3] | 57.0 | 51.5 | 54.4 | 76.2 | **69.7** |
| Post-tax return on average total assets | 0.98 | 1.20 | 1.31 | 0.86 | **0.97** |
| Return on average shareholders' funds | 15.5 | 17.5 | 15.8 | 10.4 | **12.3** |
| Average shareholders' funds to average total assets | 5.71 | 6.24 | 6.64 | 6.87 | **6.91** |
| **Capital ratios** | | | | | |
| Tier 1 capital | 9.7 | 8.5 | 9.0 | 9.0 | **9.0** |
| Total capital | 13.6 | 13.2 | 13.3 | 13.0 | **13.3** |

1 *Net of suspended interest and provisions for bad and doubtful debts.*
2 *Per share amounts reported here and throughout the document reflect the share capital reorganisation on 2 July 1999.*
3 *Dividends per share expressed as a percentage of cash earnings per share.*
4 *The figures for 2001 and 2000 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax'. Apart from shareholders' funds at 1999 year-end, the 1999 and 1997 comparatives have not been restated as it is considered that any adjustments made would not significantly alter the figures. Therefore, any benefit to be obtained from restatement would be outweighed by the cost of the exercise.*

# Group Chairman's Statement

Against a background of difficult conditions in most of the world's economies, HSBC achieved a solid set of results in 2002. Our performance reflected the resilience of our local businesses around the world and our ability to generate reasonable returns in them. In spite of the global economic downturn, the strength of HSBC enabled us to grow our operating income and to take opportunities to lay the foundations for our future.

Recognising this, the Board approved a second interim dividend of US$0.325 taking the dividends for 2002 to US$0.53, an increase of 10.4 per cent over 2001. Additionally, acknowledging the increasing importance of dividend flows to our shareholders, the Board has determined to move to a programme of quarterly dividends beginning with dividends in respect of the second half of 2003. It is envisaged that the first such quarterly dividend will be paid in January 2004. Further details of these proposals will be announced in due course.

On 31 December 2002, we completed year four of our five-year strategic plan. When we announced the plan to shareholders in the 1998 *Annual Report*, we committed to measure our performance. We set two targets.

The first was to double total shareholder returns (measured by share price with gross dividends reinvested) over the five years of the strategy. With one year to go, HSBC's TSR stood at 155 (starting from a baseline of 100). While the fall in the share price from its peak is disappointing, this should be seen in the context of the overall performance of markets during the period. For the four years, the TSR of the FTSE 100 in the UK stood at 74; the Hang Seng Index (in which HSBC makes up almost a third of the index) in Hong Kong at 106; and the S&P500 in the USA at 78. The MSCI World Index, a global measure, stood at 76.

The second measure is of our relative performance against a defined peer group of financial institutions which shows how HSBC performs against its main competitors. HSBC's TSR of 155 over four years compared to 95 for the benchmark index TSR of our competitors.

I thank my talented colleagues whose hard work and dedication have made this superior performance possible. The quality of HSBC's staff is the single most important factor in our success. Every year, I meet many hundreds of my colleagues and it is a privilege to work with so many outstanding people. Their success is recognised by the number of awards HSBC receives around the world, some of which are listed in Keith Whitson's review of strategy.

As well as good progress in our existing business, which you can also read about in the review of strategy, HSBC made a number of important acquisitions during the year. As we look to the future, we see two particularly exciting areas of economic potential and of opportunity for HSBC: NAFTA and China. We were, therefore, very pleased to acquire and recapitalise Grupo Financiero Bital in Mexico for a total consideration of US$1.9 billion. GF Bital is a major and highly respected force in Mexican financial services, with nearly five and a half million personal customers served by 1,400 branches and 4,000 ATMs, with assets of approximately US$22 billion.

Right: An atmospheric dawn shot of HSBC's new Group Head Office from a neighbouring building at 1 Canada Square. The photo looks east, with the River Thames in the background.
This is HSBC's second Group Head Office building in the UK. For 128 years following its founding in 1865, the Group had its head office in Hong Kong. From 1993 to 2002, Group Head Office was located in the City of London. The picture at the bottom left shows the construction site at 8 Canada Square, just months after piling work began in 1999.
The Canary Wharf estate, where the building is located, began life as docks serving Britain's maritime trade. In its heyday as a trading nation, many of Britain's imports came from the Canary Islands, hence the name. The docks are no longer used for maritime trade but, since 1991, Canary Wharf has become a model of successful urban regeneration.


HSBC

## Group Chairman's Statement (continued)


The main reception on the ground floor is noted for its contemporary and clean, minimalist lines, enhanced by black glass and grey granite flooring (above, main picture) — a contrast to the scene during fitting out in early 2002 (top left). Throughout the day, five TV screens show rolling news from Bloomberg, Sky, CNN and CNBC, and the sixth reruns HSBC's latest TV advertising from around the world, providing a point of interest for the 600 visitors to the building every day. Above the reception desk, a dot-matrix display flashes the latest headlines and world stock-market indices.

The reception area is dominated by the HSBC History Wall — an entire wall of 230 square metres chronicling the Group's history from the 18th to the 21st centuries (main picture, right and page 10). HSBC's modern history — represented by over 100 items, including post-cards from chief executive officers, bank statements and account opening forms, newspapers and a video of the Group — is contained in a stainless steel 'time capsule', which was sealed in a secret location in 2001 for the benefit of future generations (top right).

The main entrance of 8 Canada Square is guarded by a pair of majestic bronze lions (page 7), replicas of those that have stood outside HSBC's Hong Kong headquarters since 1935.

The most popular entrance to the building, used by over 80 per cent of staff and visitors, is via the basement, which provides direct access to tube and rail transport links (bottom). The entrance is enhanced by a wall mural, created on the black granite surface by line drawing transfers depicting some of the most prominent HSBC buildings around the world — in London, the Hong Kong SAR, New York, Paris, Geneva, Tokyo, Shanghai, Singapore, Mumbai, Sydney, Buffalo, Vancouver, Curitiba, Dubai and many other places.

Similarly, we were delighted to be invited to invest US$600 million in Ping An Insurance Company of China. This gave us a 10 per cent stake in the second-largest life insurance operation in China. Ping An has over 27 million policy holders.

Elsewhere in Asia, we agreed to purchase Keppel Insurance Pte Ltd in Singapore and completed the approximately US$88 million transaction in February this year, adding life insurance and Islamic insurance to an established business in a country where we have a long history.

The US economy accounts for approximately 33 per cent of world GDP and consumer spending, in turn, accounts for almost 70 per cent of US GDP. There is therefore a very strong economic case for HSBC having a significant presence in the US consumer market. In November, in a major development for HSBC, we announced that we had agreed to acquire Household International, Inc. Household is a US consumer finance company with over 50 million customers across the United States, the UK and Canada. With 1,400 offices in 46 states, it delivers national coverage in the US for consumer lending, credit cards and credit insurance.

At the time of writing, the acquisition is subject to approval by shareholders of both HSBC and Household, and shareholders' meetings for both companies will be held on 28 March 2003. The transaction is also subject to other conditions, in particular the receipt of certain regulatory and other approvals which are being sought.

Assuming that the Household acquisition is successfully completed, we will have roughly 30 per cent of our assets in Asia and the Middle East, 30 per cent in the Americas and 40 per cent in Europe, giving us a unique geographic balance. We will also have a broad spread of businesses balanced between OECD countries and developing markets, and personal financial services will become our largest market.

We believe this spread is vital to our strategic interests. The ability to expand our business by acquisition will always depend on the opportunities which arise. A good many proposals are brought to us; very few match our long-term strategy or the stringent criteria we have set for ourselves.

It is a fact that most acquisitions do not create value for shareholders. One of HSBC's great strengths is that we have a long and successful record of integrating businesses into the Group in a way that does benefit our shareholders.

Just as we carefully match our acquisitions to our strategy, so our strategy is informed by the way in which we see future trends. Looking forward, we see two major forces shaping consumer spending around the globe.

In developed markets we see demographic changes, in particular ageing of the population, shaping and changing the demand for financial services. Hence our emphasis on wealth management, particularly insurance products and savings products, whether in the form of investments or pensions.

In developing countries like China, India, Brazil and Mexico, we believe we will see a growing demand for all kinds of financial services as these markets grow their per capita income and new consumer markets emerge. This demand will include consumer finance and, in Household, we believe we have found a business model that represents 'best in class' technology and is exportable to markets where we see potential.

In the wake of some well-publicised corporate failures, there has been much discussion about corporate governance. HSBC is fortunate to have non-executive Directors of the very highest calibre

## Group Chairman's Statement (continued)

whose breadth of experience is, I believe, the equal of any board in the world.

Minoru Murofushi, Carl Reichardt and Sir Adrian Swire retired on 31 May 2002 after distinguished service on your Board. We shall miss their wise counsel. We are fortunate that Stewart Newton, Carole Taylor and Sir Brian Williamson have joined the Board. Having been appointed since the last Annual General Meeting, they will retire at the forthcoming Annual General Meeting and offer themselves for election.

Sir Keith Whitson is to retire at the Annual General Meeting on 30 May 2003 after 42 years' service with HSBC. Keith will be succeeded by Stephen Green, currently Executive Director, Corporate, Investment Banking and Markets. In addition to retaining his existing responsibilities, Stephen will oversee all other HSBC businesses, including personal financial services, commercial banking and insurance. Alan Jebson, currently Group IT Director, has been appointed to the new position of Chief Operating Officer with effect from 30 May. Alan will be responsible for HSBC's worldwide operational functions and for managing certain head office departments.

Keith Whitson has devoted his entire working life to HSBC. He is an outstanding colleague with exceptional abilities and has made an immense contribution to our success. He has also served the banking industry as a whole with great distinction. At the same time, one of HSBC's key characteristics is the strength of its management team. Stephen is extremely well qualified for his new appointment and I am confident that he will be a highly effective Group Chief Executive. Similarly, Alan's talents have been apparent to us for many years. His appointment as Chief Operating Officer reflects the continuing evolution of HSBC and the importance we attach to operational efficiency in serving our customers around the world.

We continue to make good progress in increasing the number of employees who have a direct interest in the ownership of the Group through our employee share plans. During 2002, over 41,000 employees in 51 countries and territories applied for savings-related options, with the greatest interest shown in the UK, the Hong Kong SAR and Malaysia. Performance-related share options were awarded to almost 40,000 employees worldwide at all levels of the organisation.

In 1998, we set the objective of achieving a level of employee ownership equivalent to 5 per cent of our share capital within five years. We estimate that, at year-end 2002, our employees had an interest in over 4 per cent of our fully diluted capital base.

During the last 12 months, there has been a growing understanding in the UK and elsewhere about the financial risks inherent in the provision of company pensions. In part, this has been prompted by the fall in the equity markets but, more profoundly, by recognition of the effects of greater longevity. We welcome the enhanced accounting disclosures in FRS 17 which shed more light on the financial position of company pension schemes.

HSBC attaches the greatest importance to providing appropriate and secure pension arrangements for its staff, but also to balancing the burdens which successive generations will have to bear for those who preceded them. In this regard, in 1996 we closed our largest defined benefit pension scheme to new members, with all new employees being offered membership of a defined contribution scheme. In making our decision, we took into account a number of factors, including changing demographics which underline the fact that the cost to shareholders of defined benefit schemes are unquantifiable but increasing.

Although this issue is critical, there is time to address the problem. Even before employer's contributions, the investment income generated by our largest scheme in the UK covered more than 90 per cent of the pensions payable from it. Nevertheless, in 2003 we have made a substantial incremental contribution of £500 million to that scheme in order to recognise the changing demographics and investment returns. This is a clear recognition of our responsibilities. HSBC has the financial strength and the resolve to fulfil all its obligations.

Some 8,000 of my colleagues are now located at HSBC's new Group Head Office building in Canary Wharf which is now operational. We shall hold an official opening ceremony in early April.

We designed the building to enable our people to interact easily and well with each other, thus encouraging teamwork — so important to us. You will see that the building itself is the subject of the illustrative theme of this *Annual Review*.

HSBC has a long tradition of corporate social responsibility but we recognise the growing need to make public what has long been an ingrained part of our character. Hence our continued inclusion in the Dow Jones Sustainability Group Index, FTSE4Good and the UK's Business in the Environment Seventh Index of Corporate Environmental Engagement.

In 2002, we published a report in *HSBC in the Community* on the environmental impact of our own operations in the UK, together with targets for improvement. We have now exported this system to HSBC operations in Australia, Brazil, Canada, France, the Hong Kong SAR, India, Malaysia, Singapore and the USA and we will report on their performance, with targets for improvement, in this year's edition of *HSBC in the Community*.

Despite what we consider to be an excellent record, we recognise that we need to pay even more attention to the non-financial implications of lending decisions. We have issued more demanding internal standards on environmental and reputational risk which reflect the developments in international public opinion and the growing body of knowledge about environmental issues.

Indeed, education and the environment remain our principal areas of community support. Broadly, our work in education focuses on access and helping those who are disadvantaged. This work falls under five main themes.

First, providing talented individuals with opportunities. In 2002 for example, this included helping young people with HSBC scholarships — some 300 in Hong Kong, 100 in the UK, 60 in South Africa and many others.

Second, our volunteer work. Whether through Wayfoong volunteers in Hong Kong, Helping Hands in Brazil, or dozens of local projects around the world, many of my colleagues devoted considerable time to working in their local communities.

Third, we undertake projects where many resources are put into one school or institution. This can be the Jumpstart project in Buffalo, where we provide job-shadowing and mentoring for students from Riverside Institute of Technology High School; it can be sponsoring language colleges in the UK; or our long-term support of the Glen Taylor School in an economically deprived area of Auckland, New Zealand.

Fourth, we support educational and attitudinal projects which give children formative and, sometimes, life-changing experiences. For instance, we supported the Kielder Challenge, a series of outdoor events in the UK, for teams of able-bodied children and those with disabilities.

Finally, we support projects tailored to local needs, often with emphasis on children with learning difficulties or disabilities. We support specific initiatives like Junior Achievement helping young people in US high schools gain experience of running small businesses, and Young Enterprise which fulfils a similar role in the UK. Online sites like the GCSE online maths course devised by the Thomas Telford City Technology College and www.timeforcitizenship.co.uk also promote wider access to curriculum materials.

To raise awareness of our educational work, we decided to develop the HSBC Global Education Challenge, an online programme designed solely for children, as an exciting educational resource open for anyone to use.

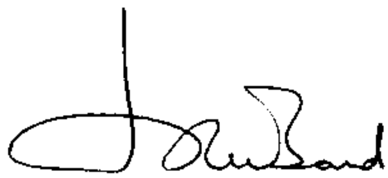
The Challenge follows the 'Around Alone' yacht race, which started in September 2002, and the progress of a number of skippers including Graham Dalton and his yacht, *Hexagon*, which we have sponsored.

The Global Education Challenge is an award-winning web site, aimed at nine-to-twelve year olds who can follow the race and tackle educational challenges along the way. So far, the site has been used by schools in 35 countries.

HSBC's commitment to the environment remains as strong as ever. We maintained our support of Investing in Nature, working with Earthwatch, WWF and Botanic Gardens Conservation International. In 2002, 190 of our employees from 39 countries participated in Earthwatch projects in 25 countries.

As a direct result of our support, in 2002 BGCI listed and conserved 8,000 threatened plant species — our five-year target is 20,000. And WWF have selected freshwater demonstration sites in Brazil, China and the UK.

Turning to 2003, despite the current uncertainties HSBC remains strong in terms of both capital and earning power. The acquisitions announced last year will improve our geographical balance. They should also reduce risks within our financial framework by increasing the proportion of earnings from the personal sector which, long term, has more predictable revenue and cost characteristics. We remain well positioned to seek growth opportunities worldwide with few geographic or product constraints.



Sir John Bond, *Group Chairman*

Above: When viewed from the back, the History Wall captures the HSBC corporate signature in embossed form. An original design by Thomas Heatherwick Studio, this contemporary work of art — measuring 34.5 metres long and 6.6 metres high — marks the history, achievements and values of the Group. Its 3,743 images, taken from documents, photographs, portraits and illustrations of staff, buildings, events and businesses, are attached to metal rods and suspended like flags from the glass wall (detail at right).

The inset shows preparation and fitting out work in the wall area prior to the installation of the images in early 2002.

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

2002 was the fourth year of our current five-year strategic plan which focuses on 'Managing for Value'. In spite of the testing economic conditions in many of our markets, we have made further solid progress. Throughout the year, we have continued to place emphasis on managing across geographical boundaries. This involves harnessing the general managerial skills and local experience of our people in different countries around the world with the specialised knowledge of those responsible for our various businesses. We refer to this as 'collective management' and we believe that our success on this front gives HSBC significant competitive advantage. In simple terms, this is teamwork on an international scale.

