2003 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 9,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

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

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

Contents

Illustrative Theme

'The world's local bank'

HSBC is both a worldwide and a local organisation. It operates by the same principles and values everywhere. It has one of the most extensive international networks of any bank. It deploys its resources globally and undertakes work for many countries in many others. It identifies the best products and services in one market and exports them to other markets. It transfers knowledge and expertise through the mobility of its people. At the same time, it recognises the rich diversity of the world and the importance of local knowledge and local customs when it comes to doing business. It takes pride in offering local services, with a personal touch, and in supporting the many communities it serves. This combination of local and global strengths has helped HSBC and its hexagon symbol to become one of the world's most recognised brands in recent years.

Taken in different countries and featuring HSBC's different customer groups, the pictures in this *Annual Review* illustrate what it means in practice to be 'the world's local bank'.

Cover picture:

Illustrating HSBC's entry into the consumer finance market, this average American couple are in front of their new dream home in Chicago — built in the typically Midwestern style — on which they have a mortgage from a subsidiary of Household International, Inc. Household, which joined the HSBC Group in 2003, provides credit to over 60 million customers to help them meet their everyday needs.

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2003.* It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full *Annual Report and Accounts.* The 'Directors' Remuneration Report' in this Summary Financial Statement is the complete Report contained in the *Annual Report and Accounts.* The *Annual Report and Accounts 2003* also contains a description of the significant differences between corporate governance standards applicable to US companies listed on the New York Stock Exchange and the corporate governance practices followed by HSBC Holdings plc. The description is available at www.hsbc.com by selecting 'Investor Centre', then 'Differences in UK/New York Stock Exchange corporate governance practices'.

Members and holders of American Depositary Shares may obtain, free of charge, a copy of the *Annual Report and Accounts 2003* 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, 109 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Computershare Hong Kong Investor Services Limited, 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 2003* may be viewed on our web site: www.hsbc.com.

Annual Review 2003

Financial Highlights

2002[4]	Year ended 31 December	**2003**	*2003*	*2003*
US$m	For the year	**US$m**	*£m*	*HK$m*
	Excluding goodwill amortisation			
10,513	Profit before tax	**14,401**	*8,813*	*112,141*
7,102	Profit attributable	**10,359**	*6,340*	*80,666*
	After goodwill amortisation — reported earnings			
9,650	Profit before tax	**12,816**	*7,843*	*99,799*
6,239	Profit attributable	**8,774**	*5,370*	*68,325*
5,001	Dividends	**6,532**	*3,998*	*50,865*
	At year-end			
51,765	Shareholders' funds	**74,473**	*41,705*	*578,134*
57,430	Capital resources	**74,042**	*41,464*	*574,788*
548,371	Customer accounts and deposits by banks	**643,556**	*360,391*	*4,995,925*
758,605	Total assets	**1,034,216**	*576,161*	*8,028,618*
430,551	Risk-weighted assets	**618,662**	*346,451*	*4,802,673*
US$	**Per share**	**US$**	*£*	*HK$*
0.76	Earnings excluding goodwill amortisation	**0.99**	*0.61*	*7.71*
0.67	Basic earnings	**0.84**	*0.51*	*6.54*
0.66	Diluted earnings	**0.83**	*0.51*	*6.46*
	Dividends			
0.205	— first interim	**0.24**	*0.15*	*1.86*
0.325	— second interim	**0.12**	*0.06*	*0.93*
—	— third interim[1]	**0.24**	*0.13*	*1.86*
5.46	Net asset value	**6.79**	*3.80*	*52.71*
	Share information			
9,481m	US$0.50 ordinary shares in issue	**10,960m**		
US$105b	Market capitalisation	**US$172b**		
£6.87	Closing market price per share	**£8.78**		
	Total shareholder return against peer index[2]	**HSBC**	**Benchmark**	
	— over 1 year	**136**	**132**	
	— since 1 January 1999	**211**	**126**	
%	**Ratios**	**%**		
12.4	Return on average shareholders' funds	**13.0**		
0.97	Post-tax return on average assets	**1.01**		
1.74	Post-tax return on average risk-weighted assets	**1.78**		
	Ratios — excluding goodwill amortisation			
20.1	Return on net tangible equity[3]	**24.7**		
1.11	Post-tax return on average tangible assets	**1.21**		
1.95	Post-tax return on average risk-weighted assets	**2.07**		
	Capital ratios			
9.0	— tier 1 capital	**8.9**		
13.3	— total capital	**12.0**		
56.2	**Cost:income ratio** (excluding goodwill amortisation)	**51.3**		

