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



2001 was the third full year of our 'Managing for Value' strategy and, despite difficult economic conditions in many countries, we made good progress towards our objectives. We focused on becoming ever more customer-driven, on product innovation, and on harnessing the combined strengths of HSBC more efficiently and cost-effectively.

Our drive was underpinned by even greater investment in technology, with some US$2.5 billion spent during the year, an increase of 19 per cent. This was allocated mainly to improving customer relationship management systems, upgrading and expanding our e-business channels and increasing investment in HSBC's shared service centres.

HSBC's worldwide operations are primarily managed on a geographical basis and fall into five broad business lines: personal financial services; commercial banking; corporate, investment banking and markets; private banking; and other activities.

Personal Financial Services

Enhancing the range and quality of services we provide to our 29 million personal customers worldwide is a cornerstone of Managing for Value. Last year, I cited the launch of HSBC *Premier,* our international service for our most valuable personal customers, as an example of our customer-driven approach. From an initial 17 countries and territories at launch in March 2000, HSBC *Premier* has now been extended to 23. Australia, Egypt, Indonesia and Sri Lanka joined in 2001 and France, Malta, Taiwan and Turkey are scheduled to launch the service during 2002.

We now have 464,000 *Premier* customers. We also have over 140 dedicated HSBC *Premier* centres and the opening of our first mainland China centre in Shanghai in 2002 will be followed by others later in the year. Furthermore, customers now get round-the-clock support and information from local call centres and global travel assistance services, as well as from a new web site, www.premier.hsbc.com.

We have invested significant amounts in proprietary customer relationship management systems to ensure our growing customer base is managed efficiently. As a result, we are handling a greater share of our customers' financial requirements and, in the process, generating higher levels of customer satisfaction. For example, in 2001, our 'Individual Solutions' programme in the UK generated more than five million customer contacts, over one million of which led to an expansion of an existing relationship.

Insurance for personal customers, including HSBC's own life, pensions, investment-linked and protection products along with those of third-party providers, is now sold through all our principal lines of business. These also offer HSBC broking and actuarial services. Personal insurance products were available in 33 countries by year-end 2001, and our product development expertise and insurance market experience in the UK and South-East Asia aided our entry into the Indian insurance market when regulatory conditions permitted it for the first time. In the Hong Kong SAR, sales of insurance products doubled and, including Hang Seng Bank, the HSBC Group now has the largest market share of new regular premium business in the territory.

We reached another milestone when we signed an agreement with American Express to supply their travellers' cheques through our branches worldwide. HSBC customers now have access to the world's largest network of travellers' cheque encashment locations and a refund service that is second to none. They will also be able to encash their American Express travellers' cheques purchased from HSBC free of charge at all HSBC branches around the world.

At a time of weak demand for individual equity products, our ability to innovate was key to providing customers with investment choice. This was particularly evident in the field of capital-protected funds. HSBC Bank International Limited in the Channel Islands achieved sales of US$1 billion with its Capital Secured Growth Fund, while HSBC in Hong Kong, including Hang Seng Bank, exceeded US$1.4 billion in capital-protected product sales. Last

year also saw HSBC Bank Malta p.l.c. launch the first ever Maltese lire-denominated capital protected fund.

Building our customer base through card products, particularly where our branch network is small, remains a core objective. Despite stiff competition from a wide array of providers, we continued to grow our cards business worldwide by issuing some two million new cards in 2001, bringing the total in issue to more than 13 million. Our presence in emerging markets provides good opportunities: we saw major growth in India (50 per cent), Malaysia (48 per cent) and Hong Kong (10 per cent). HSBC Bank Middle East, the region's leading issuer, registered 38 per cent more cards. Meanwhile, we continue to roll out our proprietary global cards processing system with HSBC in Hong Kong, our second largest cards business, successfully converting in 2001.

Home loans are another key area for us. HSBC Bank Malaysia Berhad doubled its business in 2001 by adding around US$800 million in new facilities; in Canada, our forecasts for new home finance were exceeded by 85 per cent; and HSBC Bank USA, one of the country's larger mortgage providers, saw record volumes as its portfolio reached US$39 billion. Our new mortgage strategy in the UK helped HSBC Bank plc secure its largest ever share of net new mortgage lending in 2001 — 4.4 per cent compared with 3 per cent in 2000 — and gross new mortgage loans increased by 56 per cent by value. The bank launched its HomeStart mortgage for first-time buyers and First Direct introduced 'smartmortgage' on which interest is paid on a net basis by combining all of a customer's balances. In the Hong Kong SAR, new mortgage business volumes increased by 46 per cent, most of which were related to refinancing.