We have also continued to invest heavily in ensuring that we remain customer-driven and able to service customer requirements better by introducing superior systems and training support for our staff. This has included looking at more flexible pricing structures, offering new and innovative products, and providing our customers with real alternatives to traditional investments. In fact, a significant proportion of the more than US$2.5 billion we invested in technology in 2002 was spent on customer relationship management systems, on electronic delivery channels such as the internet and telephone banking, and on the worldwide roll-out of our standard computer systems.

It was a year of major development for our electronic banking services, with a stream of innovations and service enhancements increasing satisfaction levels among our customers and providing them with greater choice in all our major geographical areas of operation and lines of business. More details can be found in the following sections.

It is always gratifying when the quality of our service or products is recognised in the form of customer commendations in major surveys, or awards from the media and professional organisations. We received a good many in 2002, including *The Banker* magazine's top accolade of 'Global bank of the year'. Others are highlighted in various parts of this review.

## Personal Financial Services

Improving the quality and range of services we provide to our 36 million personal customers worldwide remains a key strategic objective. With this in mind, we concentrated on developing our Personal Financial Services team in 2002. By aligning our plans and initiatives across all our main Personal Financial Services operations, we have established a framework within which we can develop our business and become even more customer-driven. In 2002, the business made a pre-tax profit (on a cash basis) of US$3,543 million.

HSBC *Premier*, our internationally uniform service for our most valuable personal customers, is a good example of our customer-driven approach. In 2002, the service was launched in a further six countries — China, France, Panama, Taiwan, Thailand and Turkey — bringing the total to 29, the number of *Premier* customers to 632,000, and the number of *Premier* Centres to over 200. This year will see *Premier* launched in Greece, and Mexico where we now have almost five and a half million personal customers. On average, *Premier* customers buy 2.5 times more products from us than our other customers.

In a particularly important and exciting development, International Services from *Premier* for internationally mobile customers have been piloted among Canada, the Hong Kong SAR, Jersey, the UK and the United States. These services include seamless account opening and credit history transfer across borders, and will be extended in 2003 to Brazil, France and India.

Our customer relationship management systems and skills are now used in varying degrees in more than 30 countries. For example, following its success in the UK, our 'Individual Solutions' programme was launched in the Hong Kong SAR where 800,000 Individual Solutions were implemented for more than 600,000 customers. In 2003, HSBC Bank USA will also adopt the customer relationship

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


management systems and processes first developed in HSBC Bank plc.

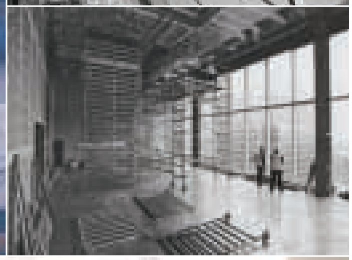
Our customer relationship management initiatives are being aided by a more standardised approach to customer segmentation, enabling us to develop services linked to customer life stages, cultural diversity and gender. For instance, new services developed for the benefit of children were launched in 2002 by Hang Seng Bank Limited and HSBC Bank Australia Limited, while female executives were the focus of HSBC Bank Middle East's new Yasmeen services. HSBC Bank USA launched an Islamic-compliant home finance package, charge card and bank account for the Muslim community.

The provision of insurance products to personal customers is an increasingly important part of our wealth management strategy. We provide both our own and externally sourced life, pensions, investment-linked and protection products, as well as insurance broking and actuarial and consultancy services in 35 countries and territories.

HSBC Insurance Agency (USA) Inc. increased premium volume from US$667 million in 2001 to US$1.4 billion in 2002, mainly from fixed annuity and life insurance sales. Telemarketing of general insurance products was fully launched in Hang Seng Bank, while the joint HSBC Life (International) Limited and Hang Seng Life Limited operations became the Hong Kong SAR's second largest issuers of new insurance to personal customers.

In Brazil, pensions growth was among the highest in the market, with 36 per cent more participants and 16 per cent more paid in contributions. In Argentina, we began selling motor and home insurance on the internet and, in spite of the economic crisis, HSBC increased its auto scoring portfolio by 30 per cent.

In the UK, where insurance cross-selling is benefiting from strong mortgage sales and lending, HSBC is now the leading provider of individual income protection, with a market share of 19 per cent. HSBC Bank plc also became the fifth largest provider of UK pensions, with a six per cent market share for its award-winning 'stakeholder' pension.

Main picture: A close-up view of the top floors and the roof of HSBC Group Head Office, looking east and taken from the roof of the tallest building in the UK, at 1 Canada Square. In the panorama behind the building, the runway of London City Airport, which serves mainly business travellers, is visible in the distance on the right, with the Millennium Dome on the far right on the bank of the Thames.

Right: The top picture shows a construction worker looking towards the City of London as the HSBC hexagon symbol nears the final stages of installation in 2001. A giant hexagon symbol appears on each of the four sides of the building just below the roof. Powerful back lights illuminate the brand at night. The double-level space below the brand in the main picture is the Boardroom, shown during fitting out in the middle picture and with the Directors getting ready for the start of their first Board meeting to be held in the new building in September 2002. In addition to providing state-of-the-art audio-visual facilities, the Boardroom has a map of the world created from two-tone aluminium slats across an entire wall and, from its floor-to-ceiling window, a panoramic view across London.

It is important, particularly in the current economic climate, that we continue to innovate and share best practices. We hold quarterly meetings of our top Personal Financial Services managers from across the world. Rotating these meetings among different continents provides our senior executives with first-hand experience of what our customers in different countries want — a real example of collective management at work. International business centres in each country ensure that our front-line employees can meet our customers' cross-border needs quickly.

HSBC *Premier* customers, for example, reaped the benefit of Portfolio Plus, HSBC Republic Investments Limited's laptop-based discretionary portfolio management service, while our structured and capital-protected products were extended further by our French subsidiary, Sinopia Asset Management.

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

We recognised our customers' desire to invest in more equity products, underpinned by varying degrees of protection against loss. Our business in Hong Kong achieved turnover of HK$28 billion in structured deposits. HSBC in Canada, Singapore and Taiwan also launched various structured deposits, while Hang Seng Bank introduced 30 capital-protected funds. HSBC Bank International Limited in the Channel Islands sold a record US$900 million of capital secured funds.

In another important area — cards — we developed our business worldwide, despite strong competition. Sales of card products are important in expanding our customer base, particularly in areas where our branch network is modest, such as Egypt. There, we used card products to launch a range of Personal Financial Services initiatives in 2002.

We continued to increase the number of credit cards in issue, bringing the total to almost 14 million worldwide, and added 1.3 million store cards through our acquisition of the Benkar business in Turkey. HSBC Bank Brasil S.A.-Banco Múltiplo exceeded one million cards for the first time. HSBC Bank Middle East issued 42 per cent more cards, and several of our Asia-Pacific operations also saw significant increases in card numbers, with Indonesia recording 53 per cent, Malaysia 26 per cent, and Hong Kong 14 per cent.

Card security, of course, remains paramount and we continually strive to find new ways of beating fraud. We are at the forefront of moves to introduce so-called 'smart' cards with microchips for heightened protection, and we have increased our investment in sophisticated fraud detection systems.

Home loans were another major business opportunity in 2002 as consumers refinanced their mortgages to take advantage of lower interest rates and, in the process, withdrawing equity to finance household spending. HSBC Bank plc sold more than 130,000 mortgages in 2002, increasing its share of the UK's net new mortgage lending market to 6 per cent and earning several awards from *What Mortgage?* and *Your Mortgage* magazines. HSBC Bank Canada launched its Prime Minus mortgage based on innovations made in the UK, and CCF teamed up with HSBC Bank plc and HSBC Bank International Limited in the Channel Islands to launch a new home loans service for customers buying second properties in France. HSBC Bank Malaysia Berhad gave a further boost to its home loans business when it acquired ABN AMRO Bank's retail mortgage portfolio in the country.

Nothing has had quite the impact on our Personal Financial Services business in recent years as the advent of the e-age, where we made quite dramatic progress in 2002.

Although our e-efforts have focused mainly on internet banking, important developments in e-mail and mobile phone applications are now also paying dividends, and all our major business lines are showing strong e-channel growth. Personal banking has developed most rapidly, with more than 4.3 million customers now registered for our e-banking services available through the internet, mobile phones, personal digital assistants, digital TV, e-mail and private network connections, and Minitel for CCF customers. Customers in 10 countries can also receive short message service alerts from us, which provide information on account balances, payment advice and share prices direct to their mobile phones.

Internet banking, available in 19 countries, recorded over 130 million customer log-ons in 2002 when more than 1.2 million new customers worldwide joined our online service. HSBC Bank plc registered its one-millionth internet banking customer, while more than half the customers of First Direct, the UK's first telephone bank, have already signed up. First Direct achieved impressive levels of customer satisfaction, with a recent survey reporting that more than 95 per cent of its internet banking customers were satisfied with the bank overall. Internet customers buy approximately 45 per cent more products from us than average customers.

Our e-innovations in 2002 included online credit scoring, through which customers can apply for credit and get an instant reply. Personal details can be amended online in a number of our markets and, with our partner Yahoo!, we have rolled out the person-to-person e-mail payment system, PayDirect, in the United States, the UK and the Hong Kong SAR.

As important as our e-channels are, it was essential that we continue to improve our other delivery channels. As a result, we now have almost 2,000 branches configured to a uniform, customer-friendly, Group standard design. HSBC in the Hong Kong SAR introduced 21 self-service Easi-Banking centres.

In the UK, improved automation in HSBC Bank plc's telephone banking service helped boost the number of product sales to 750,000, an increase of more than 50 per cent. In the Middle East, HSBC launched in-store customer service units based on HSBC Bank plc's initiative with the UK supermarket Morrisons and, in Saudi Arabia, The Saudi British Bank became the first bank in the kingdom to introduce cash deposit machines.

In Brazil, self-service banking was expanded, with the result that 70 per cent of HSBC Bank Brasil's branch transactions were processed by ATMs in 2002. HSBC Bank Malaysia Berhad won the 'Malaysia IT premier award' — the first bank to do so in the private sector category — for the introduction of ChequeScan, a machine that enables customers to deposit cheques and benefit from straight-through processing.

Examples of HSBC's collective management were to be found in various parts of the world. HSBC Bank International Limited opened an office within HSBC's main Hong Kong building to serve expatriates and launched an internet-based Global Tax Navigator to help HSBC customers and employees worldwide.

HSBC Bank Argentina S.A. and HSBC Bank USA jointly established an offshore service mainly aimed at Argentine customers and, as part of our North American alignment initiative, HSBC Bank USA and HSBC Bank Canada set up an internal hotline to ensure that customers with needs in both countries receive seamless service from us. Last but not least, HSBC Bank plc linked up with HSBC in India to open two new UK offices to serve non-resident Indians.

Our international ATM network now exceeds 15,400 terminals in more than 40 countries and territories. During 2002, the acquisition of Grupo Financiero Bital S.A. de C.V. in Mexico added 4,020 machines to the network while HSBC Bank A.S. contributed a further 340 in Turkey. We also introduced standards for emergency encashments at all our cash-handling offices for customers whose plastic is lost or stolen.

Surveys of HSBC Bank plc's customers show that over 90 per cent of them were 'very satisfied' or 'satisfied' with our service in 2002. HSBC in Hong Kong was named 'Bank of the year' by *The Banker* magazine. For the third year running, an independent survey ranked HSBC Bank Canada as the country's number one bank for overall customer satisfaction.

## Commercial Banking

Commercial Banking serves a wide range of companies, from sole proprietors, partnerships, clubs and associations to incorporated businesses and publicly quoted companies. It has traditionally been an area of strength for HSBC. Indeed, with more than 1.8 million small and medium-size businesses buying financial products and services from us, we believe we have the largest international commercial banking franchise of any bank. This business earned us a pre-tax profit (on a cash basis) of US$3,034 million in 2002.

We continued to improve and extend our range of products and services in 2002, placing special emphasis on international collaboration between our teams in various lines of business. For instance, we drew on our experience in Personal Financial Services to improve our banking, insurance and investment products for our commercial banking customers and their employees.

In the UK, and indeed in other markets, we increased the number of business financial planning managers to provide a total wealth management package for our customers. Elsewhere in Europe, France completed the launch of an innovative product, Elys Homme Clé which, as the name suggests, insures a company against the loss of a 'key man'.

Commercial Banking in Hong Kong teamed up with HSBC Asset Management and Treasury to cross-sell investment funds. These focused on capital-guaranteed funds and high-yield deposits and resulted in a 158 per cent increase in fee income. Factoring and Business Banking also co-operated to launch two account receivable finance programmes for small and medium-size enterprises (SMEs).

We now have 20 Service and Sales outlets in prime branches in the Hong Kong SAR where specialist staff look after the trade services requirements of SMEs. In addition, our dedicated business banking call centre handles more than 40,000 calls a month. Hang Seng Bank now has more than 100 business account managers in 11 Business Banking Centres looking after its SME customers.

China is an increasingly important market for many of our customers. In 2002, we witnessed strong growth in commercial lending, in investment banking advisory work, and in serving our commercial

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

Left: Its name may be understated but the Central Equipment Room is the nerve centre of the building. Occupying an entire floor, the room contains the complete information technology equipment required to run the building, as well as the main local computers and networking equipment that support data, voice and video services. Two telephone exchanges that operate the building's 10,000 telephone extensions are also located here. In addition, this is the telecommunications hub that supports the UK domestic branch network and HSBC's overseas operations in continental Europe, the Middle East, Asia-Pacific and the United States. The main picture and the fish-eye view show just some of the 700-odd cabinets housing equipment that required the laying of some two million metres of cable (far left, top).
Right: The office floors were designed to create a functional and spacious working environment where employees can interact easily with each other and where the latest facilities and equipment ensure maximum efficiency. Energy-efficient systems, recyclable furniture and equipment, and electronic filing help to make it an environmentally friendly building.

customers' personal banking needs. We also launched factoring operations in both China and Taiwan.

In Malaysia, we began several initiatives to ensure that HSBC captures the trade business generated by the local business community's growing interest in China and India and, in neighbouring Singapore, the launch of Business Vantage, a packaged account service and delivery product, drew an enthusiastic response.

India saw the launch of Business Insurance Services with tailored products, including policies covering fire, burglary, money-in-safe and public liability, and introduced a Cash Plus Sweep facility which automatically sweeps idle or surplus funds into a higher yielding money market mutual fund. In the Middle East, new products included Prime Trade and Amanah Import Trade Finance, an Islamic-compliant letter of credit with a financing option.

In South America, we improved our commercial banking service in Brazil by locating 850 business banking relationship managers close to customers in the branch network.

Our North American alignment initiative introduced collective management structures between Canada and the United States. It produced encouraging results in our efforts to provide commercial banking customers with seamless cross-border services between the two countries. Credit facilities grew significantly and cross-border deposit and investment management activities increased.

The Competition Commission inquiry in the UK occupied a good deal of our attention in 2002; we responded with a package of initiatives worth £80 million a year to our small business customers from 2003 onwards. These initiatives include payment of interest on current accounts, a new instant access savings account, and improved terms for start-up businesses.

I am pleased to note that the Competition Commission rated HSBC ahead of our UK high street competitors. Their survey showed that HSBC customers are the most satisfied with both pricing and their bank overall, and that HSBC is top ranked for both business account services and relationship management.

Indeed, our own evidence backs this up. HSBC Bank plc increased its share of the business start-up market in 2002, helping more than 80,000 new businesses get off the ground, and reported a strong increase in customers switching to HSBC. More established businesses moved their accounts to HSBC too, helping to swell the customer base by 7 per cent.

In February, we launched our Trustee Investment Plan in the UK to accept investment from SME occupational pension schemes, and business referrals from HSBC Bank plc generated premiums of approximately £200 million for HSBC Insurance Brokers Limited.

Of course, the e-age has also had a big impact on our Commercial Banking operations. HSBC's business internet banking is now live in Canada, the Hong Kong SAR, India, Argentina, the UK and the United States, with over 200,000 registered users. We offer our e-customers a range of services embracing trade services, document tracking, 'stakeholder' pensions for the UK, web-based forms and so on.

Some of our other e-services include business insurance and, in the UK, we have developed DriverQuote which enables our business customers

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

to put the selecting and budgeting of fleet cars into the hands of the drivers.

Among the many awards received by our Commercial Banking operations in 2002, DriverQuote won the 'Fleet innovation gold award' by the leading fleet and business car magazine, *Fleet Week*. We were voted 'Best internet bank' and 'Best trade finance bank' in Asia by readers of *Global Finance* magazine; and 'Best high street bank for small businesses' by the Forum of Private Businesses in the UK.