1 *The third interim dividend of US$0.24 per share is translated at the closing rate on 31 December 2003. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 26 April 2004.*

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

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

4 *The figures for shareholders' funds and total assets for 2002 have been restated to reflect the adoption of Urgent Issues Task Force Abstracts 37 'Purchases and sales of own shares', and 38 'Accounting for ESOP trusts' details of which are set out in Note 1 in the 'Notes on the Summary Financial Statement' on page 61.*

Overview of Results

Geographical Distribution of Results

Figures in US$m	**Year ended 31 December 2003**		Year ended 31 December 2002	
Profit/(loss) before tax — excluding goodwill amortisation		**%**		%
Europe	**4,862**	**33.7**	4,160	39.5
Hong Kong	**3,730**	**25.9**	3,710	35.3
Rest of Asia-Pacific	**1,426**	**9.9**	1,293	12.3
North America	**4,257**	**29.6**	1,384	13.2
South America	**126**	**0.9**	(34)	(0.3)
	14,401	**100.0**	10,513	100.0
Goodwill amortisation	**(1,585)**		(863)	
Group profit before tax	**12,816**		9,650	
Tax on profit on ordinary activities	**(3,120)**		(2,534)	
Profit on ordinary activities after tax	**9,696**		7,116	
Minority interests	**(922)**		(877)	
Profit attributable	**8,774**		6,239	
Profit attributable — excluding goodwill amortisation	**10,359**		7,102	

Distribution of Results by Customer Group

Figures in US$m	**Year ended 31 December 2003**		Year ended 31 December 2002[1]	
Profit/(loss) before tax — excluding goodwill amortisation		**%**		%
Personal Financial Services	**4,008**	**27.8**	3,391	32.3
Consumer Finance[2]	**2,225**	**15.5**	—	—
Total Personal Financial Services	**6,233**	**43.3**	3,391	32.3
Commercial Banking	**3,158**	**21.9**	3,014	28.7
Corporate, Investment Banking and Markets	**4,443**	**30.9**	3,896	37.1
Private Banking	**563**	**3.9**	413	3.8
Other	**4**	**—**	(201)	(1.9)
Group profit before tax — excluding goodwill amortisation	**14,401**	**100.0**	10,513	100.0
Goodwill amortisation	**(1,585)**		(863)	
Group profit before tax	**12,816**		9,650	

1 *In 2003, North America implemented a revised transfer pricing system to transfer interest rate risk from the business units to Corporate, Investment Banking and Markets. The figures for 2002 have been restated to reflect the impact of transfer pricing had it been in place on a similar basis.*