The internet goes to the very heart of customer convenience and is an increasingly important channel for our customers. In May, the joint venture Merrill Lynch HSBC extended its online investment-led broking and banking service from Canada and Australia to the UK. Although roll-out plans for other countries had to be postponed following the downturn in equity markets, Merrill Lynch HSBC expanded its existing service with the introduction of managed funds in Australia and tax-efficient products in the UK. With more financial services now available through the internet, electronic organisers, mobile phones, television and private network connections, our electronic banking customer numbers doubled in 2001 to more than three million. HSBC's e-banking services are now available in 17 countries and

Kuala Lumpur, Malaysia

10.30 a.m.











At another important Asian location — HSBC's main branch in Leboh Ampang in the Malaysian capital — the spacious, recently established Personal Financial Services Centre is gearing up for a busy day. The centre's selling point is 'single-platform banking': a one-stop shop with personal attention provided for a complete range of wealth management products, including the tailoring of a financial plan to suit individual needs. The centre is the pilot for other Personal Financial Centres that began their roll-out to the entire branch network in January this year.

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

territories, and our web sites receive an average of 210,000 customer visits a day — 75 million a year and rising.

We also signed a major strategic agreement with Yahoo! Inc., a global internet communications, commerce and media company, which gives us marketing access to this leading internet portal's 219 million users worldwide. Yahoo! PayDirect from HSBC, a secure system for small value person-to-person e-mail payments was launched in the United States in November. An operations centre has been established in Buffalo to service Yahoo! PayDirect, which is poised for rapid growth as we plan to extend the service to other countries in 2002.

Internet sales of HSBC insurance began last year and an online range of personal and commercial insurance products is now available in the UK, Hong Kong, the United States and Brazil.

In addition to direct banking and e-initiatives, we continue to pioneer innovations in branch design, layouts and procedures. One example is ChequeScan, launched in Malaysia in 2001, which scans all cheque deposits, providing a complete photo-trail and reducing paperwork for customers. Through this and other initiatives, HSBC Bank Malaysia has converted 80 per cent of branch transactions to self-service, thereby improving customer service at the counter. Our associate, The Saudi British Bank, introduced a tracking system to handle customer enquiries more quickly and, ultimately, to improve operational efficiency.

We take such initiatives because we are increasingly customer-driven and because our customers, rightly, expect the very highest standards of service from us. As a result, we direct significant training resources to ensure all our employees are equipped to meet our customers' needs. For example, in Hong Kong, more than 15,000 employees completed HSBC's Chung Chi Sing Sing ('Together We Win') training programme in 2001 and Hang Seng Bank's customer service was recognised by seven external awards. In Canada, an independent survey rated HSBC's service quality the highest among domestic financial institutions. In the UK, independent research shows that HSBC Bank plc has the highest levels of customer satisfaction among its main competitors.

Located in the western Indian state of Maharashtra and some 120 miles from Mumbai, Pune may be another prosperous, fast-growing Asian city but it has the distinction of hosting the only HSBC branch anywhere that is open 365 days a year, even on bank holidays. This major service differentiator has attracted some 6,000 personal banking customers since the '365-day 8.00 a.m. to 8 p.m.' branch was inaugurated in June. The HSBC *Premier* Centre is particularly conducive to dedicated relationship management with, for example, customers welcome to stroll in for a chat with their manager over morning coffee. Our first international banking service, HSBC *Premier* now boasts over 140 centres in the Group's network of offices worldwide.

Pune, India

11.00 a.m.

HONG KONG

PARIS

LONDON

NEW YORK





Dubai, UAE
12.15 p.m.