### Corporate, Investment Banking and Markets

Our business with corporate and institutional clients around the world is large and profitable, focusing on long-term relationships with major international corporations and institutions. This business realised pre-tax profits (on a cash basis) of US$3,717 million in 2002 when we completed the integration of our Corporate and Institutional Banking, and Investment Banking and Markets businesses.

The integration, during which HSBC Investment Bank plc became a division of HSBC Bank plc, has helped to create a streamlined, client-focused structure that will enable us to harness the Group's geographical strength, unlock the potential of our products and services, and deploy our capital resources as efficiently as possible. Key to our continuing success is the further development of our client services teams, each of which focuses on a specific industry sector. These teams bring together relationship and product managers from across the world.

September was an important month for our Payments and Cash Management business. Together with several other shareholder banks, we launched Continuous Linked Settlement for proprietary trades in seven eligible currencies to eliminate settlement risk for foreign exchange market participants. This was followed by the December launch of HSBC's third-party Continuous Linked Settlement service for clients for whom we act as settlement member.

We expanded our trade services business in 2002 with the acquisition of selected portfolios from State Street Bank and Trust Company's Global Trade Banking Australia, while our specialised Trade Solutions product generated increased turnover.

In global custody, we remain a market leader. Despite depressed equity markets, funds under custody exceeded US$1.1 trillion and we settled over 1.3 million securities trades for clients. Our investment administration and performance consultancy business, launched three years ago in the UK, is now expanding into continental Europe.

Among the corporate origination deals we completed were the largest European initial public offering, for Autoroutes du Sud de la France; a euro-denominated corporate bond for Petronas, the largest in Asia outside Japan; the first Asian currency issue for Deutsche Bahn; and the first global Islamic bond issue for the Malaysian Government.

We also continued to develop new financing structures tailored for individual clients. For instance, a €570 million convertible for Accor contained a feature, used for the first time in Europe, that spread the potential dilution and refinancing risk over the last three years of a five-year transaction.

Our Project and Export Finance division had a record year, signing export credits from eight OECD countries totalling more than US$1.5 billion. Project business developed strongly and, in the UK, we acted as adviser to the Tubelines consortium which completed the first public-private partnership for London Underground, covering the Jubilee, Northern and Piccadilly lines.

In foreign exchange, we remain a market leader across a wide range of currencies. In 2002, we continued to roll out a low-cost, internet execution service for our priority customers through our own online trading web site, markets@hsbc.com, and through our partnership in FXall.

We also continued to strengthen our debt capital markets business, ranking first in bond issuance in all currencies for UK and French corporations, and for

Occupying the whole of level 4, the Treasury and Capital Markets operation has one of the largest trading floors in the world, accommodating nearly 600 dealing staff and 1,750 flat panel screens over an area of 4,500 square metres. HSBC is acknowledged as a leading player on international foreign exchange markets offering a 24-hour capability, with London linking up with the Group's other key dealing operations in New York and the Hong Kong SAR. It offers one of the broadest ranges of products and services available anywhere, including money market products, futures and options, precious metals, capital markets debt issuance, securitisation and syndication, bond trading and derivatives. Plasma screens hanging from the ceiling provide continuous market news.

Equities trading and research take place on a separate floor, with settlements occupying the third large floor in the podium.

Top: The special IT requirements of the Treasury and Capital Markets business needed to be taken into account during fitting out in early 2002, including the laying of some 800,000 metres of cable.

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

all Asian issuers excluding Japan. We are the largest underwriter of sterling corporate bonds, have a top three position in euro corporate bonds, and occupy a dominant position in all significant Asian markets outside Japan.

We restructured our equity business to focus on core sectors of relevance to our clients. At the same time, we integrated our highly rated economics and strategy, credit and equity research to provide a strong research capability.

Despite falls in the major markets, our asset management business increased funds under management from US$138 billion at year-end 2001 to US$141 billion at year-end 2002 (US$152 billion with affiliates), achieved through net sales of US$8.8 billion for the year. In the Hong Kong SAR, the business continued to deliver innovative capital-guaranteed products, achieving net sales of US$1.6 billion.

We also continued to expand our cash and money market product range, with funds under management for our total liquidity product of over US$24 billion at the year-end. This included the Global Liquidity range whose funds under management totalled US$5.8 billion — double the amount for 2001.

Our Corporate, Investment Banking and Markets division received numerous awards and commendations in 2002. *Euromoney* rated HSBC among the top three global providers in its international cash management poll. Our corporate origination activities earned us a number of awards for transactions on behalf of clients. These included the *Euroweek* award for 'Best European equity initial public offering', *Credit* magazine's 'Deal of the year' award for sterling high grade bonds, *International Financing Review*'s award for 'Financial bond (senior debt)', and *Corporate Finance* magazine's 'Best securitisation' award.

We retained our leading position for treasury and capital markets services in Asia and Europe and, for the fifth consecutive year, we were 'Best at treasury and risk management in Asia' in the *Euromoney* awards for excellence. We were also voted 'Best single bank internet trading site for foreign exchange' in the *FX Week* best banks survey of 2002. Investment performance earned our asset management business awards for a number of funds, particularly in European equities.

### Private Banking

Private Banking's funds under management grew by 11 per cent to US$144 billion after adjusting for business transfers from other parts of HSBC, including the US domestic private banking business. This was a strong performance, given the decline in world stock markets and slow growth in personal wealth creation. However, profit before tax (on a cash basis) declined by 8 per cent to US$419.5 million.

In Asia, we completed the reorganisation of our private banking business under HSBC Republic Bank (Suisse) SA. We extended operations in Japan, where we now have US$500 million in assets under management, and developed our business with China. By streamlining our operations and segmenting our clients according to their needs and portfolio size, we reduced our cost:income ratio in the region by 6 per cent.

In the Americas, following our acquisition of parts of the US private tax business of Arthur Andersen, we launched our unique HSBC Wealth and Tax Advisory Services, Inc., which advised 6 per cent of the 'Forbes 400' list of America's wealthiest families. We plan to extend the service to other areas in 2003.

As part of our plans to align our onshore and offshore private banking operations, we unified the Group's domestic and international private banking operations in the UK and began the alignment process in the United States.

Lending to clients increased by 33 per cent. We expanded our trust business in the United States, Asia and the Channel Islands, and Private Banking worked closely with Group Insurance to launch new tax-efficient insurance wrapper products. Our range of investment funds continued to grow, especially in the alternative and hedge fund sector where we are a leading player with US$11 billion in assets under management. Our Hermitage Fund, the largest public equity fund dedicated to Russia, was rated as one of the best-performing equity funds in emerging markets.

Excellent teamwork with HSBC's personal banking operations led to a significant increase in client referrals from the UK, the Hong Kong SAR, Singapore, the United Arab Emirates and Brazil, and to the introduction of significant business to other areas of the Group, notably HSBC *Premier*.

Right: Considerable thought was given to the welfare of staff who would be spending a large part of their lives working in the building. The 'under one roof' concept includes setting aside all of level 5 — some 2,150 square metres — for a gymnasium, which has been fitted out to a very high standard, and which offers the latest in exercise equipment such as cardiovascular machines, weight resistance stations and cycling machines. Three group exercise rooms offer classes in step aerobics, Pilates, yoga, t'ai chi and circuit training.
The large 850-seater staff restaurant offers top-quality hot and cold meals prepared from clay ovens, teppanyaki plates and a rotisserie, in addition to more conventional methods. The menus and prices are displayed electronically on 12 plasma screens.

HSBC's smaller private banks suffered from the decline in the world's stock markets. HSBC Guyerzeller Bank AG was adversely affected by a significant write-down in private equity investments, although its merger with Handelsfinanz-CCF Bank S.A. and Crédit Commercial de France (Suisse) S.A. strengthened its market share.

HSBC Trinkaus & Burkhardt KGaA's private banking division continued to develop its family office capabilities and gained several significant new clients, while CCF's private banking operations, Banque Eurofin and Banque du Louvre, concentrated on their French client base with successful new product launches.

## The Brand

Our new slogan, 'The world's local bank', was launched in March and was well received in all our markets. Advertisements headlined 'Never underestimate the importance of local knowledge' appeared in publications such as *The Economist*, *Time*, *Business Week*, *Financial Times*, *The Wall Street Journal* and *National Geographic*. TV commercials appeared on BBC Newsworld, CNBC, CNN and other global and regional networks. Local campaigns also featured the theme.

The campaign differentiates HSBC from its competitors by emphasising our unique strengths in local markets and the opportunities for customers created by our worldwide network and sharing of best practices. An important sub-theme is our belief that the world is a rich and diverse place where cultural differences need to be respected in order to profit from new ideas, regardless of their origin. Research shows that these attributes strike a chord with consumers and our new brand proposition is also consistent with HSBC's heritage and values.

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

## Economic Profit

Economic profit expresses our profitability after accounting for the cost of capital. It helps us to determine where to allocate resources and remains a key influence on our investment decisions. We proceed with business opportunities only if projections of economic profit meet our criteria.

In the current low interest rate environment, we believe that HSBC's true cost of capital is around 10 per cent. We continue, however, to calculate economic profit using our benchmark rate of 12.5 per cent as this allows us to compare performance consistently with previous years.

Our economic profit increased by US$845 million, from an economic loss of US$696 million in 2001 to an economic profit of US$149 million in 2002. The loss in 2001 reflected exceptional provisioning on Argentine risk of US$1.12 billion and the US$323 million settlement of the Princeton Note Matter.

Excluding the exceptional provisions, economic profit decreased by US$598 million, or 80 per cent, in 2002 as a result of a US$3,679 million increase in capital and a US$138 million fall in the return on invested capital. We continue to believe that our strong capital base gives us a strategic advantage in the current economic climate.

## Strategic Outlook

As we look ahead, we face some uncertain economic and political conditions. However, HSBC's position in relation to most of our competitors has never been stronger.

We have invested for the long term in many areas of our business and will continue to do so where opportunities exist. Meanwhile, we look forward to a year in which we will benefit from our world-class customer relationship management systems and our internet delivery capabilities, particularly in personal and commercial banking. We are also confident that the achievements we have made in aligning and restructuring our large corporate and investment banking business will provide new opportunities.

Our aim to provide unparalleled customer service will see further development of our marketing capabilities, especially with regard to client segmentation, to allow us to identify customer needs accurately and to offer a wider range of appropriately targeted products and services, including insurance and investments. We shall continue to position HSBC as a preferred provider of a full range of financial products for all our customers' financial needs.

Although we will continue to invest adequately in technology and training, a rigorous approach to cost control will be required given the uncertain economic outlook. Our historic record of discipline in this respect will serve us well.

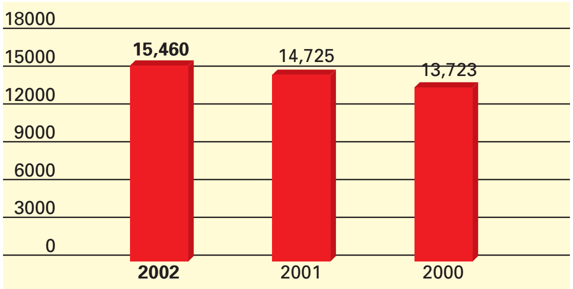
I thank our committed and skilled staff throughout the world for their contribution during the year. I know that we can depend on them to continue to deliver the level of service and results that our customers and shareholders expect. I look forward to a successful year for HSBC in 2003.

Sir Keith Whitson, *Group Chief Executive*

# Financial Review

## Net Interest Income

**Net interest income (US$m)**




Net interest income in 2002 was US$735 million, or 5 per cent, higher than in 2001 at US$15,460 million. At constant exchange rates, net interest income was 6 per cent higher than 2001 reflecting growth in the HSBC's operations in Europe, North America and the rest of Asia Pacific regions.

In Europe, net interest income was US$780 million, or 14 per cent, higher than in 2001 mainly reflecting the growth in average interest-earning assets and the benefits of lower funding costs. In North America net interest income increased by US$282 million, or 12 per cent, due to a combination of the increased level of average interest-earning assets, primarily residential mortgages, and wider margins on treasury activities as the steeper yield curve reduced funding costs. In addition, GF Bital contributed US$85 million of net interest income to the North American region. In Hong Kong, net interest was largely maintained as a strong treasury performance, growth in credit card lending and in low cost deposits offset continuing margin compression in the mortgage business and the lower contribution from net free funds.

In South America the impact of the unsettled economic environment caused net interest income to fall by US$420 million to US$645 million. In Brazil, net interest income fell as the benefits from higher levels of customer lending was more than offset by the impact of HSBC's decision to reduce the level of local debt securities and move to a more conservative positioning of the balance sheet. In Argentina, the combination of narrower spreads and the high costs of the local funding of non-performing loan portfolio resulted in net interest expense in 2002.

Average interest-earning assets at US$608.7 billion increased by US$29 billion, or 5 per cent. Adjusting for the impact of foreign exchange translation and acquisitions, underlying growth was 3 per cent, driven principally by the placement of customer deposits in the United Kingdom, Taiwan, India, Korea, mainland China and the Middle East, together with personal lending growth in the UK, France, the United States, Canada, Singapore, Malaysia, Korea, Taiwan and India. The increase in average interest-earning assests from acquisitions was US$4 billion.

HSBC was able to maintain its net interest margin at 2.54 per cent, unchanged from that for 2001, as an 18 basis point widening in interest spread was offset by a similar reduction in the contribution from net free funds. Interest spreads benefited from a change in asset mix away from low yielding short-term funds towards higher yielding investment grade corporate debt securities. In addition, the fall in interest rates benefited the margins in our treasury activities as the effects of the steepening yield curve reduced the related funding costs. A reduced benefit from a higher level of net free funds as cost of funds fell impacted the net interest margin.

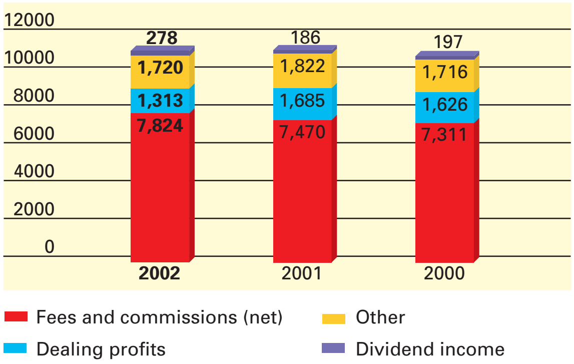
In the United Kingdom net interest margins fell as the widening in spreads, primarily due to benefits derived from the improved contribution from treasury activities and higher levels of average personal customer lending was offset by the reduced value of free funds. In Hong Kong the margin in The Hongkong and Shanghai Banking Corporation was largely unchanged as an improved treasury performance, higher net recoveries of suspended interest and increased proportion of higher yielding credit card advances offset the impact of reduced spreads on savings deposits, contribution from net free funds and narrower spreads in the competitive mortgage market. In Hang Seng Bank, the fall in net interest margin resulted primarily from a combination of a lower benefit from net free funds, as interest rates fell and the narrower spreads on mortgages. In the United States, the third of our large domestic operations, there was an improvement in net interest margin driven by the combination of wider margins on treasury activities as funding costs reduced from a steeper yield curve and the growth in average mortgage balances.

HSBC is moving increasingly to differentiated product pricing. This competitive approach reflects the value to HSBC of our most loyal customers and has resulted in narrower spreads on a numbers of products, particularly mortgages and savings products. The benefit of this strategy is seen in the mix and volume of HSBC's core current account and savings products, particularly in the United Kingdom, Hong Kong and the United States.

# Financial Review (continued)

## Other Operating Income

Other operating income (US$m)




Other operating income in 2002 of US$11,135 million, was in line with that for 2001 and included other operating income of US$1,720 million. Growth in wealth management income was offset by the falls in revenues from investment banking, broking income, corporate finance activities and other securities-related activities.

Net fees and commissions at US$7,824 million represented 29 per cent of total operating income against 29 per cent in 2001 and were US$354 million, or 5 per cent, higher than 2001. At constant exchange rates, net fees and commissions were 4 per cent higher than in 2001.

In Europe, fee income increased by US$318 million, or 8 per cent, as growth in wealth management income reflecting growth in general and life insurance, private client, pensions and investment advisory business more than offset the lower levels of equity-related fees. UK Banking in 2002 reported growth of 17 per cent in HSBC branded life, pensions and investment products sold through the tied salesforce, 4 per cent in sales of life protection products and 29 per cent in creditor protection insurance.

In North America, excluding the US$47 million increase relating to the acquisition of GF Bital in Mexico, fee income was US$24 million higher than in 2001. Growth in fee income from the sales of annuities, mutual funds and across a range of banking services more than offset the lower level of broking income.