2 *Comprises Household since the date of acquisition.*

Five-Year Comparison

	2003	2002	2001	2000	1999
	US$m	US$m	US$m	US$m	US$m
At year-end					
Share capital	**5,481**	4,741	4,678	4,634	4,230
Shareholders' funds[4]	**74,473**	51,765	45,688	45,631	34,402[6]
Capital resources	**74,042**	57,430	50,854	50,964	44,270
Customer accounts	**573,130**	495,438	449,991	427,069	359,972
Undated subordinated loan capital	**3,617**	3,540	3,479	3,546	3,235
Dated subordinated loan capital	**17,580**	14,831	12,001	12,676	12,188
Loans and advances to customers[1]	**528,977**	352,344	308,649	289,837	253,567
Total assets[4]	**1,034,216**	758,605	695,545	673,503	569,908[6]
For the year					
Net interest income	**25,598**	15,460	14,725	13,723	11,990
Other operating income	**15,474**	11,135	11,163	10,850	9,012
Operating profit before provisions	**18,540**	10,787	10,484	10,486	9,653
Provisions for bad and doubtful debts	**(6,093)**	(1,321)	(2,037)	(932)	(2,073)
Pre-tax profits	**12,816**	9,650	8,000	9,775	7,982
Profit attributable to shareholders	**8,774**	6,239	4,992	6,457	5,408
Dividends	**(6,532)**	(5,001)	(4,467)	(4,010)	(2,872)
	US$	US$	US$	US$	US$
Per ordinary share[2]					
Earnings excluding goodwill amortisation	**0.99**	0.76	0.63	0.80	0.66
Basic earnings	**0.84**	0.67	0.54	0.74	0.65
Diluted earnings	**0.83**	0.66	0.53	0.73	0.65
Dividends	**0.60**	0.53	0.48	0.435	0.34
Net asset value[4]	**6.79**	5.46	4.88	4.92	3.95
Share information[2]					
US$0.50 ordinary shares in issue	**10,960m**	9,481m	9,355m	9,268m	8,458m
	%	%	%	%	%
Financial ratios					
Dividend payout ratio[3]	**60.6**	69.7	76.2	54.4	51.5
Post-tax return on average total assets[4]	**1.01**	0.97	0.86	1.31	1.20
Return on average shareholders' funds[4]	**13.0**	12.4	10.6	15.8	17.5
Average shareholders' funds to average total assets[4]	**7.06**	6.91	6.87	6.64	6.24
Capital ratios					
Tier 1 capital	**8.9**	9.0	9.0	9.0	8.5
Total capital	**12.0**	13.3	13.0	13.3	13.2
Amounts in accordance with US GAAP[5]					
	US$m	US$m	US$m	US$m	US$m
Income statement for the year					
Net income available for ordinary shareholders	**7,231**	4,900	4,911	6,236	4,889
Other comprehensive income	**7,401**	5,502	(1,439)	(511)	(776)
Dividends	**(6,974)**	(4,632)	(4,394)	(3,137)	(2,617)
Balance sheet at 31 December					
Total assets	**1,012,023**	763,565	698,312	680,076	574,588
Shareholders' funds	**80,251**	55,831	48,444	48,072	35,930
	US$m	US$m	US$m	US$m	US$m
Per ordinary share					
Basic earnings	**0.69**	0.52	0.53	0.71	0.59
Diluted earnings	**0.69**	0.52	0.53	0.70	0.58
Dividends	**0.685**	0.495	0.48	0.34	0.31
Net asset value at period end	**7.32**	5.89	5.18	5.19	4.25

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 earnings per share excluding goodwill amortisation.*

4 *The figures for shareholders' funds and total assets for 2002, 2001 and 2000 have been restated to reflect the adoption of Urgent Issues Task Force Abstracts 37 'Purchases and sales of own shares' and 38 'Accounting for ESOP trusts'. The 1999 comparatives have not been restated as any adjustment would not significantly alter the figures. Therefore, any benefit to be obtained from restatement would be outweighed by the cost of the exercise.*

5 *Full details of the reconciliation to US GAAP are set out in the* Annual Report and Accounts 2003.

6 *Apart from shareholders' funds and total assets at the 1999 year-end, the 1999 comparatives have not been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred tax' in 2002 as any adjustment made would not significantly alter the figures. Therefore, any benefit to be obtained from restatement would be outweighed by the cost of the exercise.*