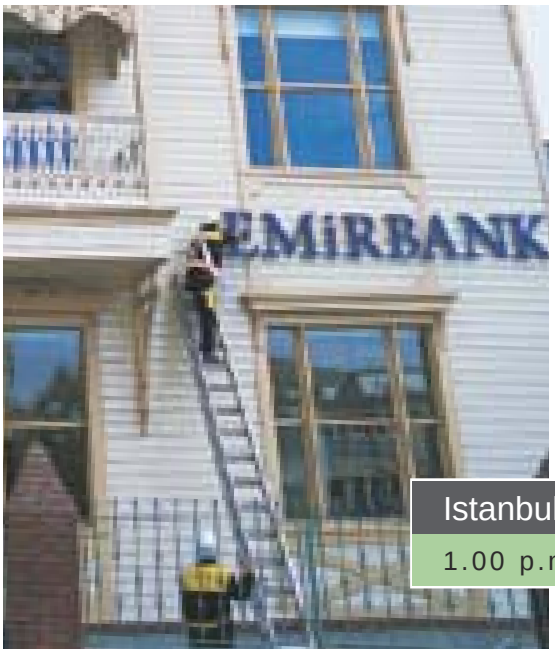
HONG KONG
PARIS
LONDON
NEW YORK

Expatriates living in the United Arab Emirates are able to take advantage of a range of offshore wealth management services offered by the first full representative office of HSBC Bank International Limited located outside of Jersey in the Channel Islands. The office opened in October in Dubai's main residential district of Jumeira where financial advisers and relationship managers are on hand to explain how multi-currency banking products, investment planning, UK mortgages, insurance, and estate and tax planning can help expatriates to make the most of their assets. The bank plans to open offices elsewhere in the world later this year to cater for the offshore needs of expatriates and international banking customers.

Commercial Banking

Providing banking services for small to middle market business customers is one of our traditional strengths. Indeed, we believe we have the largest international franchise in this sector of any financial services company. The 1.8 million HSBC customers include incorporated businesses, trading entities, partnerships, sole traders, clubs and associations. Their requirements are becoming increasingly international and we are ideally placed to meet them.

Our main contact with these customers is through a network of relationship managers. Relationships are managed at local branch level or through our expanding, worldwide network of commercial banking centres, including our first centre in Florida, established in 2001. Here, too, we are investing in proprietary customer relationship management systems designed to identify and meet customer needs.



HONG KONG
PARIS
LONDON
NEW YORK

Istanbul, Turkey
1.00 p.m.

Working through their lunch hour in order to meet deadlines for HSBC's rebranding programme, two workers remove the signage from Demirbank TAS's Topcular branch on the outskirts of Istanbul. A fine example of traditional Ottoman architecture, Topcular is one of 188 Demirbank branches acquired by HSBC in October and which now sport HSBC signage as part of the merger of the bank with HSBC Bank A.S. Demirbank was Turkey's fifth largest private bank, offering a full range of financial services via a modern, multi-channel delivery system to a network spanning 38 Turkish cities.

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



We have extended our involvement with our commercial customers so that we not only service the needs of their businesses but now provide them and their employees with their personal financial requirements as well. Consequently, it has become commonplace for our personal and commercial relationship managers to make joint visits. Similarly, HSBC Asset Management joins forces with our commercial relationship managers to pursue opportunities in liquidity management products where our range now embraces eight currencies.

Our underwriting and intermediary insurance businesses recorded a US$600 million increase in premiums, reflecting underlying sales growth and a full-year contribution from CCF's insurance activities. Our reinsurance purchasing power and increased central control through HSBC Insurance Brokers Limited helped to lower our costs.

Last year saw greater emphasis on private pension planning to supplement state or employer pension schemes. Gaining market share is increasingly achieved through small business customers. We strengthened our leading market share in Hong Kong's Mandatory Provident Fund scheme, which recorded more than 730,000 members and, in the UK, we launched our Stakeholder Pension Fund scheme, a low-cost, tax-efficient fund for individuals or companies on behalf of employees.

Trade services remain a key requirement of our commercial customers and, in 2001, we successfully launched an internet export documentary credit advisory service in the Hong Kong SAR and in the UK. This is being introduced progressively into our other markets and additional internet services are planned in 2002. Our trade finance turnover grew in Hong Kong, despite a drop in the territory's overall levels, and we achieved a notable increase in the number of trade services relationships from the small and medium enterprise segment.

The acquisition of Banque Hervet considerably strengthened the small business customer base already served by CCF in France. We have begun to integrate the French customer base into our worldwide trade services network.

We extended the provision of leasing finance — including instalment and invoice finance — and factoring facilities to our commercial customers in Brazil and Saudi Arabia, adding to our business in the UK, the United States, Hong Kong and France.