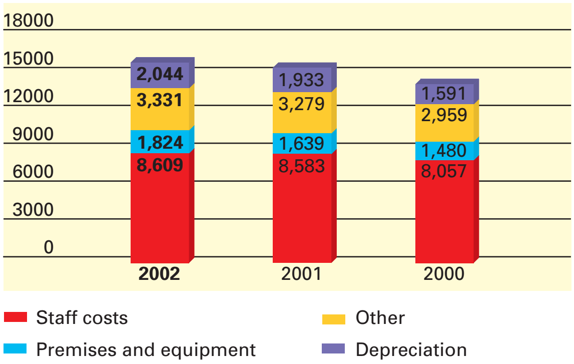
In Hong Kong, fee income was US$92 million higher than in 2001 primarily due to strong growth in fees from the sale of unit trusts, including the sale of US$2.8 billion of HSBC's capital guaranteed funds, fees from credit cards, insurance and underwriting business. In addition, higher levels of fee income were earned from complex structured finance transactions.

The operations in the rest of Asia-Pacific grew fee income by US$43 million with strong growth in fee income from credit cards in Taiwan, Malaysia, Indonesia, the Middle East, Thailand and India. In South America, fee income fell by US$170 million, or US$27 million at constant exchange rates, as, following legislation by the Brazilian Government to prohibit the charging of fees against certain accounts, fees earned from account services fell.

Dealing profits at US$1,313 million were US$372 million, or 22 per cent, lower than in 2001. Within this category debt securities earnings were US$236 million lower as credit spreads on corporate bonds widened sharply as market confidence was undermined by low earnings growth and negative news of corporate scandals in the United States.

## Operating Expenses

**Operating expenses (US$m)**




**Staff numbers (full-time equivalent)**

| | As at 31 December | | |
|---|---|---|---|
| | **2002** | 2001 | 2000 |
| Europe | **72,260** | 73,326 | 69,629 |
| Hong Kong | **23,786** | 24,654 | 24,204 |
| Rest of Asia-Pacific | **28,630** | 26,259 | 22,919 |
| North America | **34,207** | 19,291 | 18,965 |
| South America | **25,522** | 27,519 | 25,907 |
| Total staff numbers | **184,405** | 171,049 | 161,624 |

Operating expenses were US$404 million, or 3 per cent, higher than in 2001. The increase was due to a combination of the impact of the acquisitions made during 2002 and in the latter part of 2001, expansion of business activities, in particular Asia Pacific and North America and the costs associated with the restructuring and consolidation of business processes. The increase in the goodwill amortisation charge included the amortisation of goodwill arising on GF Bital and the write-off of the balance of the purchase goodwill on the insurance activities in Argentina.

In Europe, costs in 2002, excluding goodwill amortisation, increased by US$590 million compared with 2001. At constant exchange rates, costs in 2002, excluding goodwill amortisation, were US$265 million, or 3 per cent higher than in 2001. The increase in costs was primarily due to the impact on the cost base following the acquisition of our joint venture partner's share of Merrill Lynch HSBC (US$45 million), Demirbank and Benkar card business in Turkey (US$120 million). The move to the Group's new headquarters in Canary Wharf, together with increases in vacant space provisioning consequential to that move, added US$76 million. Costs in the UK-based investment banking operations were lower as headcount was adjusted to reflect market conditions.

In Hong Kong, costs in 2002, excluding goodwill amortisation, were in line with 2001. A fall in staff costs following the transfer of back office processing functions to group service centres in India and China, and the non-recurrence of pension top-up fees relating to Hang Seng Bank offset increases in costs associated with business expansion.

In the rest of Asia-Pacific, costs in 2002, excluding goodwill amortisation, increased by US$131 million, or 9 per cent compared with 2001. The growth in costs primarily reflected higher staff complement in HSBC's service centres in India and Mainland China and the expansion of business in several countries in the region, in particular China, Taiwan and the Middle East. During the year The Hongkong and Shanghai Banking Corporation opened eight new branches in the Asia-Pacific region.

Operating expenses, excluding goodwill amortisation, in North America increased by US$135 million, or 5 per cent, in 2002. This increase was largely driven by the impact of the acquisition of GF Bital and the costs associated with the establishment of the Wealth and Tax Advisory Services business in the United States. A reduction in the costs associated with ongoing development of *hsbc.com* offset the costs relating to the closure of the institutional equity business in Canada and the restructuring of the merchant banking business in the United States.

In South America, operating expenses, excluding goodwill amortisation, fell by US$437 million, or 29 per cent lower, during 2002. At constant exchange rates operating expenses, excluding goodwill amortisation, were 4 per cent higher than in 2001. The increase related to industry-wide union agreed salary adjustments and costs of severance as headcount reductions were made in the recessionary environment.

# Financial Review (continued)

## Provisions for Bad and Doubtful Debts

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | | 2001 | | 2000 | |
| | **US$m** | **%** | US$m | % | US$m | % |
| **By geographical segment:** | | | | | | |
| Europe | **569** | **43.1** | 441 | 21.6 | 348 | 37.3 |
| Hong Kong | **246** | **18.6** | 197 | 9.7 | 248 | 26.6 |
| Rest of Asia-Pacific | | | | | | |
| — normal | **89** | **6.7** | 172 | 8.4 | 159 | 17.1 |
| — release of special general provision | **—** | **—** | — | — | (174) | (18.7) |
| North America | **300** | **22.7** | 300 | 14.7 | 157 | 16.9 |
| South America | | | | | | |
| — normal | **313** | **23.7** | 327 | 16.1 | 194 | 20.8 |
| — additional general provision against Argentine exposures | **(196)** | **(14.8)** | 600 | 29.5 | — | — |
| | **1,321** | **100.0** | 2,037 | 100.0 | 932 | 100.0 |

The charge for bad and doubtful debts was US$1,321 million in 2002, which was US$716 million lower than in 2001. The charge principally reflected credit costs within the personal sector which amounted to US$857 million, a rise of US$90 million, largely as a result of growth in lending and higher credit card provisioning in Hong Kong. The substantial decrease reflected the US$600 million general provision against Argentine exposure charged in 2001.

## Gains on Disposal of Investments

During 2002, HSBC made 23 business acquisitions and completed 20 business disposals.

HSBC's European results included US$213 million profits on the sales of securities from investment portfolios principally as HSBC adjusted its exposure to interest rates. CCF disposal of its 50 per cent stake in Lixxbail to its joint venture partner generating a profit of US$39 million.

In the United States, gains were taken in the first half of the year on the sales of a number of mortgage-backed and other debt securities as long-term portfolios were adjusted to respond to exposures to interest rates and sovereign credit.

HSBC's South American results included the gain of US$38 million on the sale of HSBC's 6.99 per cent stake in Banco Santiago S.A.

## Taxation

| Figures in US$m | 2002 | 2001* | 2000* |
|---|---|---|---|
| | Year ended 31 December | | |
| UK corporation tax charge | **684** | 416 | 856 |
| Overseas taxation | **1,217** | 1,570 | 1,468 |
| Joint ventures | **(6)** | (13) | (7) |
| Associates | **17** | 26 | (1) |
| Current taxation | **1,912** | 1,999 | 2,316 |
| Origination and reversal of timing differences | **615** | (176) | 89 |
| Effect of decreased tax rate on opening asset | **—** | 3 | 4 |
| Effect of decreased tax rate on opening liability | **7** | 162 | — |
| Deferred taxation | **622** | (11) | 93 |
| Total charge for taxation | **2,534** | 1,988 | 2,409 |
| Effective taxation (per cent) | **26.3** | 24.9 | 24.6 |
| Standard UK corporation tax rate (per cent) | **30.0** | 30.0 | 30.0 |

Analysis of overall tax charge

| Figures in US$m | 2002 | 2001* | 2000* |
|---|---|---|---|
| | Year ended 31 December | | |
| Taxation at UK corporate tax rate of 30.0% (2001: 30.0% 2000: 30%) | **2,895** | 2,400 | 2,932 |
| Impact of differently taxed overseas profits in principal locations | **(472)** | (616) | (498) |
| Tax free gains | **(19)** | (102) | (15) |
| Argentine losses | **87** | 336 | |
| Goodwill amortisation | **261** | 263 | 172 |
| Prior period adjustments | **(90)** | (167) | (48) |
| Other items | **(128)** | (126) | (134) |
| Overall tax charge | **2,534** | 1,988 | 2,409 |

**Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 of the Summary Financial Statement on page 49.*

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporation tax at 30%, the rate for the calendar year 2002 (2001: 30%).

Overseas tax included Hong Kong profits tax of US$408m (2001: US$450m) provided at a rate of 16% (2001: 16%) on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates of taxation.

HSBC's effective tax rate of 26.3% in 2002 was higher than that for 2001 (24.9%) mainly as a result of profit mix and certain non recurring items which occurred in 2001 and resulted in a reduction in the 2001 rate.

Profits arising in North America represented a higher percentage of HSBC's profits in 2002 compared to 2001 because the profits in the US were suppressed in 2001 by the provision relating to the Princeton Note settlement. Because these profits are taxed at a higher rate than the average for the rest of the Group this raised the overall tax rate of the Group.

One off tax free gains arising in 2002 were less than those arising in 2001.

No tax relief has been assumed for the bad debt provision and other losses relating to Argentina. These losses and provisions were lower in 2002 compared to 2001. This therefore had the effect of increasing the tax charge in both 2002 and 2001 but by a greater degree in 2001.

In 2002 certain prior year adjustments mainly relating to audit settlements resulted in a reduction in the tax rate. There were similar adjustments in 2001 which resulted in a greater reduction in the tax rate.

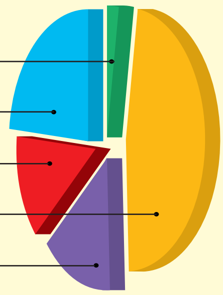
At 31 December 2002 there were potential future tax benefits of US$885 million (2001: US$906 million) in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowable for tax and capital losses which have not yet been recognised because realisation of the benefits is not considered certain.

# Financial Review (continued)

## Assets

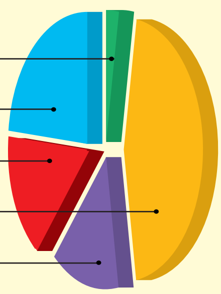
**Assets 2002 (excluding Hong Kong Government certificates of indebtedness)**

| | % | US$b |
|---|---|---|
| Treasury and other eligible bills | 2.4 | 18.1 |
| Debt securities | 23.4 | 175.7 |
| Loans and advances to banks | 12.7 | 95.5 |
| Loans and advances to customers | 47.1 | 352.3 |
| Other | 14.4 | 108.2 |
| Total | 100.0 | 749.8 |



**Assets 2001 (excluding Hong Kong Government certificates of indebtedness)***

| | % | US$b |
|---|---|---|
| Treasury and other eligible bills | 2.6 | 18.0 |
| Debt securities | 23.4 | 160.6 |
| Loans and advances to banks | 15.2 | 104.6 |
| Loans and advances to customers | 44.9 | 308.6 |
| Other | 13.9 | 95.4 |
| Total | 100.0 | 687.2 |



**Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 of the Summary Financial Statement on page 49.*

HSBC's total assets at 31 December 2002 were US$759 billion, an increase of US$63 billion, or 9 per cent, since 31 December 2001; at constant exchange rates, the increase was US$29 billion, or 4 per cent. The growth attributable to acquisitions was US$23 billion of which US$22 billion related to the acquisition of GF Bital.

HSBC's balance sheet remained highly liquid, reflecting further strong growth in customer deposits and limited credit demand in some countries. Approximately 47 per cent of the balance sheet was deployed in customer loans and advances which was 2 per cent higher than at 31 December 2001.

At constant exchange rates, gross loans and advances to customers (excluding loans to the financial sector) at 31 December 2002 were US$32 billion, or 11 per cent, higher than at 31 December 2001. Personal lending grew by 17 per cent and constituted 42 per cent of gross customer lending at 31 December 2002, compared with 39 per cent at 31 December 2001. This reflected the acquisition of Bital as well as strong organic growth in the UK, United States, Malaysia, Taiwan, Korea, Singapore and India. Loans and advances to the commercial and corporate customer base (excluding Governments) grew by 3 per cent reflecting muted loan demand from this sector.

At 31 December 2002, assets held by the Group as custodian amounted to US$1,350 billion. Custody is the safe-keeping and administration of securities and financial instruments on behalf of others. Funds under management amounted to US$306 billion at 31 December 2002.

### Funds under management

Funds under management of US$306 billion were US$22 billion, or 8 per cent, higher than at 31 December 2001.

During the year, both HSBC's asset management and private banking businesses attracted net funds inflows. The weakening of the US dollar on our sterling and Euro denominated funds also lead to increases in the value of funds under management. These more than offset the impact of the fall in global equity markets.

# Board of Directors and Senior Management

## Directors

**Sir John Bond,** *Group Chairman*
Age 61. An executive Director since 1990; Group Chief Executive from 1993 to 1998. Joined HSBC in 1961; an executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1988 to 1992. Chairman of HSBC Bank plc, HSBC USA Inc., HSBC Bank USA and HSBC Bank Middle East and a Director of The Hongkong and Shanghai Banking Corporation Limited and HSBC Bank Canada. Chairman of The Institute of International Finance, Inc. and a Director of Ford Motor Company. A member of the Court of the Bank of England.

***The Baroness Dunn,** DBE, *Deputy Chairman and senior non-executive Director*
Age 63. 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 non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. 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 64. Chairman of Corus Group plc. A non-executive Director since 1998. A member of the Court of the Bank of England.

**Sir Keith Whitson**
Age 59. Group Chief Executive. An executive Director since 1994. A Director of HSBC Bank plc since 1992, Chief Executive from 1994 to 1998 and Deputy Chairman since 1998. Joined HSBC in 1961. Chairman of HSBC Bank A.S. and Deputy Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt KGaA. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC USA Inc., HSBC Bank Canada and Grupo Financiero Bital, S.A. de C.V. A non-executive Director of the Financial Services Authority.

†**The Lord Butler,** GCB, CVO
Age 65. Master, University College, Oxford and a non-executive Director of Imperial Chemical Industries plc. A non-executive Director since 1998. Responsible for the policy overview of HSBC in the Community and Chairman of HSBC Education Trust. 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 51. Executive Chairman of chinadotcom corporation and Chairman of its subsidiary, hongkong.com corporation. A non-executive Director since 1998. Chairman of HSBC Private Equity (Asia) Limited and a Director of MTR Corporation Limited, Inchcape plc, Inmarsat Ventures Plc, Convenience Retail Asia Limited, VTech Holdings Ltd. and The Wharf (Holdings) Limited. Chairman of the Hong Kong/Japan Business Co-operation Committee and the Advisory Committee on Corruption of the Independent Commission Against Corruption. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997.


*Sir John Bond*


*Sir Brian Moffat*


*The Baroness Dunn*


*Sir Keith Whitson*


*The Lord Butler*


*R K F Ch'ien*

## Board of Directors and Senior Management (continued)

**C F W de Croisset**
Age 59. An executive Director since 2000. Chairman and Chief Executive Officer of CCF S.A. Joined CCF S.A. in 1980 having previously held senior appointments in the French civil service. A Director of HSBC Bank plc.

**W R P Dalton**
Age 59. An executive Director since 1998. Director and Chief Executive of HSBC Bank plc since 1998. Joined HSBC in 1980. President and Chief Executive Officer, HSBC Bank Canada from 1992 to 1997. A Director of CCF S.A., HSBC Investment Bank Holdings plc and HSBC Private Banking Holdings (Suisse) S.A. Vice-President of the Chartered Institute of Bankers. A non-executive Director of MasterCard International Inc. and a non-executive Director and Chairman of Young Enterprise.

**D G Eldon**
Age 57. An executive Director since 1999. Joined HSBC in 1968. Appointed an executive Director and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited in 1996; Chairman since 1999. Non-executive Chairman of Hang Seng Bank Limited and a non-executive Director of Swire Pacific Limited and MTR Corporation Limited.

**D J Flint**
Age 47. Group Finance Director. An executive Director since 1995. A Director of HSBC Bank Malaysia Berhad, HSBC USA Inc. and HSBC Bank USA. A member of The Accounting Standards Board and the Standards Advisory Council of the International Accounting Standards Committee Foundation. A former partner in KPMG.

†**W K L Fung,** OBE
Age 54. Group Managing Director and Chief Executive Officer of Li & Fung Limited. A non-executive Director since 1998. Past 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. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1995.