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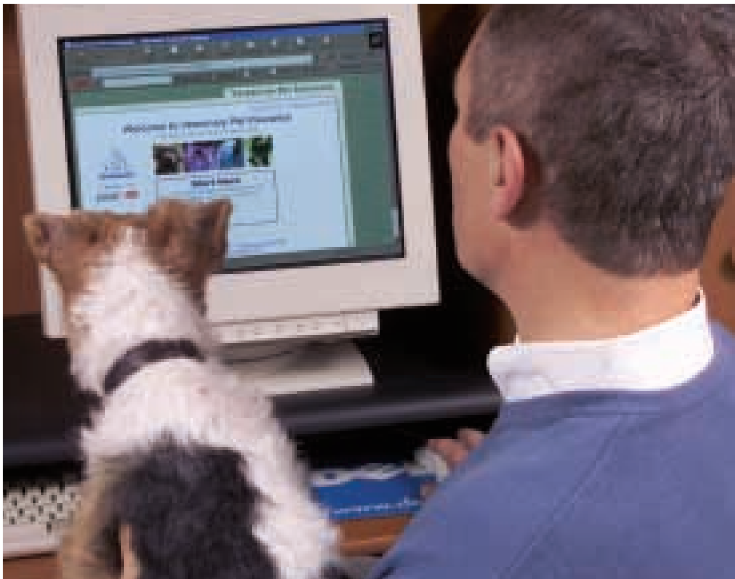

The objective of **Personal Financial Services** is to make HSBC the strongest international player in this customer group.

Above: In 2003, HSBC *Premier* International Services were launched in eight countries, providing HSBC's internationally mobile personal customers with seamless account opening and credit history transfer across borders. This *Premier* customer of HSBC in Hong Kong is getting used to his daily commute from the Saint Michel métro in the historic and cosmopolitan Latin Quarter of Paris to his office near Avenue des Champs Elysées. He has just been relocated by his multinational company for a three-year assignment in France and is now also a CCF customer. CCF offers *Premier* International Services at 20 offices, with three in Paris and the others in major cities throughout France.

Right (top): Changing demographics have brought about a sharper focus on retirement businesses. Senior citizens with Hang Seng Bank's top-end Prestige Banking are offered not only a dedicated customer relationship manager to advise on personal financial services to preserve and grow their assets to ensure a comfortable retirement, but they can also take advantage of various 'Leisure Class' activities to broaden their horizons and live a fuller life. One of these activities is a Chinese medicine knowledge seminar taught by the University of Hong Kong's School of Chinese Medicine. Underlining the popularity of traditional herbal medicine, the course provides a basic grounding on how to maintain good health in old age and the importance of diet in ensuring longevity.

Right (bottom): HSBC's reputation for customer service extends to its customers' pets as well. This owner of a wire-haired fox terrier, who lives in Buffalo, New York, is buying online the number 1 health insurance plan for pets introduced to HSBC Bank USA customers in 2003 and underwritten by Veterinary Pet Insurance. HSBC is one of the few US banks to offer this novel plan, which covers over 6,400 medical conditions and injuries, and ensures that owners can afford the best care for their dogs, cats, birds and other pets.

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Group Chairman's Statement

Overall, 2003 was a good year for HSBC. Our record results show the diversity of our business against a backdrop of improvement in most of the world's major economies. They reflect the trust which more than 110 million customers we serve around the world place in us for their various financial needs. Our performance also benefited from a strong contribution from recent acquisitions, an expanded geographical reach and our continuing investment in new products and services, in systems, and in our people. The dedication and talents of my colleagues throughout HSBC are amongst our greatest strengths.

Profit attributable to shareholders excluding the amortisation of goodwill, which is the measurement we believe best reveals our true performance, exceeded US$10 billion for the first time.

On a per share basis, earnings attributable to shareholders amounted to US$0.99 before goodwill amortisation, an increase of 30 per cent. The Board has approved a third interim dividend of US$0.24, taking the total dividend for the year to US$0.60, an increase of 13 per cent over 2002.

2003 saw the completion of our five-year strategy, 'Managing for Value'. When we announced the strategy, we wrote in HSBC's *Annual Report* for 1998 that we had the governing objective of beating the total shareholder return (TSR) — defined as the increase in share price with dividends reinvested — of a peer group of financial institutions. We also announced the objective of doubling TSR in the five-year period.