Following a busy year for our payments and cash management teams preparing for the introduction of euro notes and coins, our pan-European cash management service is well placed to meet the new demands of our commercial customers. In France, CCF created a dedicated payments and cash



(Left) Half-way round the world from the dealing room in Hong Kong, after a slowdown at lunch-time, activity picks up in the newly opened HSBC CCF dealing room in Paris when New York, the Group's hub for the Americas, opens. The traders have already made an early start, reviewing at 7.00 a.m. press and market reports on North America from the previous night, and on Asia-Pacific as markets there closed for the day. From 8.15 to 8.30, the analysts link up with their counterparts in HSBC's London dealing room for the latter's daily briefing. Traders then start to call their clients before the European markets open at 9.00, the start of a busy day of trading. The Paris dealing room provides a service fully integrated with HSBC's foreign exchange, money market, fixed income, bond and derivative activities in both developed and emerging markets.

HONG KONG

PARIS

LONDON

NEW YORK

management sales force and successfully launched Hexagon, HSBC's desktop banking system, for its customers. Hexagon attracted 14,000 new customers worldwide in 2001 — an increase of over 25 per cent.

A pilot programme last year led to the January 2002 launch of business internet banking in the UK to meet the payments and cash management needs of established smaller businesses — typically customers with turnover of less than £1 million. Initial reaction has been very positive and we plan to roll it out to Hong Kong, the United States and Canada later this year.

We established regional teams in the Middle East to provide better customer service in payments and cash management and trade services, and in the UK we combined our specialist sales forces in the areas of invoice finance, payments and cash management, trade services, equipment and vehicle finance in order to offer an integrated service. Our Latin American commercial customers benefited, too, as a result of much closer co-operation between our commercial banking teams in Brazil and Argentina, reflecting the major trade flows between the two countries.

We also reinforced our reputation for innovation. CCF launched Elys PC, an internet banking service offering account statements, payment transfers, and the purchase and sale of mutual funds and other services to corporate customers and self-employed

Bourges, France

2.30 p.m.



Meanwhile, south of Paris, it is another routine afternoon at the historic building that houses the registered office and main branch of the regional bank, Banque Hervet, which occupies an attractive location in the central provincial town of Bourges. CCF's acquisition in February 2001 of Banque Hervet — with its 86 branches — has increased CCF's branch network by 12 per cent and consolidated its position in France's central region where it was not represented previously.

individuals. The Saudi British Bank introduced a range of Islamic banking products, including Murabaha Liquidity Finance, Amanah current account and charge card, and Amanah home ownership scheme. In India, HSBC launched new products for the small to medium market while, in Malaysia, the launch of a cheque outsourcing system



HONG KONG

PARIS

NEW YORK

London, UK

3.30 p.m.

(Above) A busy throng of mid-afternoon shoppers in London's Piccadilly Circus form a suitable setting for the promotion of First Direct 'capital' — independent financial advice with a fee-free investment and protection service for its one million customers. The UK's most recommended bank, First Direct pioneered telephone banking in 1989 but, today, half of its customers access its services electronically, via the internet and mobile phone. Launched in January 2001, 'capital' offers access to any life assurance, pension and investment product available openly on the market, with independent advice provided by a financial planning manager on the telephone, or selected online by the customer himself.
(Below) Tea-time provides a quiet moment for the proprietors of a small, family-run hotel on the picturesque south Devon coast to log onto HSBC's business internet banking service. Launched in January 2002, the service provides small and medium-sized businesses with a simple and secure way to manage their accounts online. Almost 5,000 customers requested an application pack for the free service in the first month of its launch.

was accompanied by the introduction of e-mail statements for commercial customers.

■ Corporate, Investment Banking and Markets

Our international reach means HSBC is one of the few financial institutions that can provide its major customers with a full range of transaction and investment banking and markets services worldwide. This was undoubtedly a competitive advantage in 2001 when, despite the challenging economic conditions, we improved both the performance and profitability of our business by focusing on our core business relationships.

Sidmouth, UK

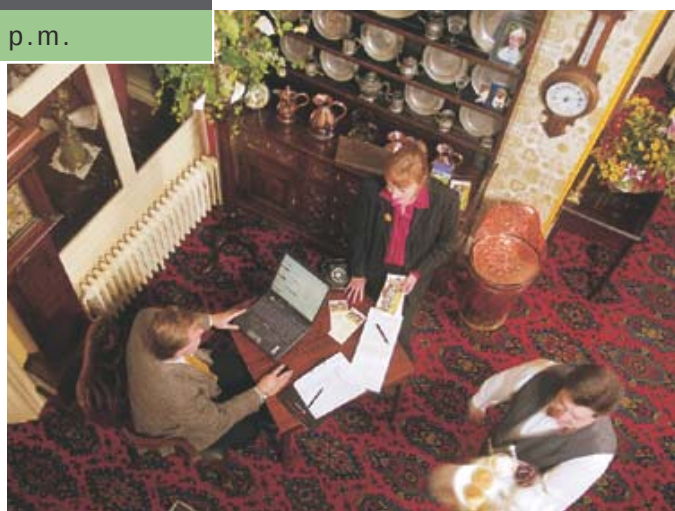
4.00 p.m.