**S K Green**
Age 54. Executive Director, Corporate, Investment Banking and Markets. An executive Director since 1998. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Investment Bank Holdings plc and a Director of HSBC Bank plc, CCF S.A., HSBC Guyerzeller Bank AG, HSBC USA Inc., HSBC Bank USA, HSBC Private Banking Holdings (Suisse) S.A. and HSBC Trinkaus & Burkhardt KGaA.


*D G Eldon*


*S K Green*


*C F W de Croisset*


*D J Flint*


*W K L Fung*


*W R P Dalton*

**†S Hintze**
Age 58. Former Chief Operating Officer of Barilla S.P.A. and 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 non-executive Director since 2001. A non-executive Director of Safeway plc.

**A W Jebson**
Age 53. Group IT Director. An executive Director since 2000. Joined HSBC in 1978. A non-executive Deputy Chairman of CLS Group Holdings AG.

**†Sir John Kemp-Welch**
Age 66. Former Joint Senior Partner of Cazenove & Co and former Chairman of the London Stock Exchange. A non-executive Director since 2000.

***The Lord Marshall**
Age 69. Chairman of British Airways Plc and Invensys plc. A non-executive Director since 1993. A non-executive Director of HSBC Bank plc from 1989 to 1994.

**†Sir Mark Moody-Stuart,** KCMG
Age 62. Chairman of Anglo American plc. 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 Director of Accenture Limited, a Governor of Nuffield Hospitals and President of the Liverpool School of Tropical Medicine. Member of the UN Secretary General's Advisory Council for the Global Compact. A non-executive Director since 2001.

**†S W Newton**
Age 61. Founder of Newton Investment Management, from which he retired in April 2002. A non-executive Director since 27 September 2002. A Member of the Advisory Board of the East Asia Institute at Cambridge University.

*S Hintze*

*Sir John Kemp-Welch*

*Sir Mark Moody-Stuart*

*The Lord Marshall*

*A W Jebson*

*S W Newton*

# Board of Directors and Senior Management (continued)

***H Sohmen,** OBE
Age 63. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited and World Finance International 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 57. Chair of Canadian Broadcasting Corporation. A non-executive Director since 27 September 2002. Chair of Vancouver Board of Trade from 2001 to 2002. A Director of Canfor Corporation, Fairmont Hotels and Resorts, HSBC USA Inc., HSBC North America Inc. and HSBC Bank USA.

**†Sir Brian Williamson,** CBE
Age 58. Chairman of London International Financial Futures and Options Exchange. Chairman of Electra Investment Trust plc. A Director of Templeton Emerging Markets Investment Trust plc. A non-executive Director since 27 September 2002. A former Chairman of Gerrard Group plc and a former 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 56. An Adviser to the Board since 1998. Solicitor. A partner of Norton Rose from 1973 to 1998. A Director of HSBC Investment Bank Holdings plc and HSBC Private Banking Holdings (Suisse) S.A.

## Secretary

**R G Barber**
Age 52. 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.


*Sir Brian Williamson*


*H Sohmen*


*D J Shaw*


*C S Taylor*


*R G Barber*

## Senior Management

**R J Arena**
*Age 54. Group General Manager, Global e-business. Joined HSBC in 1999. Appointed a Group General Manager in 2000.*

**C C R Bannister**
*Age 44. Chief Executive Officer, Group Private Banking. Joined HSBC in 1994. Appointed a Group General Manager in 2001.*

**R E T Bennett**
*Age 51. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.*

**Z J Cama**
*Age 55. 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 54. Executive Director, 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 Dixon,** OBE
*Age 58. Deputy Chairman, HSBC Bank Middle East. Joined HSBC in 1965. Appointed a Group General Manager in 1995.*

**C-H Filippi**
*Age 50. Group General Manager and Global Head of Corporate and Institutional Banking. Joined HSBC in 1987. Appointed a Group General Manager in 2001.*

**A A Flockhart**
*Age 51. Group General Manager and Chief Executive Officer, Mexico. Joined HSBC in 1974. Appointed a Group General Manager in October 2002.*

**M F Geoghegan**
*Age 49. President and Chief Executive Officer, HSBC Bank Brasil S.A.-Banco Múltiplo. Joined HSBC in 1973. Appointed a Group General Manager in 1997.*

**M J G Glynn**
*Age 51. President and Chief Executive Officer, HSBC Bank Canada. Joined HSBC in 1982. Appointed a Group General Manager in 2001.*

**S T Gulliver**
*Age 43. Group General Manager and Head of Global Markets. Joined HSBC in 1980. Appointed a Group General Manager in 2000.*

**A P Hope**
*Age 56. Group General Manager, Insurance. Joined HSBC in 1971. Appointed a Group General Manager in 1996.*

**D D J John**
*Age 52. Chief Operating Officer and Director, HSBC Bank plc. Joined HSBC in 1972. Appointed a Group General Manager in 2000.*

**M J W King**
*Age 46. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in June 2002.*

**M B McPhee**
*Age 61. Group General Manager, Credit and Risk. Joined HSBC in 1984. Appointed a Group General Manager in 1997.*

**A Mehta**
*Age 56. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1968. Appointed a Group General Manager in 1991.*

**Y A Nasr**
*Age 48. President and Chief Executive Officer, HSBC USA Inc. and HSBC Bank USA. Joined HSBC in 1976. Appointed a Group General Manager in 1998.*

**T W O'Brien,** OBE
*Age 55. Group General Manager, Strategic Development. Joined HSBC in 1969. Appointed a Group General Manager in 1992.*

**R C F Or**
*Age 53. General Manager, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in 2000.*

**K Patel**
*Age 54. Chairman, Global Investment Banking Division, HSBC Bank plc. Joined HSBC in 1984. Appointed a Group General Manager in 2000.*

**R C Picot**
*Age 45. Joined HSBC in 1993. Group Chief Accounting Officer since 1995.*

**A F Rademeyer**
*Age 44. Group General Manager and Head of Corporate Investment Banking and Markets, Asia-Pacific. Joined HSBC in 1982. Appointed a Group General Manager in March 2003.*

**J C S Rankin**
*Age 61. Group General Manager, Human Resources. Joined HSBC in 1960. Appointed a Group General Manager in 1990.*

**B Robertson**
*Age 48. Group General Manager and Head of Corporate Investment Banking and Markets — North America, HSBC Bank USA. Joined HSBC in 1975. Appointed a Group General Manager in March 2003.*

**Dr S Rometsch**
*Age 64. Chairman of the Managing Partners, HSBC Trinkaus & Burkhardt KGaA. Joined HSBC in 1983. Appointed a Group General Manager in 2001.*

**M R P Smith,** OBE
*Age 46. Group General Manager. Joined HSBC in 1978. Appointed a Group General Manager in 2000.*

**I A Stewart**
*Age 44. Group General Manager and Head of Investment Banking and Markets, Americas. Joined HSBC in 1980. Appointed a Group General Manager in 2000.*

**P E Stringham**
*Age 53. Group General Manager, Marketing. Joined HSBC in 2001. Appointed a Group General Manager in 2001.*

## Results for 2002

HSBC reported operating profit before provisions of US$10,787 million. Profit attributable to shareholders of HSBC Holdings was US$6,239 million, a 12.3 per cent return on shareholders' funds. The retained profit to be transferred to reserves was US$1,238 million.

## Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of banking and related financial services through an international network of over 8,000 offices in 80 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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 4 to 22.

## Dividend

A first interim dividend of US$0.205 per ordinary share was paid on 9 October 2002. The Directors have declared a second interim dividend of US$0.325 per ordinary share in lieu of a final dividend, making a total distribution for the year of US$5,001 million. The second interim dividend will be payable on 6 May 2003 in cash in United States dollars, sterling or Hong Kong dollars, or a combination of these currencies, at exchange rates to be determined on 28 April 2003, with a scrip dividend alternative. A financial calendar, including the key dates for payment of the second interim dividend for 2002, is on page 53.

## Directors

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

M Murofushi, C E Reichardt and Sir Adrian Swire retired on 31 May 2002. S W Newton, C S Taylor and Sir Brian Williamson were appointed Directors on 27 September 2002. Having been appointed since the last Annual General Meeting, they will retire at the forthcoming Annual General Meeting and offer themselves for election.

On 14 November 2002 it was announced that W F Aldinger will be invited to join the Board subject to the completion of the acquisition of Household.

R K F Ch'ien, S K Green, A W Jebson, Sir Brian Moffat, H Sohmen and Sir Keith Whitson will retire by rotation at the forthcoming Annual General Meeting. With the exception of Sir Keith Whitson, who is to retire, they will offer themselves for re-election.

S K Green will succeed Sir Keith Whitson as Group Chief Executive and A W Jebson will take up the new position of Group Chief Operating Officer following the Annual General Meeting.

## Donations

During the year, HSBC made charitable donations totalling US$34,500,000. Of this amount, US$16,700,000 was given for charitable purposes in the United Kingdom.

No political donations were made during the year.

At the Annual General Meeting in 2002 shareholders gave authority for HSBC Holdings and HSBC Bank plc to make political donations and incur political expenditure up to a maximum aggregate sum of £250,000 and £50,000 respectively as a precautionary measure in light of the wide definitions in the Political Parties, Elections and Referendums Act 2000. These authorities have not been used and it is not proposed that HSBC's longstanding policy of not making contributions to any political party be changed. However, as a precautionary measure a resolution will again be proposed at the Annual General Meeting. On this occasion it is intended that these precautionary authorities should cover a period of four years. At the Annual General Meeting in 2002 shareholders gave authority in these amounts for one year.

## Auditors' Report

The auditors' report on the full accounts for the year ended 31 December 2002 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 — 3 March 2003

R G Barber, *Secretary*

## 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. During 2002, the members of the Remuneration Committee were W K L Fung, Sir John Kemp-Welch, Lord Marshall and Sir Mark Moody-Stuart, all of whom were independent non-executive Directors. Sir Mark Moody-Stuart succeeded Lord Marshall, who retired as a member of the Committee, as Chairman of the Committee on 1 January 2003.

The Remuneration Committee retains the services of Towers Perrin, a specialist remuneration consulting firm, who provide advice on executive pay issues. The Remuneration Committee also receives advice from the Group General Manager, Group Human Resources and the Senior Executive, Group Reward Management. Towers Perrin also provide other remuneration, actuarial and retirement consulting services to various parts of the HSBC Group. Other consultants are used from time to time to validate their findings.

## Policy

In common 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 because 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 option 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 pay against a market of comparative organisations
- to offer fair and realistic salaries with an important element of variable pay based on relative performance
- to have as many top-performers as possible at all levels within HSBC participating in some form of long-term share plan
- since 1996, to follow a policy of moving progressively from defined benefit to defined contribution Group pension schemes for new employees only.

### Basic salary and benefits

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.

### Annual performance-related payments

The level of performance-related variable pay depends upon the performance of HSBC Holdings, constituent businesses and the individual concerned. Key measures of success include achievement of financial goals, concerning both revenue generation and expense control; customer relationships; full utilisation of professional skills; and adherence to HSBC's ethical standards. 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 staff are aligned with those of its shareholders and that HSBC's approach to risk management serves the interests of all. Closer alignment with the interests of shareholders continues to be achieved through the promotion and extension of employee participation in the existing share plans.

Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration.

### Long-term share plans

In order to align the interests of staff with those of shareholders, share options are awarded to employees under the

HSBC Holdings Group Share Option Plan and the HSBC Holdings savings-related share option plans. When share options are granted, which are to be satisfied by the issue of new shares, the impact on existing equity is shown in diluted earnings per share on the face of the consolidated profit and loss account, with further details being disclosed in Note 11 of the 'Notes on the Financial Statements' in the *Annual Report and Accounts*. The dilutive effect of exercising all outstanding share options would be 0.5 per cent of basic earnings per share.

For the majority of employees, the vesting of share awards under the HSBC Holdings Group Share Option Plan is subject to the attainment of total shareholder return ('TSR') targets (full details are set out on pages 39 and 40). Separate transitional arrangements are currently in place for those employed by CCF. 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.

The HSBC Holdings Restricted Share Plan 2000 is intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. The shares awarded are normally held under restrictions for five years and are transferred to the individuals only after attainment of a performance condition which demonstrates the sustained and above average financial performance of HSBC.

Executive Directors and Group General Managers have been eligible to receive conditional awards of Performance Shares under the HSBC Holdings Restricted Share Plan and the HSBC Holdings Restricted Share Plan 2000 since 1997. The award of Performance Shares under these plans was extended to other senior executives from 1999.

In appropriate circumstances, employees may receive awards under the HSBC Holdings Restricted Share Plan 2000 and the HSBC Holdings Group Share Option Plan. Participants, including executive Directors and Senior Management, in these Plans are also eligible to participate in the HSBC Holdings savings-related share option plans on the same terms as other eligible employees.

As part of HSBC's strategy, the use of the existing share plans has been extended so that more employees participate in the success they help to create. In the UK, the HSBC Holdings UK Share Ownership Plan enables employees to purchase HSBC Holdings shares from pre-tax salary. In addition, employees in France may participate in a Plan d'Epargne Entreprise through which they may subscribe for HSBC Holdings shares.

## Directors and Senior Management

HSBC Holdings' Board is currently composed of 13 non-executive Directors and eight executive Directors. With businesses in 80 countries and territories, HSBC aims to attract Directors with a variety of different experience, both in its key markets and internationally. The Board currently includes nationals of seven different countries. The eight executive Directors and 27 Group General Managers have in total more than 800 years of service with HSBC.

The aggregate remuneration of Directors and Senior Management for the year ended 31 December 2002 was US$70,886,000.

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 2002 was US$3,864,000.

At 31 December 2002, executive Directors and Senior Management held, in aggregate, options to subscribe for 2,036,492 ordinary shares of US$0.50 each in HSBC Holdings 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 2003 and 2012 at prices ranging from £2.1727 to £8.712.

### Directors' fees

Directors' fees are regularly reviewed and compared with other large international companies. The current basic fee is £35,000 per annum. In addition, non-executive Directors receive with effect from 1 January 2003 the following fees:

| | |
|---|---|
| Chairman, Audit Committee | £15,000 p.a. |
| Member, Audit Committee | £10,000 p.a. |

*During 2002 six Audit Committee meetings were held. A Director's commitment to each meeting can be as much as 15 hours.*

| | |
|---|---|
| Chairman, Remuneration Committee | £15,000 p.a. |
| Member, Remuneration Committee | £10,000 p.a. |

*During 2002, seven meetings of the Remuneration Committee were held.*

| | |
|---|---|
| Non-executive Director responsible for policy overview of HSBC in the Community | £10,000 p.a. |

Executive Directors are normally permitted to retain only one Directors' fee from HSBC. Executive Directors who are also Directors of The Hongkong and Shanghai Banking Corporation Limited may elect to receive a fee from either HSBC Holdings or The Hongkong and Shanghai Banking Corporation Limited.

## Executive Directors' remuneration

HSBC's operations are large, diverse and international; for example, more than 60 per cent of net income is derived from outside the United Kingdom.

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.

It became clear to the Board over three years ago that executive Directors' total remuneration had fallen steadily behind the competition. This became apparent from 'league tables' in the press, surveys from remuneration consultants, comparisons with top executives in acquired companies such as Republic Bank of New York and CCF and, perhaps above all, from the fact that some of the next generation of top management, due to the need to retain market competitiveness in certain overseas locations, were already being paid more than the current executive Directors.

The market survey conducted in 2000 confirmed the need to make major changes in order to bring total remuneration to the chosen competitive position for this group of executives, i.e. the 75$^{th}$ percentile of market comparators. Recent information shows that, even with the action taken, total remuneration for this group remains below the 75$^{th}$ percentile in 2003.

There are four key components of executive Directors' remuneration:

i *Salary*

Base salaries with effect from April 2003 will be:

| | | | |
|---|---|---|---|
| Sir John Bond | £970,000 | D J Flint | £440,500 |
| C F W de Croisset | €541,660 | S K Green | £470,500 |
| W R P Dalton | £496,500 | A W Jebson | £440,000 |
| D G Eldon | US$286,752 | Sir Keith Whitson | £790,000 |

D G Eldon's base salary, as an International Manager, shown above, is calculated on a net basis and will be subject to a separate review in April 2003.

This represents an average increase from 2002 of 4.3 per cent.

ii *Annual cash bonus*

Cash bonuses for executive Directors and members of Senior Management are based on two key factors: individual performance taking account of, as appropriate, results against plan of the business unit or performance of the support function for which the individual has responsibility; and Group performance measured by operating profit before tax against 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.