We achieved both our objectives, significantly outperforming the benchmark peer group. In the process, we became the tenth-largest corporation in the world.

If, at the beginning of our strategic plan you had bought HSBC shares, every £100 invested would have grown to £211 by the end of the five-year period. By comparison, £100 invested in the peer group would be worth £126. HSBC shares also outperformed the FTSE 100 (£87), the Hang Seng Index (£133) and the S&P500 (£90).

Strategy

We have now begun our new five-year strategic plan which we call 'Managing for Growth'. A consistent theme in all our strategic thinking at HSBC is the need to identify, and to participate in, the economies which we believe have the best potential. We then look for the most valuable customers in those economies.

HSBC's 25-year world view is that the areas with the highest propensity for growth are an America-led NAFTA; China, India and their diasporas; and the Hispanic communities in the Americas. We are shaping our business accordingly and, during 2003, we were particularly pleased to develop further our business in the People's Republic of China, which we see as a vital economy both to HSBC and to the world at large.

Two of our principal strategic tasks during 2003 were integrating Household International and HSBC Mexico (formerly GFBital) successfully into HSBC after they joined our Group in early 2003 and late 2002, respectively. In both cases, the progress has exceeded our expectations. We have achieved synergies and overall results ahead of our original business cases. Highlights of the integration of both companies are included in Stephen Green's review on pages 11 to 22.

In February, HSBC completed the acquisition of the Bank of Bermuda, valued at US$1.3 billion. This provides HSBC with a strong position in the local banking market in Bermuda. And it significantly enhances the scale and geographical spread of the Group's existing international fund administration, private banking, trustee, and payments and cash management businesses.

Our 2003 results and, indeed, the achievement of our TSR targets, owe much to the improved geographical distribution of profits that has characterised HSBC's progress in recent years. Our diversification has been all the more important given that, for almost all the life of 'Managing for Value', the Hong Kong SAR was undergoing deflation. For much of our history, Hong Kong was our single

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Mortgages tailored to meet specific local needs in various parts of the world were a successful business for HSBC in 2003.

Left (top): Illustrating the synergies to be tapped by the Group's international network, HSBC Bank Canada and HSBC Bank USA joined forces in 2003 to offer an easier way for Canadian and American customers with business or leisure interests to finance cross-border property purchases. The family photo on the left shows a Canadian couple admiring the view from the balcony of their Florida beach home. The couple enjoy skiing every winter, so they took out a second mortgage on a chalet-style holiday home in Whistler, British Columbia, as the photo on the right shows.

Left (bottom): First Direct, the UK's 'most recommended bank', offers an offset mortgage that allows customers to link their day-to-day savings and current account balances to their mortgage to reduce the interest they owe. This means they could save thousands of pounds and pay off their mortgage earlier. The proprietor of Dunvalanree Hotel on the scenic Mull of Kintyre in south-west Scotland has used the flexibility of his offset mortgage to increase his borrowing in order to purchase a second property for family use and as an investment.

Below: A Muslim couple inspect a new house in Harrow, Middlesex, they have just purchased with a home finance product compliant with *shariah* (Islamic law). In July, HSBC became the first UK bank to introduce Islamic banking services, such as Amanah home finance and an Amanah bank account, which attracted much interest among Britain's 1.8 million Muslims. First developed in the United States by HSBC Amanah Finance, the Group's global Islamic financial services division, the product fills a gap in the provision of financial services for the Muslim community.

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Group Chairman's Statement (continued)

largest market and, as recently as 1998, accounted for 37 per cent of pre-tax profits. In 2003, Hong Kong's share of pre-tax profits was 26 per cent. That said, the resilience and flexibility of our business there has been impressive and our team has managed our business through this difficult period with extraordinary skill, achieving a profit growth which, although modest, is remarkable in the circumstances. Happily, the economic outlook for Hong Kong is now improving. Hong Kong enjoys a unique position in the Asia-Pacific region. Our confidence in its long-term prospects remain undiminished and our new strategic plan specifically calls for continued investment in Hong Kong.