HONG KONG

PARIS

LONDON

NEW YORK



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

Our Corporate, Investment Banking and Markets businesses are built on long-term relationships with major international corporations and institutional clients whom we serve in both their home and overseas markets. We provide financial services to more than 25,000 subsidiaries and offices of about 1,200 major customers in more than 50 countries and territories.

At the heart of our operation are the Client Service Teams, a group of relationship and product managers from around the world who understand our customers' business needs. HSBC is supporting these teams by investing heavily in increased automation and software for risk management, central systems to support relationship management, and intranet sites to share industry, product and geographic knowledge.

In Europe, we successfully integrated CCF's corporate and institutional banking into our structure so that Group customers in France and CCF customers internationally now enjoy the same high level of service. Indeed, the combination of CCF, HSBC Trinkaus & Burkhardt KGaA in Germany, and the UK and continental European branches of HSBC Bank plc singles out the Group from its competitors. Our local networks combined with our international capabilities mean we are uniquely placed to provide a pan-European service for customers conducting business in an increasingly borderless Europe.

Key to our continued success is the further development of our industry sector approach to relationship management, which harnesses the knowledge and expertise within the Group for the benefit of our customers. Refocusing our businesses around our customers has enabled us to provide them with a broad banking service which resulted in significant revenue growth in 2001 and high rankings in customer satisfaction surveys.

Despite testing conditions in all markets in 2001, we achieved good results, balancing weaker revenues from our global investment banking division with record earnings from our treasury and capital markets operations.

A combination of this strong performance and high-quality products and services led to a crop of awards in 2001. Our securities processing business won notable custody mandates in the UK, Japan, Malaysia, Korea and Taiwan, and achieved a record number of new issuer support mandates. Our Edinburgh-based investment administration operation enjoyed similar success.

HONG KONG

PARIS

LONDON

NEW YORK



Stopping by at a popular *botequin* for a cup of coffee in the city of Curitiba, a customer checks his current account balance on his palm pilot. Very much a part of Brazilian culture, the *botequin* is a café, bar and restaurant rolled into one and is the local place for socialising. The palm pilot's portability and access via the internet offer the customer a convenient way to bank: checking investments, making payments and transfers between accounts, and authorising direct debits.

We landed several prestigious awards for our sub-custody services in Asia. In the annual *Global Custodian* survey, we were the top-rated custodian bank in 12 countries, including five major markets in the Asia-Pacific region.

We were named *Trade Finance* magazine's 'Best trade documentation bank' for the sixth successive year, and *Finance Asia*'s 'Best trade finance bank' for the fifth year running. Documentary credit business conducted under our Trade Solutions product suite increased by 34 per cent in 2001 to US$5.8 billion.

The 2001 *Euromoney* international cash management poll of corporate treasurers placed HSBC among the top three global service providers and we won the *Treasury Management International* 2001 'Best bank in Asia' awards for both cash management and risk management. The introduction of our internet-based Online Account Management service in 2001 resulted in significant institutional wins.

Asia Risk magazine named HSBC 'Derivatives house of the year' and 'Interest rate derivatives house of the year' in Asia. We were awarded 'Domestic bond house of the year' for Asia overall by *International Financing Review* for the first time, and 'Best treasury in Asia' by *Euromoney* for the fourth year in a row. Our global investment banking division collected a number of awards for specific transactions while our

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

merchant banking business won the 'Best global leasing' award for an innovative Islamic aircraft financing. We were named 'European loan trading house of the year' and, for the eighth consecutive time, 'Best debt house of the year' in Hong Kong. In Germany, HSBC Trinkaus & Burkhardt was named 'Number 1 research team' for both DAX 30 stocks and NEMAX stocks. In the capital markets league tables, we were the top lead managers for sterling corporate eurobond issuance and HSBC also rose six places to sixth in the rankings for euro-denominated corporate bonds as the combined force of HSBC and CCF attracted new business to the Group.