From 2002, combining these two key performance factors may result in cash bonuses ranging from 35 per cent to 250 per cent of basic salary (against Group performance ranging from within 10 per cent of plan to 50 per cent above plan). Actual awards have ranged from 40 per cent to 195 per cent with only three awards being greater than 100 per cent.

iii *Long Term Incentive Plan (LTIP)*

Executive Directors and members of Senior Management have been eligible to receive conditional awards of Performance Shares under the HSBC Holdings Restricted Share Plan and the HSBC Holdings Restricted Share Plan 2000 since 1997.

Full details of the 2003 conditional awards to executive Directors, together with vesting arrangements, are set out on pages 38 to 40.

It is the Remuneration Committee's current intention that the annual value of awards to executive Directors and members of Senior Management will not as a general rule exceed 100 per cent of earnings (defined as base salary and bonus in respect of the previous performance year).

In appropriate circumstances, executive Directors and members of Senior Management may receive awards under the HSBC Holdings Restricted Share Plan 2000 and the HSBC Holdings Group Share Option Plan. In line with prevailing practice in France and arrangements made at the time of the acquisition of CCF, C F W de Croisset will receive an award of options to acquire shares under the HSBC Holdings Group Share Option Plan, instead of an award under the HSBC Holdings Restricted Share Plan 2000; particulars are set out below.

iv *Pension arrangements*

The pension entitlements earned by the executive Directors during the year are set out on pages 43 and 44.

Only basic salary is pensionable. No other Director participated in any Group pension schemes and none of the Directors participating in Group 'approved' pension schemes is subject to the earnings cap introduced by the 1989 Finance Act.

The increase in accrued pension benefits during 2002 were:

| | *Increase in accrued pension during 2002, excluding any increase for inflation* *£000* | *Transfer value (less personal contributions) at 31 December 2002 relating to increase in accrued pensions during 2002* *£000*[1] |
|---|---|---|
| Sir John Bond | 15 | 272 |
| C F W de Croisset | 7 | 74 |
| W R P Dalton | (5)[2] | (74) |
| D G Eldon | 17 | 325 |
| S K Green | 16 | 196 |
| A W Jebson | 15 | 171 |
| Sir Keith Whitson | 26 | 462 |

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 *While the accrued pension has increased marginally, after excluding the impact of inflation in Canada and movements in exchange rates, the transfer value has decreased.*

## Restricted Share Plan

The Remuneration Committee has proposed to the Trustee of the HSBC Holdings Restricted Share Plan 2000 that conditional awards of Performance Shares under the Plan should be made in 2003 as set out below. The Trustee to the Plan will be provided with funds to acquire ordinary shares of US$0.50 each at an appropriate time after the announcement of the annual results. The 2003 awards proposed for executive Directors and members of Senior Management in respect of 2002 will have an aggregate value at the date of award of £11.4 million including awards to the following values to executive Directors:

| | *£000* |
|---|---|
| Sir John Bond | 1,100 |
| W R P Dalton | 750 |
| D G Eldon | 500 |
| D J Flint | 750 |
| S K Green | 750 |
| A W Jebson | 750 |
| Total | 4,600 |

No share options will be granted under the HSBC Holdings Group Share Option Plan in respect of 2002 to the executive Directors listed above; they have not received share option awards since the HSBC Holdings Restricted Share Plan was introduced in 1997.

No award under the HSBC Holdings Restricted Share Plan 2000 will be made to C F W de Croisset in respect of 2002. Mr de Croisset will instead receive an award of options to acquire 206,000 ordinary shares of US$0.50 each under the HSBC Holdings Group Share Option Plan. Taking account of market practice in France, transitional arrangements will gradually align share options awards in CCF more closely with those elsewhere in HSBC. In this respect only 50 per cent of the above-mentioned award will be subject to the same TSR performance conditions set out below for the HSBC Holdings Restricted Share Plan 2000. Any future share option awards he may receive will be wholly subject to these performance conditions. In accordance with the arrangements agreed at the acquisition of CCF in 2000, the HSBC Group Share Option Plan awards made to Mr de Croisset in 2001 and 2002 were not subject to performance conditions.

The 1998 Restricted Share Plan awards were subject to performance conditions of earnings per share, to be achieved in whole or in part, as follows:

- earnings per share in the year 2001 (the fourth year of the performance period) to be greater than earnings per share in 1997 (the base year for the calculation) by a factor equivalent to the composite rate of inflation (a weighted average of inflation in the UK, USA and Hong Kong) plus 2 per cent, compounded over each year of the performance period;
- earnings per share to increase relative to the previous year in not less than three of the four years of the performance period; and
- cumulative earnings per share over the four years of the performance period, 1998 to 2001 inclusive, must exceed an aggregate figure calculated by compounding 1997 earnings per share by a factor equivalent to the annual composite rate of inflation plus 2 per cent for each year of the performance period.

On meeting all of these three primary tests, 50 per cent of the conditional awards would be released to each eligible participant. A secondary test would apply such that, if the cumulative earnings per share over the performance period exceeded an aggregate figure calculated by compounding 1997 earnings per share by a factor equivalent to the same annual composite rate of inflation as described above, plus 5 per cent or more, or 8 per cent or more, for each year of the performance period, 75 per cent or 100 per cent respectively of the conditional awards would be released.

In accordance with the rules of the plan, as these tests were not satisfied over the years 1998 to 2001, the same tests are to be applied over the years 1999 to 2002. If the tests are not satisfied, the conditional share awards will be forfeited.

From 1999, the vesting of awards has been linked to the attainment of predetermined TSR targets as set out below.

Particulars of executive Directors' interests in shares held in the Restricted Share Plan are set out on page 46.

## The HSBC Holdings Restricted Share Plan 2000

*Purpose*

The HSBC Holdings Restricted Share Plan 2000 is intended to reward the delivery of sustained financial growth of HSBC Holdings. So as to align the interests of the Directors and senior employees more closely with those of shareholders, the HSBC Holdings Restricted Share Plan 2000 links the vesting of 2003 awards to the attainment of predetermined TSR targets.

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.

*Vesting schedule*

Having regard to HSBC Holdings' size and status within the financial sector, a benchmark has been established which takes account of:

1. a peer group of nine banks (ABN AMRO Holding N.V., Citigroup Inc., Deutsche Bank A.G., J.P. Morgan Chase & Co., Lloyds TSB Group plc, Oversea-Chinese Banking Corporation Limited, Mitsubishi Tokyo Financial Group Inc., Standard Chartered PLC, The Bank of East Asia, Limited) weighted by market capitalisation;
2. the five largest banks from each of the United States, the United Kingdom, continental Europe and the Far East, other than any within 1 above, weighted by market capitalisation; and
3. the banking sector of the Morgan Stanley Capital International World Index, excluding any within 1 and 2 above, weighted by market capitalisation.

By combining the above three elements and weighting the average so that 50 per cent is applied to 1, 25 per cent is applied to 2 and 25 per cent is applied to 3, an appropriate market comparator benchmark is determined.

The extent to which awards will vest will be determined by reference to HSBC Holdings' TSR measured against the benchmark 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 2003 is 3 March. The starting point will be, therefore, the average over the period 3 to 28 March inclusive. TSR for the benchmark constituents will be based on their published share prices for 28 March 2003.

If HSBC Holdings' TSR over the performance period exceeds the mean of the benchmark TSR, awards with a value, at the date of grant, of up to 100 per cent of 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 earnings, 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.

The initial performance period will be three years. If the upper quartile performance target is achieved at the third anniversary of the date of grant, but not if it is achieved later, 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 target is achieved on the third, fourth or fifth anniversary, full vesting and transfer of the shares will not generally occur until the fifth anniversary.

As a secondary condition, options and 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.

Awards will vest immediately in cases of death. The Remuneration Committee retains discretion to recommend early release of the shares to the Trustee in certain instances e.g. in the event of redundancy, retirement on grounds of injury or ill health, early retirement, retirement on or after contractual retirement or if the business is no longer part of HSBC Holdings. Awards will normally be forfeited if the participant is dismissed or resigns from HSBC.

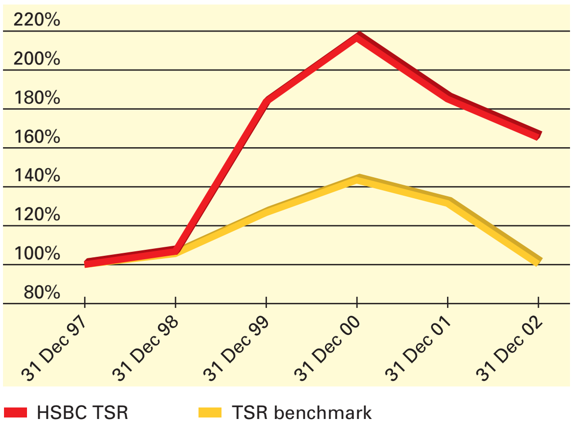
Where events occur which cause the Remuneration Committee to consider that the performance condition has become unfair or impractical, the right is reserved to the Remuneration Committee to make such adjustments as in its absolute discretion it deems appropriate to make.

## Total shareholder return

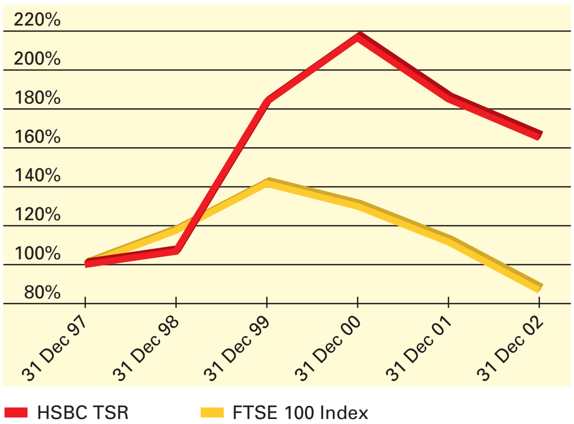
The first graph shows HSBC Holdings' TSR performance against the benchmark TSR.

Pursuant to the Directors' Remuneration Report Regulations 2002, the remaining graphs show HSBC Holdings' TSR performance against the Financial Times Stock Exchange (FTSE) 100 Index, the Morgan Stanley Capital International (MSCI) World Index and Morgan Stanley Capital International (MSCI) Financials index.

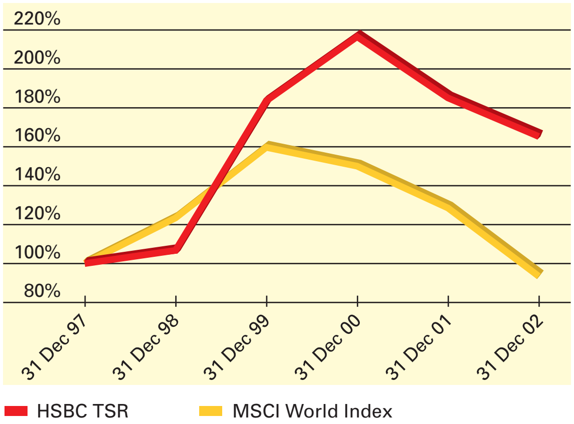
**Total shareholder return (£)** CHART 1



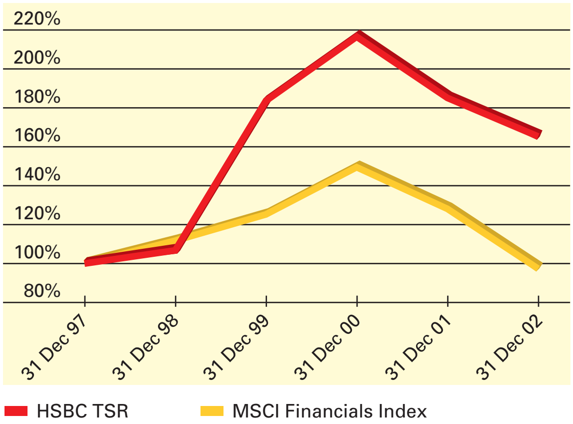

**Total shareholder return (£)** CHART 2



**Total shareholder return (£)** CHART 3




**Total shareholder return (£)** CHART 4




*Source: Datastream*

## Employees' Emoluments

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

| | *Number of Group General Managers* |
|---|---|
| £150,001 – £250,000 | 15 |
| £250,001 – £350,000 | 10 |
| £350,001 – £450,000 | 1 |
| £450,001 – £550,000 | 1 |

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 2002.

| | *£000* |
|---|---|
| Basic salaries, allowances and benefits in kind | 1,286 |
| Pension contributions | 98 |
| Bonuses paid or receivable | 26,237 |
| Compensation for loss of office | |
| – contractual | – |
| – other | – |
| Total (£) | 27,621 |
| Total (US$) | 41,446 |

Their emoluments are within the following bands:

| | *Number of Employees* |
|---|---|
| £4,100,001 – £4,200,000 | 1 |
| £4,500,001 – £4,600,000 | 1 |
| £5,300,001 – £5,400,000 | 1 |
| £6,000,001 – £6,100,000 | 1 |
| £7,400,001 – £7,500,000 | 1 |

## 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 Company, 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 C F W de Croisset, details of which are set out below.

Sir John Bond is employed on a rolling contract dated 1 January 1993 which requires 12 months' notice to be given by either party.

C F W de Croisset has a contract of employment dated 7 January 1980 that was in force before he joined the Board of CCF. The contract has no set term but provides 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. However, in accordance with French legal requirements and practice, this contract is suspended while he serves as an executive Director of CCF.

W R P Dalton is employed on a rolling contract dated 5 January 1998 which requires 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 J Flint 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.

S K Green, who is to stand for re-election at the forthcoming Annual General Meeting, is employed on a rolling contract dated 9 March 1998 which requires 12 months' notice to be given by either party.

A W Jebson, who is to stand for re-election at the forthcoming Annual General Meeting, is employed on a rolling contract dated 14 January 2000 which requires 12 months' notice to be given by either party.

Sir Keith Whitson is employed on a rolling contract dated 1 August 1992 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 the subsequent Annual General Meeting. 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 in 2004 — Lord Butler, R K F Ch'ien, W K L Fung, S Hintze, Sir John Kemp-Welch, Lord Marshall, Sir Brian Moffat and Sir Mark Moody-Stuart; and 2006 — Baroness Dunn, S W Newton, H Sohmen, C S Taylor and Sir Brian Williamson.

## Other Directorships

Executive Directors, if so authorised by the Board, may accept appointments as non-executive Directors of suitable companies which are not part of HSBC. Executive Directors normally would be permitted to take on no more than one such appointment. Any remuneration receivable in respect of this appointment is paid to the HSBC company by which the executive Director is employed, unless otherwise approved by the Remuneration Committee.

In October 2000, the Remuneration Committee granted an exemption for Sir John Bond to retain his non-executive Directors' fees from the Ford Motor Company, which are provided partly in the form of deferred shares, to vest after five years.

## Directors' Emoluments

The emoluments of the Directors of HSBC Holdings for 2002 were as follows:

| | *Fees £000* | *Salary and other remuneration £000* | *Benefits in kind £000* | *Discretionary bonuses[1] £000* | *Total 2002 £000* | *Total 2001 £000* |
|---|---|---|---|---|---|---|
| ***Executive Directors*** | | | | | | |
| Sir John Bond | 35 | 926 | 1 | 923 | 1,885 | 1,820 |
| C F W de Croisset | 35 | 339 | — | 235 | 609 | 609 |
| W R P Dalton | 35 | 566 | 26 | —[2] | 627 | 612 |
| D G Eldon[3] | 21 | 417 | 576 | 212 | 1,226 | 1,204 |
| D J Flint | 35 | 567 | 8 | 350 | 960 | 848 |
| S K Green | 35 | 463 | 6 | 461 | 965 | 797 |
| A W Jebson | 35 | 437 | 1 | 175[4] | 648 | 715 |
| Sir Keith Whitson | 35 | 722 | 13 | 1,400 | 2,170 | 1,515 |
| ***Non-executive Directors*** | | | | | | |
| Lord Butler | 40 | — | — | — | 40 | 40 |
| R K F Ch'ien | 167[5] | — | — | — | 167 | 164 |
| Baroness Dunn | 35 | — | — | — | 35 | 35 |
| W K L Fung | 61[6] | — | — | — | 61 | 62 |
| S Hintze | 35 | — | — | — | 35 | 29 |
| Sir John Kemp-Welch | 48 | — | — | — | 48 | 44 |
| Lord Marshall | 45 | — | — | — | 45 | 43 |
| Sir Brian Moffat | 45 | — | — | — | 45 | 45 |
| Sir Mark Moody-Stuart | 40 | — | — | — | 40 | 31 |
| M Murofushi[7] | 15 | — | — | — | 15 | 35 |
| S W Newton[8] | 9 | — | — | — | 9 | — |
| C E Reichardt[7] | 18 | — | — | — | 18 | 43 |
| H Sohmen[9] | 27 | — | — | — | 27 | 28 |
| Sir Adrian Swire[7] | 15 | — | — | — | 15 | 35 |
| C S Taylor[8] | 17[10] | — | — | — | 17 | — |
| Sir Brian Williamson[8] | 9 | — | — | — | 9 | — |
| Total (£) | 892 | 4,437 | 631 | 3,756 | 9,716 | 8,834 |
| Total (US$) | 1,338 | 6,658 | 947 | 5,636 | 14,579 | 12,718 |

1 *These discretionary bonuses are in respect of 2002 and will be paid in 2003.*
2 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount of £400,000 (2001: £300,000) which would otherwise have been paid.*
3 *The emoluments of D G Eldon include housing and other expatriate benefits in kind that are normal within the location in which he is employed.*
4 *In return for a partial prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount of £175,000 (2001: nil) which would otherwise have been paid.*
5 *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 Limited.*
6 *Includes fee as non-executive Director of The Hongkong and Shanghai Banking Corporation Limited.*
7 *Retired on 31 May 2002.*
8 *Appointed on 27 September 2002.*
9 *H Sohmen has elected to waive any fees payable to him by HSBC Holdings — 2002: £35,000 (2001: £35,000).*
10 *Includes fee as a non-executive Director of HSBC Bank USA.*

H Sohmen has elected to waive any fees payable to him by HSBC Holdings.

A fee of £25,000 (2001: £25,000) was paid to Sir Wilfrid Newton, a former Director, in respect of his role as Chairman of the HSBC Bank plc committee overseeing the construction and occupation of the new HSBC headquarters. Following the dissolution of this committee, payment of the fee ceased, with effect from 31 December 2002.

## 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. With three exceptions (see paragraphs below on C F W de Croisset, D J Flint and W R P Dalton), the executive Directors are members of defined benefit pension schemes, having joined HSBC at a time when these were the norm.

The pension arrangements for Sir John Bond, S K Green, A W Jebson and Sir Keith Whitson 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. In addition, until 2001, supplementary provision was made for S K Green, via an employer contribution to a personal pension plan, with £1,123 having been made during 2001.

C F W de Croisset is eligible for pension benefits which are supplementary to those accrued under the French State and Compulsory arrangements. The amount of this supplementary pension, payable from age 60, currently accrues at the rate of €6,098 per annum for each year of service (maximum 18 years) as an executive Director of CCF. The whole cost of this benefit is met by CCF.

The pension arrangements for W R P Dalton to contractual retirement age of 60 are 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. Since taking up his appointment in the UK, he has joined the HSBC Holdings Overseas (No.1) Pension Plan on a defined contribution basis, with an employer contribution in respect of 2002 including a bonus waiver of £400,000 (2001: £300,000) of £529,000 (2001: £429,000).

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 2002 of £80,092 (2001: £78,150). 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 are provided under the HSBC International Staff Retirement Benefits Scheme. Pension accrues at a rate of one twenty-seventh of pensionable salary per year of pensionable service.

| | *Accrued annual pension at 31 December 2002 £000* | *Increase in accrued pension during 2002 £000* | *Transfer value of accrued pension at 1 January 2002 £000*[1] | *Transfer value of accrued pension at 31 December 2002 £000*[1] | *Increase of transfer value of accrued pension (less personal contributions) 1 January – 31 December 2002 £000*[1] |
|---|---|---|---|---|---|
| Sir John Bond[2] | 308 | 20 | 5,046 | 5,504 | 458 |
| C F W de Croisset | 56 | 7 | 516 | 626 | 110 |
| W R P Dalton | 257 | 6 | 3,028 | 3,680 | 652 |
| D G Eldon[3] | 234 | 21 | 4,218 | 4,703 | 471[4] |
| S K Green | 159 | 19 | 1,833 | 1,901 | 68 |
| A W Jebson[5] | 123 | 17 | 1,334 | 1,384 | 50 |
| Sir Keith Whitson | 251[6] | 29 | 5,181[6] | 4,514 | 676 |

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 2002, is shown above.*
3 *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 2002, is shown above.*
4 *D G Eldon made personal contributions towards his pension of £14,000 in respect of 2002.*
5 *A W Jebson's entitlement will be supplemented by an employer contribution of £175,000 in return for the prior waiver of part of his bonus in respect of 2002.*
6 *In addition, Sir Keith Whitson had a deferred pension entitlement under the HSBC International Staff Retirement Benefits Scheme in respect of his Group service up to 1992 prior to his transfer to the UK. This deferred pension entitlement was increased in accordance with the Rules of the Scheme during the deferred period. This gave a pension entitlement at 1 January 2002 of £78,859 per annum and a pension entitlement of £84,678 per annum as at 31 October 2002. With the agreement of the Trustee, Sir Keith Whitson exercised his option under the Rules of the Scheme to fully commute this accrued pension for a lump sum payment amounting to £1,100,390, which was paid in November 2002. Sir John Bond, S K Green and A W Jebson were also members of the HSBC International Staff Retirement Benefits Scheme but fully commuted their entitlement in 1993, 1992 and 1994 respectively.*

The following unfunded pension payments, in respect of which provision has been made, were made during 2002 to four former Directors of HSBC Holdings:

| | *2002* | *2001* |
|---|---|---|
| B H Asher | £81,564 | £80,277 |
| R Delbridge | £117,313 | £115,595 |
| Sir Brian Pearse | £48,918 | £48,147 |
| Sir William Purves | £86,343 | £84,981 |
| | £334,138 | £329,000 |

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 2002, the undernamed Directors held options to acquire the number of HSBC Holdings ordinary shares of US$0.50 each 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 since 2001 are exercisable at a 20 per cent discount to the market value at the date of award and those awarded before 2001 at a 15 per cent discount. There are no remaining performance criteria conditional upon which the outstanding options are exercisable. No options held by the Directors lapsed during the year. The market value of the ordinary shares at 31 December 2002 was £6.865. The highest and lowest market values during the period were £8.66 and £6.43. 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 2002* | *Options awarded during year* | *Options exercised during year* | *Options held at 31 December 2002* | *Exercise price in £* | *Date of award* | *Exercisable from*[1] | *Exercisable until* |
|---|---|---|---|---|---|---|---|---|
| Sir John Bond | 75,000 | – | – | 75,000[2] | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 2,798 | – | – | 2,798[3] | 6.0299 | 10 Apr 2000 | 1 Aug 2005 | 31 Jan 2006 |
| C F W de Croisset[4] | 206,000 | – | – | 206,000 | 8.7120 | 23 Apr 2001 | 23 Apr 2004 | 23 Apr 2011 |
| | – | 206,000 | – | 206,000 | 8.4050 | 7 May 2002 | 7 May 2005 | 7 May 2012 |
| W R P Dalton | 22,704 | – | – | 22,704 | 2.4062 | 12 Oct 1993 | 12 Oct 1996 | 12 Oct 2003 |
| | 30,273 | – | – | 30,273 | 2.8376 | 8 Mar 1994 | 8 Mar 1997 | 8 Mar 2004 |
| | 36,000 | – | – | 36,000 | 2.1727 | 7 Mar 1995 | 7 Mar 1998 | 7 Mar 2005 |
| | 36,000 | – | – | 36,000[2] | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 2,798 | – | – | 2,798[3] | 6.0299 | 10 Apr 2000 | 1 Aug 2005 | 31 Jan 2006 |
| D G Eldon | 36,000 | – | – | 36,000 | 2.1727 | 7 Mar 1995 | 7 Mar 1998 | 7 Mar 2005 |
| | 40,500 | – | – | 40,500[2] | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| D J Flint | 27,000 | – | – | 27,000[2] | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 3,813[3] | – | 3,813[5] | – | 4.5206 | 9 Apr 1997 | 1 Aug 2002 | 31 Jan 2003 |
| | – | 2,617[3] | – | 2,617 | 6.3224 | 2 May 2002 | 1 Aug 2007 | 31 Jan 2008 |
| S K Green | 45,000[2] | – | 45,000[6] | – | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 2,498 | – | – | 2,498[3] | 6.7536 | 11 Apr 2001 | 1 Aug 2006 | 31 Jan 2007 |
| A W Jebson | 22,500[2] | – | 22,500[7] | – | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 1,434 | – | – | 1,434[3] | 6.7536 | 11 Apr 2001 | 1 Aug 2004 | 31 Jan 2005 |
| Sir Keith Whitson | 60,000 | – | – | 60,000[2] | 3.3334 | 1 Apr 1996 | 1 Apr 1999 | 1 Apr 2006 |
| | 2,798 | – | – | 2,798[3] | 6.0299 | 10 Apr 2000 | 1 Aug 2005 | 31 Jan 2006 |

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *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.*
3 *Options awarded under the HSBC Holdings Savings-Related Share Option Plan.*
4 *Options awarded under the HSBC Holdings Group Share Option Plan. In accordance with agreements made at the time of the acquisition of CCF there are no performance criteria conditional upon which the outstanding options are exercisable.*
5 *At the date of exercise, 8 August 2002, the market value per share was £7.45.*
6 *At the date of exercise, 13 March 2002, the market value per share was £8.34.*
7 *At the date of exercise, 22 March 2002, the market value per share was £8.045.*

At 31 December 2002, 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 of US$0.50 each. 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.

**CCF shares of €5 each**

| *Options held at 1 January 2002* | *Exercise price per share (€)* | *Options held at 31 December 2002* | *Equivalent HSBC Holdings ordinary shares of US$0.50 each at 31 December 2002* | *Date of award* | *Exercisable from* | *Exercisable until* |
|---|---|---|---|---|---|---|
| 10,000 | 32.78 | 10,000 | 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 |

No options over CCF shares of €5 each were awarded to or exercised by C F W de Croisset during the year.

Save as stated above, none of the Directors, or members of their immediate families, was 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 2002 | Awards made during year | Monetary value of awards made during year (£000) | Awards held at 31 December 2002[1] | Date of award | Year in which awards may vest |
|---|---|---|---|---|---|---|
| Sir John Bond | 28,501 | – | – | 29,746 | 2 Mar 1998 | 2003 |
| | 55,353 | 10,045[2] | 84 | 67,996 | 4 Mar 1999 | 2004 |
| | 81,791 | – | – | 85,365 | 10 Mar 2000 | 2005 |
| | 76,651 | – | – | 80,001 | 12 Mar 2001 | 2006 |
| | – | 114,779[3] | 950 | 119,795 | 8 Mar 2002 | 2007 |
| W R P Dalton | 19,003 | – | – | 19,833 | 2 Mar 1998 | 2003 |
| | 32,290 | 5,859[2] | 49 | 39,665 | 4 Mar 1999 | 2004 |
| | 37,178 | – | – | 38,803 | 10 Mar 2000 | 2005 |
| | 43,801 | – | – | 45,715 | 12 Mar 2001 | 2006 |
| | – | 72,492[3] | 600 | 75,660 | 8 Mar 2002 | 2007 |
| D G Eldon | 22,799 | – | – | 23,796 | 2 Mar 1998 | 2003 |
| | 32,290 | 5,859[2] | 49 | 39,665 | 4 Mar 1999 | 2004 |
| | 37,178 | – | – | 38,803 | 10 Mar 2000 | 2005 |
| | 7,079 | – | – | 7,388[4] | 3 Apr 2000 | 2003 |
| | 43,801 | – | – | 45,715 | 12 Mar 2001 | 2006 |
| | 6,454 | – | – | 6,736[4] | 30 Apr 2001 | 2004 |
| | – | 48,328[3] | 400 | 50,440 | 8 Mar 2002 | 2007 |
| | – | 9,176[4] | 75 | 9,340 | 15 May 2002 | 2005 |
| D J Flint | 19,003 | – | – | 19,833 | 2 Mar 1998 | 2003 |
| | 32,290 | 5,859[2] | 49 | 39,665 | 4 Mar 1999 | 2004 |
| | 33,460 | – | – | 34,922 | 10 Mar 2000 | 2005 |
| | 54,751 | – | – | 57,144 | 12 Mar 2001 | 2006 |
| | – | 72,492[3] | 600 | 75,660 | 8 Mar 2002 | 2007 |
| S K Green | 22,799 | – | – | 23,796 | 2 Mar 1998 | 2003 |
| | 32,290 | 5,859[2] | 49 | 39,665 | 4 Mar 1999 | 2004 |
| | 37,178 | – | – | 38,803 | 10 Mar 2000 | 2005 |
| | 76,651 | – | – | 80,001 | 12 Mar 2001 | 2006 |
| | – | 90,615[3] | 750 | 94,575 | 8 Mar 2002 | 2007 |
| A W Jebson | 9,502 | – | – | 9,917 | 2 Mar 1998 | 2003 |
| | 27,677 | 5,022[2] | 42 | 33,998 | 4 Mar 1999 | 2004 |
| | 29,742 | – | – | 31,041 | 10 Mar 2000 | 2005 |
| | 65,701 | – | – | 68,572 | 12 Mar 2001 | 2006 |
| | – | 84,574[3] | 700 | 88,270 | 8 Mar 2002 | 2007 |
| Sir Keith Whitson | 22,799 | – | – | 23,796 | 2 Mar 1998 | 2003 |
| | 46,128 | 8,371[2] | 70 | 56,663 | 4 Mar 1999 | 2004 |
| | 52,049 | – | – | 54,323 | 10 Mar 2000 | 2005 |
| | 60,226 | – | – | 62,858 | 12 Mar 2001 | 2006 |
| | – | 90,615[3] | 750 | 94,575 | 8 Mar 2002 | 2007 |

Unless otherwise indicated, vesting of these shares is subject to the performance tests described in the 'Report of the Directors' in the 1998, 1999, 2000 and 2001 *Annual Report and Accounts* respectively being satisfied.

1 *Includes additional shares arising from scrip dividends.*
2 *In accordance with the performance conditions over the three-year period to 31 December 2001 set out in the* Annual Report and Accounts 1998, *an additional award of 20 per cent of the initial performance share award was made on 7 May 2002. The market value per share on 7 May 2002 was £8.405. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.13.*
3 *The market value per share on 8 March 2002 was £8.34. The shares acquired by the Trustee of the Plan were purchased at an average price of £8.28.*
4 *50 per cent of D G Eldon's discretionary bonus in respect of 1999, 2000 and 2001 respectively was awarded in Restricted Shares with a three-year restricted. period.*

On behalf of the Board
Sir Mark Moody-Stuart, *Chairman of Remuneration Committee* 3 March 2003

# Summary Consolidated Profit and Loss Account



| 2001† US$m | Year ended 31 December | **2002 US$m** | *2002 £m* | *2002 HK$m* |
|---|---|---|---|---|
| 35,261 | Interest receivable | **28,595** | *19,044* | *223,012* |
| (20,536) | Interest payable | **(13,135)** | *(8,748)* | *(102,440)* |
| 14,725 | **Net interest income** | **15,460** | *10,296* | *120,572* |
| 11,163 | Other operating income | **11,135** | *7,416* | *86,842* |
| 25,888 | **Operating income** | **26,595** | *17,712* | *207,414* |
| (14,605) | Operating expenses | **(14,954)** | *(9,959)* | *(116,626)* |
| (799) | Goodwill amortisation | **(854)** | *(569)* | *(6,660)* |
| 10,484 | **Operating profit before provisions** | **10,787** | *7,184* | *84,128* |
| (2,037) | Provisions for bad and doubtful debts | **(1,321)** | *(880)* | *(10,303)* |
| (649) | Provisions for contingent liabilities and commitments | **(39)** | *(26)* | *(304)* |
| (520) | Foreign currency redenomination in Argentina | **(68)** | *(45)* | *(530)* |
| (125) | Amounts written off fixed asset investments | **(324)** | *(216)* | *(2,527)* |
| 7,153 | **Operating profit** | **9,035** | *6,017* | *70,464* |
| (91) | Share of losses from joint ventures | **(28)** | *(18)* | *(218)* |
| 164 | Income from associated undertakings | **135** | *90* | *1,053* |
| | Gains on disposal of: | | | |
| 754 | — investments | **532** | *354* | *4,149* |
| 20 | — tangible fixed assets | **(24)** | *(16)* | *(187)* |
| 8,000 | **Profit on ordinary activities before tax** | **9,650** | *6,427* | *75,261* |
| (1,988) | Tax on profit on ordinary activities | **(2,534)** | *(1,688)* | *(19, 763)* |
| 6,012 | **Profit on ordinary activities after tax** | **7,116** | *4,739* | *55,498* |
| | Minority interests: | | | |
| (579) | — equity | **(505)** | *(336)* | *(3,939)* |
| (441) | — non-equity | **(372)** | *(248)* | *(2,901)* |
| 4,992 | **Profit attributable to shareholders** | **6,239** | *4,155* | *48,658* |
| (4,467) | Dividends | **(5,001)** | *(3,331)* | *(39,003)* |
| 525 | **Retained profit for the period** | **1,238** | *824* | *9,655* |
| US$ | | **US$** | *£* | *HK$* |
| 0.63 | Cash earnings per ordinary share* | **0.76** | *0.51* | *5.93* |
| 0.54 | Basic earnings per ordinary share | **0.67** | *0.45* | *5.23* |
| 0.53 | Diluted earnings per ordinary share | **0.66** | *0.44* | *5.15* |