Our treasury and capital markets businesses progressed various e-initiatives such as FX-All, a web-based range of services, including foreign exchange transactions and market research, and BondsinAsia, which offers online completion of Asia-wide fixed income transactions. We added more straight-through processing and greater interactivity between our customers' electronic systems, enhancing customer service and leading to improved efficiency.

Our global investment banking division, like many of our competitors, experienced a difficult year, given the downturn in equity markets and corporate finance business. In line with the development of our sector approach to relationship management, we have restructured this business to ensure it is clearly focused on, and integral to the support of, our corporate and institutional customers.

Funds under management across the Group's asset management operations totalled US$138 billion at year-end 2001, compared with US$137 billion at year-end 2000. Adverse market conditions were countered by the inflow of client funds and the integration of new businesses. We attracted US$8.8 billion in net new client money, particularly in defensive products such as money-market and capital-guaranteed funds. The HSBC Global Demographics Capital Guaranteed Fund became the largest-ever public closed-end fund launched in the Hong Kong SAR, raising US$650 million.

HSBC Asset Management expanded its reach in 2001 through its acquisition of China Securities Investment Trust Corporation, Taiwan's leading fund management company. Ambitious plans have been laid for the growth of our asset management business to support the development of wealth management across the Group, a key element of our Managing for Value strategy.

Within merchant banking, which also includes project and export finance, aviation and structured finance, syndicated finance and HSBC Equator Bank plc, our Islamic finance business, Amanah Finance, successfully created innovative products for our Muslim clients worldwide. These products included equity funds, treasury services and the industry's first Islamic asset securitisation. More than US$1.75 billion was invested in Islamic money market mechanisms structured by HSBC in 2001.

HSBC Insurance Brokers teamed up with Investment Banking and Markets' project and export finance division to access the private political risks market to mitigate cross-border risk. Our political risk insurance initiatives have helped pave the way for HSBC's financing of several environmental schemes in South America, including drinking water and rehabilitation projects, and major road improvements. Two hospital projects are also being negotiated.

HSBC Private Equity continued to enjoy good profitability. The business expanded into the Middle East in 2001 and at year-end managed over US$3 billion of private equity funds across the world.

Private Banking

Following the Group's recent acquisitions, we continued to integrate the private banking operations of Republic and CCF in 2001, creating a Swiss holding company, HSBC Private Banking Holdings (Suisse) SA, through which most of our worldwide private banking operations are now owned. This coherent ownership structure benefits high net worth individuals and their families by enabling us to bring together our full range of world class private banking services, including deposit and funds transfer, tax and trustee structures, asset and trust management, mutual funds, currency and securities transactions, lending, letters of credit and guarantees. These services are supplied by 4,900 employees in 50 locations.

Group Private Banking continued to work closely with HSBC Asset Management, Investment Banking and Markets and Group Insurance to launch new structured investment products and tax-efficient life insurance products with an international trust component.

HSBC Republic, the Group's principal international private banking business, continued to differentiate its approach with the appointment of relationship managers who operate on a cross-border basis to serve the specialised requirements of clients in

such sectors as diamonds and jewellery and sports and media.

Private banking treasuries were augmented in Asia and Europe, enabling us to offer a greater variety of treasury and structured products. In response to customer investment preferences, we developed an innovative approach in alternative fund management, which included the successful £125 million launch of the HSBC Global Absolute Limited fund of hedge funds.