** Cash earnings per share comprise basic earnings per share after excluding the impact of goodwill amortisation.*

*† Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on the Summary Financial Statement on page 49.*

## Consolidated Balance Sheet

## Summary Financial Statement

| 2001† US$m | | 2002 US$m | 2002 £m | 2002 HK$m |
|---|---|---|---|---|
| | **ASSETS** | | | |
| 6,185 | Cash and balances at central banks | **7,659** | *4,749* | *59,725* |
| 5,775 | Items in the course of collection from other banks | **5,651** | *3,504* | *44,066* |
| 17,971 | Treasury bills and other eligible bills | **18,141** | *11,247* | *141,463* |
| 8,637 | Hong Kong SAR Government certificates of indebtedness | **9,445** | *5,856* | *73,654* |
| 104,641 | Loans and advances to banks | **95,496** | *59,207* | *744,678* |
| 308,649 | Loans and advances to customers | **352,344** | *218,453* | *2,747,578* |
| 160,579 | Debt securities | **175,730** | *108,953* | *1,370,343* |
| 8,057 | Equity shares | **8,213** | *5,092* | *64,045* |
| 292 | Interests in joint ventures | **190** | *118* | *1,482* |
| 1,056 | Interests in associated undertakings | **1,116** | *692* | *8,703* |
| 120 | Other participating interests | **651** | *404* | *5,076* |
| 14,564 | Intangible fixed assets | **17,163** | *10,641* | *133,837* |
| 13,521 | Tangible fixed assets | **14,181** | *8,792* | *110,583* |
| 38,632 | Other assets | **45,884** | *28,448* | *357,802* |
| 7,566 | Prepayments and accrued income | **7,382** | *4,577* | *57,565* |
| 696,245 | Total assets | **759,246** | *470,733* | *5,920,600* |
| | **LIABILITIES** | | | |
| 8,637 | Hong Kong SAR currency notes in circulation | **9,445** | *5,856* | *73,654* |
| 53,640 | Deposits by banks | **52,933** | *32,819* | *412,771* |
| 449,991 | Customer accounts | **495,438** | *307,172* | *3,863,425* |
| 3,798 | Items in the course of transmission to other banks | **4,634** | *2,873* | *36,136* |
| 27,098 | Debt securities in issue | **34,965** | *21,678* | *272,657* |
| 72,623 | Other liabilities | **72,090** | *44,696* | *562,158* |
| 7,149 | Accruals and deferred income | **7,574** | *4,696* | *59,062* |
| | Provisions for liabilities and charges | | | |
| 1,057 | — deferred taxation | **1,154** | *715* | *8,991* |
| 3,883 | — other provisions | **3,683** | *2,284* | *28,728* |
| | Subordinated liabilities | | | |
| 3,479 | — undated loan capital | **3,540** | *2,195* | *27,605* |
| 12,001 | — dated loan capital | **14,831** | *9,195* | *115,652* |
| | Minority interests | | | |
| 2,210 | — equity | **2,122** | *1,315* | *16,547* |
| 4,291 | — non-equity | **4,431** | *2,747* | *34,553* |
| 4,678 | Called up share capital | **4,741** | *2,940* | *36,970* |
| 41,710 | Reserves | **47,665** | *29,552* | *371,692* |
| 46,388 | Shareholders' funds | **52,406** | *32,492* | *408,662* |
| 696,245 | Total liabilities | **759,246** | *470,733* | *5,920 600* |
| | **MEMORANDUM ITEMS** | | | |
| | Contingent liabilities | | | |
| 4,219 | — acceptances and endorsements | **4,711** | *2,921* | *36,736* |
| 39,817 | — guarantees and assets pledged as collateral security | **46,527** | *28,846* | *362,818* |
| 9 | — other contingent liabilities | **17** | *11* | *133* |
| 44,045 | | **51,255** | *31,778* | *399,687* |
| 198,459 | Commitments | **225,629** | *139,890* | *1,759,455* |

Sir John Bond, *Group Chairman*

*† Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on the Summary Financial Statement on page 49.*

## 1 Basis of preparation

The Summary Financial Statements 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 2001* except as noted below.

HSBC has adopted the provisions of the UK Financial Reporting Standard ('FRS') 19 'Deferred Tax' with effect from 1 January 2002. This has required a change in the method of accounting for deferred tax. Deferred tax is now recognised in full, subject to recoverability of deferred tax assets. Previously, deferred tax assets and liabilities were recognised only to the extent they were expected to crystallise. As deferred tax liabilities have generally been fully provided, the main impact of the change in method for HSBC has been the recognition of deferred tax assets previously not recognised.

The change in accounting policy has been reflected by way of a prior period adjustment. The comparative figures have been restated as follows:

**Consolidated profit and loss account — tax on profit on ordinary activities**

| | *Year ended 31 December* | |
|---|---|---|
| *Figures in US$m* | *2001* | *2000* |
| Under previous policy | (1,574) | (2,238) |
| Adoption of FRS 19 | (414) | (171) |
| Under new policy | (1,988) | (2,409) |

The effect on the results for the current period of the adoption of FRS 19 is immaterial.

| *Figures in US$m* | *Intangible fixed assets* | *Other assets* | *Provisions for liabilities and charges — deferred tax* | *Minority interests — equity* | *Reserves* |
|---|---|---|---|---|---|
| **At 31 December 2001** | | | | | |
| Under previous policy | 14,581 | 38,247 | 1,109 | 2,199 | 41,301 |
| Adoption of FRS 19 | (17) | 385 | (52) | 11 | 409 |
| Under new policy | 14,564 | 38,632 | 1,057 | 2,210 | 41,710 |
| **At 31 December 2000** | | | | | |
| Under previous policy | 15,089 | 35,562 | 1,251 | 2,138 | 40,936 |
| Adoption of FRS 19 | (17) | 468 | (383) | 11 | 823 |
| Under new policy | 15,072 | 36,030 | 868 | 2,149 | 41,759 |

The increase in HSBC's tax charge for 2001 and 2000 as restated can be explained as follows:

— reversal of a benefit taken in 2001 under SSAP 15 in respect of deferred tax assets attributable under FRS 19 to prior periods;

— reversal of a benefit taken in 2001 under SSAP 15 in respect of the utilisation and release of a provision for additional UK tax on remittances from overseas, such provision not being permissible under FRS 19; and

— establishment of a provision required under FRS 19 in respect of a possible claw-back of capital allowances.

## 2 Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings, computed in accordance with Part I of Schedule 6 of the UK Companies Act 1985, were US$14,579,000 (2001: US$12,718,000; 2000: US$11,741,000). Aggregate gains on the exercise of the share options were US$514,000 (2001: US$1,990,000; 2000: US$4,187,000). No Restricted Share Plan awards vested during 2002 (2001: US$756,000; 2000: US$491,000).

There were annual commitments under retirement benefit agreements with former Directors of US$501,000 (2001: US$472,000; 2000: US$483,000). The provision as at 31 December 2002 in respect of unfunded pension obligations to former Directors amounted to US$6,942,000 (2001: US$6,281,000; 2000: US$6,535,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$1,592,024 (2001: US$1,462,000; 2000: US$798,000).

## 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:

| | ***2002*** | | *2001* | |
|---|---|---|---|---|
| | **Number** | **US$m** | *Number* | *US$m* |
| Directors and connected persons and companies controlled by them: | | | | |
| Loans and credit card transactions (including US$367,665 in credit card transactions (2001: US$259,172) and US$14,538,793 in guarantees (2001: US$34,541,955)) | **145** | **931** | 150 | 716 |
| Officers: | | | | |
| Loans and credit card transactions (including US$169,025 in credit card transactions (2001: US$149,753) and US$nil in guarantees (2001: US$nil)) | **28** | **18** | 27 | 13 |

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 2002 was US$7,500 million, (2001: US$7,500 million; 2000: US$5,250 million) divided into 15,000 million (2001: 15,000 million; 2000: 10,500 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 |
|---|---|---|
| Issued: | | |
| At 1 January 2002 | 9,354,627,521 | 4,678 |
| Shares issued to QUEST | 6,147,311 | 3 |
| Shares issued under employee share plans | 30,460,369 | 15 |
| Shares issued in lieu of dividends | 89,585,595 | 45 |
| **At 31 December 2002** | **9,480,820,796** | **4,741** |

## 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 2002 and the closing rate at that date respectively. These were as follows:

| | *Average rate* | *Closing rate* |
|---|---|---|
| US$1.00 = HK$ | 7.799 | 7.798 |
| US$1.00 = £ | 0.666 | 0.620 |

## 6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2002.* 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*.

Members may obtain, free of charge, a copy of the *Annual Report and Accounts 2002* 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; Group Public Affairs, HSBC Bank USA, 452 Fifth Avenue, New York, NY 10018, USA; or from CCF S.A., Direction de la Communication, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 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 *Annual Report and Accounts 2002* may be viewed on our web site: www.hsbc.com.

## 7 Approval of the Summary Financial Statement

The Summary Financial Statement was approved by the Board of Directors on 3 March 2003.

# 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 Statement set out on pages 34 to 51.

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

**Basis of opinion**

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the Summary Financial Statement issued by the Auditing Board. 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, the Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2002 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

3 March 2003

# Shareholder Information

## Financial Calendar 2003

| | |
|---|---|
| Publication of *Annual Review* and *Annual Report and Accounts* (online) | 3 March |
| Shares quoted ex-dividend in London and Hong Kong and American Depositary Shares (ADSs) quoted ex-dividend in New York | 19 March |
| Record date for the second interim dividend for 2002 | 21 March |
| Shares quoted ex-dividend in Paris | 24 March |
| Mailing of *Annual Review* and/or *Annual Report and Accounts,* Notice of Annual General Meeting and dividend documentation | 1 April |
| Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends | 24 April |
| Exchange rate determined for payment of dividends in sterling and Hong Kong dollars | 28 April |
| Payment date: dividend warrants, new share certificates and notional tax vouchers mailed and shares credited to stock accounts in CREST | 6 May |
| Annual General Meeting | 30 May |
| Announcement of 2003 interim results | 4 August |
| **Proposed dates for first interim dividend for 2003:** | |
| Shares quoted ex-dividend in London and Hong Kong and ADSs quoted ex-dividend in New York | 20 August |
| Record date | 22 August |
| Shares quoted ex-dividend in Paris | 25 August |
| Payment date | 7 October |

## Annual General Meeting

The 2003 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 30 May 2003 at 11.00 a.m.

## Dividends

The Directors have declared a second interim dividend of US$0.325 per ordinary share which, together with the first interim dividend of US$0.205 already paid, will make a total distribution for the year of US$0.53 per share, an increase of 10 per cent on 2001. Information on the scrip dividend scheme and currencies in which the cash dividend may be paid will be sent to shareholders on or about 1 April 2003.

## Postal Share-Dealing Service

For shareholders on the UK Register, a low-cost postal share-dealing service for buying and selling HSBC Holdings' shares is available from HSBC Bank plc Stockbrokers. Details are available from:

HSBC Bank plc Stockbrokers
Mariner House, Pepys Street
London EC3N 4DA
Telephone: 020 7260 0906
Facsimile: 020 7260 7556

# Shareholder Information (continued)

## Shareholder Enquiries

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

*UK*

*Principal Register*
Computershare Investor Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

*Hong Kong*

*Hong Kong Overseas Branch Register*
Computershare Hong Kong Investor Services Limited
Rooms 1901-1905, Hopewell Centre
183 Queen's Road East

*USA*

*ADR Depositary*
The Bank of New York
101 Barclay Street, 22 West
New York, NY 10286

*France*

*Paying Agent*
CCF
103 avenue des Champs Elysées
75008 Paris

## Investor Relations

Enquiries may be directed to:

Senior Manager Investor Relations
HSBC Holdings plc
8 Canada Square
London E14 5HQ
UK

Telephone: 44 020 7992 1939
Facsimile: 44 020 7991 4663
E-mail: shareholder@hsbc.com

## *Annual Review 2002*

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:*

Group Public Affairs
HSBC Bank USA
452 Fifth Avenue
New York, NY 10018
USA

## 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 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「股東參考資料」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

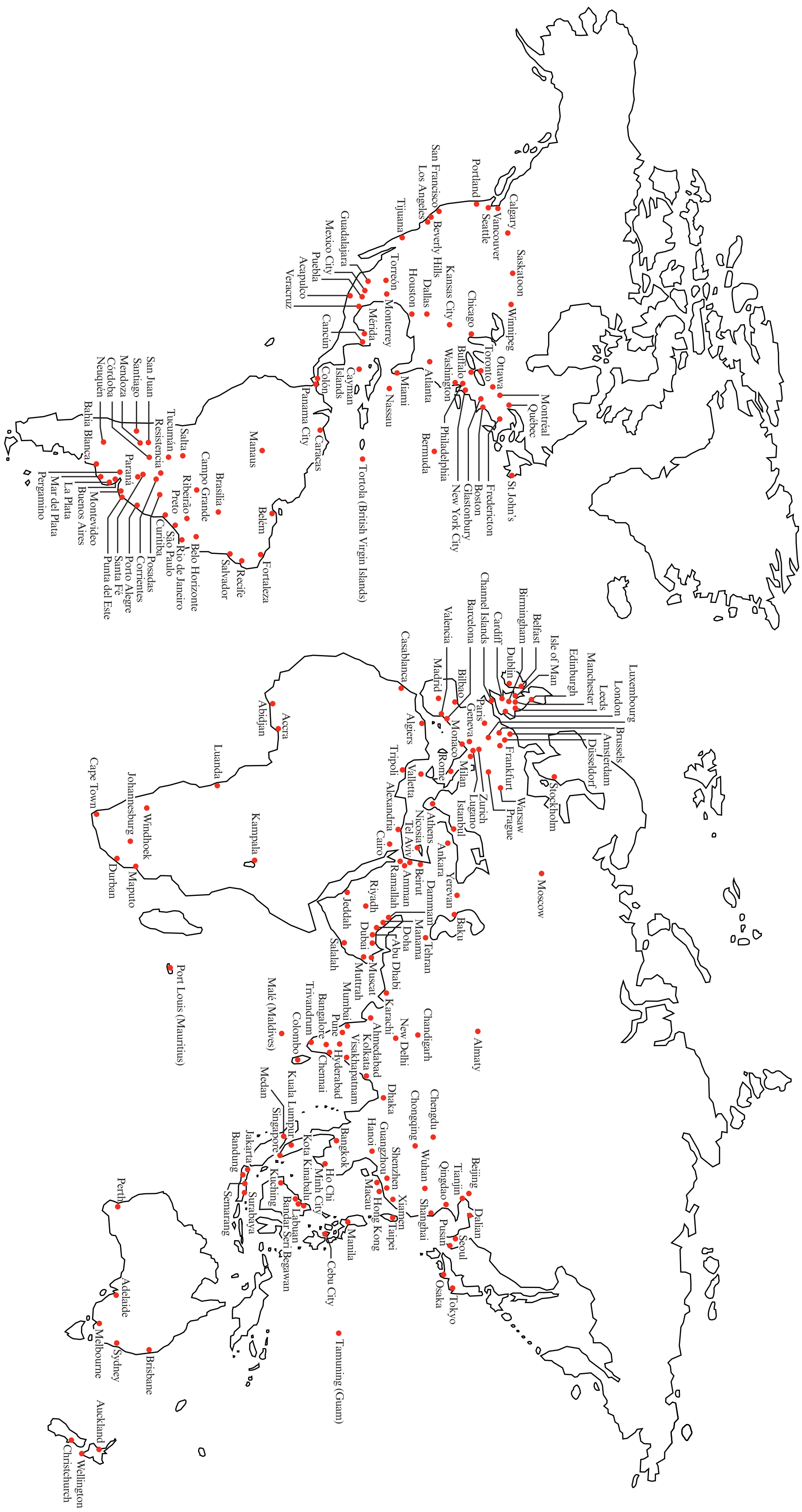
A French translation of this *Annual Review* is available on request from:
La traduction française du bilan d'activité est disponible sur demande:

Direction de la Communication
CCF
103 avenue des Champs Elysées
75419 Paris Cedex 08
France

## Web Site

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

# HSBC International Network



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*Hong Kong Overseas Branch Register*
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