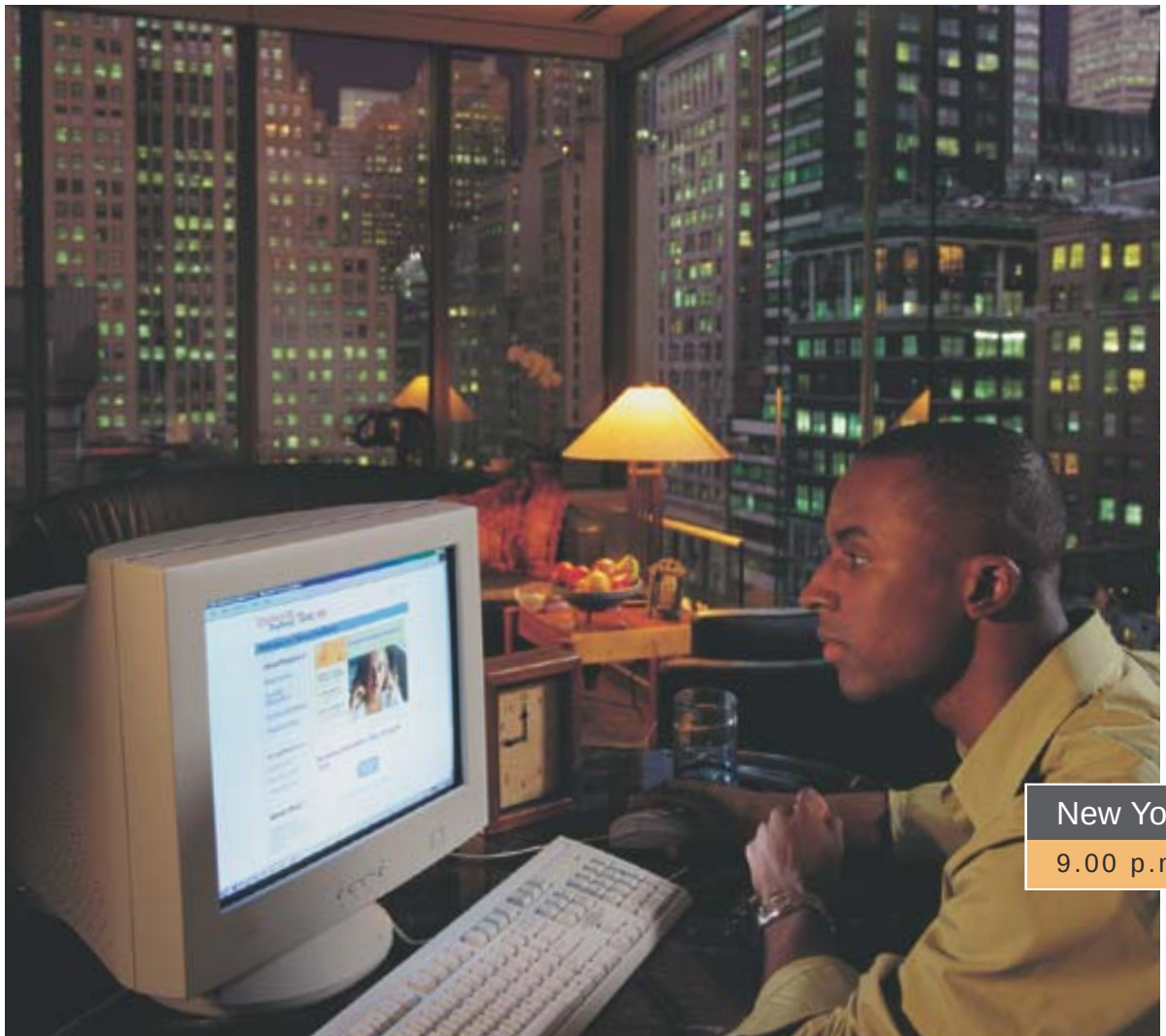
We strengthened our global tax and trustee business and made major investments in



HONG KONG
PARIS
LONDON

New York, USA
4.50 p.m.

(Above) As night sets in early on a winter's day, Times Square — New York's cosmopolitan crossroads of the world — buzzes with light and colour. As part of our strategic plan to build the HSBC brand, we launched in January 2002 the world's first interactive advertising sign 262 feet above the square. Billed as 'Starring you', the innovative concept allows visitors to have their face projected onto a giant animated display for all in Times Square to see, providing entertainment — as well as a closer association with our brand.
(Below) After dinner is a good time to do some shopping on the worldwide web. Relaxing in his Manhattan apartment, this HSBC customer has logged onto the Yahoo! PayDirect from HSBC web site to pay for an item that he wishes to purchase at an online auction. HSBC's strategic alliance with Yahoo — one of the world's biggest internet portals with some 219 million users — saw the launch of the PayDirect service in the United States in November, with roll-out to Europe and Asia-Pacific planned for this year. Already the second biggest person-to-person e-mail payments system in the United States, PayDirect offers a quick and safe means of sending and receiving money locally.



HONG KONG
PARIS
LONDON

New York, USA
9.00 p.m.

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

infrastructure, reinforcing key elements of the business, such as operations, human resources and information technology. This helped us to integrate CCF's smaller private banking activities in Luxembourg, Monaco and Italy with those of HSBC Republic. CCF's other, more substantial, private banking subsidiaries — Banque Dewaay, Banque Eurofin and Banque du Louvre — had a successful year, attracting new assets under management with significant new products.

HSBC Guyerzeller, our Swiss private bank which focuses on discretionary management and trustee services, announced its intention to merge with Handelsfinanz-CCF Bank and Crédit Commercial de France (Suisse) SA. This will further strengthen HSBC Guyerzeller's presence in Switzerland and lead to greater operational efficiency.

Service Centres

Last year, I explained the importance of global processing to our strategic aim of pursuing economies of scale in order to improve service, increase productivity and achieve a competitive, economic advantage. Since their introduction in 1996, these processing centres have taken on progressively, on a cross-border basis, more of the back office functions previously conducted by our principal Group members across the world, including the UK, the Hong Kong SAR and, since last year, the United States and Canada. They now undertake a wide range of routine activities for a growing number of business areas, including cards, mortgage processing and investment products, in addition to retail banking.

We doubled our processing capacity in 2001 with some 2,300 people now employed in our three Group Service Centres — one in Guangzhou, China and two in Hyderabad, India. The second Hyderabad centre, which opened in July, already employs 600 people and will ultimately provide work for 1,700. Further centres will open in Shanghai and Bangalore in 2002, again doubling our capacity and creating a further 2,700 jobs in China and India.

The Brand

The establishment in 1999 of HSBC as a uniform, international brand name ensured that our corporate symbol has become an increasingly familiar sight across the world. This year, we will launch a programme to differentiate our brand from those of our competitors by describing the unique

Markham, Canada

12.05 a.m.





Employees leave the last shift at midnight at HSBC's eastern call centre in Markham, Ontario, just north of Toronto. The call centre offers a cross-border service by telephone in Cantonese and Mandarin to HSBC Bank USA's customers, answering their enquiries and performing transactions. The call centre also provides a similar service to HSBC Bank Canada's customers in English and French, as well as in Cantonese and Mandarin. In addition, when the centre closes for the day, HSBC Bank Canada's customer calls are redirected to the HSBC call centre in Burnaby, British Columbia, which serves customers 24 hours a day, seven days a week.

characteristics which distinguish HSBC. The new proposition, summarised by the words 'The world's local bank', will be formally unveiled in a global campaign in March 2002.

Research indicates that this reinforces our core values. The campaign will describe how the Group's global capability is driven by local knowledge, emphasising HSBC's belief that the world is a rich and diverse place, with due respect to be accorded to its people and cultures. We will point out that we are an integral part of local culture across the world, having built our business with local expertise from which our customers, our employees and our shareholders can benefit.

Our 'Starring You' project started in New York's Times Square in January 2002, enabling visitors to see themselves in an HSBC commercial vignette on a 64-foot-high screen. This initiative joins other innovative marketing projects, such as the branding of jetties at London's major airports, in helping to build recognition of HSBC across the world.

Economic Profit

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

Given recent changes in interest rates and economic conditions, we believe that HSBC's true cost of capital is around 10.5 per cent. We will, however, continue to calculate economic profit at our benchmark rate of 12.5 per cent in order for us to compare and to be consistent with previous years. On this basis, our economic profit decreased by US$1,924 million, or 113 per cent, to an economic loss of US$218 million in 2001, of which US$323 million reflected the settlement of the Princeton Note Matter and US$1,120 million the exceptional provisioning on Argentine risk. Our economic profit on our core businesses declined on a like for like basis by only 28 per cent in 2001.

Maintaining our tier 1 capital position in excess of our long-term benchmark of 8 per cent in a low interest rate environment reduced economic profit for 2001 by US$375 million, but we consider our capital position to be a strategic advantage at this stage of the economic cycle.

Strategic Outlook

We look to the future with a good deal of optimism. Despite continuing challenging conditions in many of our markets, HSBC is better placed than most of its competitors to cope with these difficult times.

Our task now is to build upon the progress we have made during the last 12 months in implementing our strategic plan. Whilst our traditional cost discipline will remain of vital importance, we shall continue to develop all our lines of business and to invest in new delivery systems. We see an ever-increasing number of our customers willing to use e-channels to conduct their transactions with us, so we will continue to enhance our e-capabilities, our call centres and our customer relationship management systems.

We shall also work to enhance our position in the commercial banking market and to build on our growing strengths in personal financial services. Our reorganisation around customer segments will be reinforced and we shall continue to develop the HSBC brand as a uniformly desirable customer experience around the world.

Through our ongoing investment in technology and training, we will continue to equip our committed and dedicated workforce and talented management team with the tools and skills they need to continue our record of success. I have no doubt that we shall make further progress in 2002.



Keith Whitson, *Group Chief Executive*