You can read about other components of our strategy in Stephen's review.

Colleagues

We live in a world where there is more change and, perhaps, more awareness of economic imbalances than at any recent time in my career. Our experience also shows that some risks have human costs as well as financial ones. Nowhere was this more tragically demonstrated than in Istanbul, Turkey when, in November, HSBC's headquarters were bombed. Three members of HSBC staff died and 43 were injured. I know I speak on behalf of everyone at HSBC in offering my deepest sympathies to the families of those who lost their lives and those who were injured. Our thoughts remain with them.

In the immediate aftermath, HSBC launched a US$1 million staff welfare fund to help the families of staff who were bereaved. We also established a community relief scheme to help local businesses which were devastated by the bomb blasts. I commend my colleagues in Istanbul for their extraordinary courage and dedication in quickly resuming service for our customers.

Indeed, everywhere I go I am impressed by my colleagues' dedication and talent. Let me give you a happier example. In Hong Kong, HSBC won the Customer Service Grand Award organised by the Hong Kong Retail Management Association, open to all service sector companies, not just banks. And one of many examples of outstanding service cited was that of Ella Young of our Exchange Square branch. Ella helped one of our customers undergo a successful liver transplant by visiting the hospital in person, out of office hours, to collect an authorisation to release documents needed by the hospital and held in our branch's safe deposit box. With colleagues like this, our customers are in good hands.

Reputation and Responsibility

So too is our reputation, which ultimately derives from the way we behave. Over the long term, you cannot sustain a brand based on trust and integrity without living those values. HSBC's approach to corporate social responsibility, including philanthropy, is therefore an important part of our thinking.

We continue to place a high priority on being a responsible participant in the societies in which we operate, but we always remember that we are managing our shareholders' hard-earned savings and that we have a duty to provide a reasonable long-term return for them.

We also have a responsibility to give our customers fair, honest and transparent products and excellent service. And we recognise that this is only possible with the right people serving our customers.

Our new strategy explicitly focuses on attracting, developing and motivating employees by rewarding their success. I am pleased that, during 2003, over 56,000 employees from more than 50 countries and territories applied for savings-related share options, with the greatest interest shown in the UK, the United States and Hong Kong. Performance-related share options were awarded to over 41,000 employees worldwide at all levels of the organisation. We estimate that, at year-end 2003, our employees had an interest in HSBC shares through employee share plans equivalent to about 4.5 per cent of the Group's issued share capital.

We also have further responsibilities to the wider society, which we acknowledge and take seriously. In June, we published HSBC's policy on environmental risk, which is available at hsbc.com.

In September, we adopted the 'Equator Principles' to help the Group assess the environmental and social impact of commercial lending proposals. The Equator Principles are a set of voluntary guidelines developed by major international banks that establish a common framework to address the environmental and social issues that arise in financing projects and ensure that they are realised according to sound environmental management practices.

In November, we announced the appointment of Francis Sullivan, previously Director of Conservation at WWF-UK, as Adviser on the Environment. Francis has joined HSBC on secondment. In his new role, he provides practical advice and technical expertise across the whole range of HSBC's direct and indirect impacts on the environment.

Group Chairman's Statement (continued)

Dame Mary Richardson continued to lead the HSBC Education Trust with distinction. We continued our programmes of support for education around the world, focusing on helping those who are disadvantaged. You can read more about the work we do in education and the environment in our publication *HSBC in Society: Corporate Social Responsibility Report 2003*, which accompanies this *Annual Review*.

As this work is so important to us, we have established a Corporate Social Responsibility Board committee, chaired by Lord Butler, which held its first meeting in February 2004. The Committee is responsible for overseeing HSBC's corporate social responsibility and sustainability policies — principally environmental, social and ethical matters — and for advising the Board and executive management on such matters. The other members of the Committee are William Fung, Sharon Hintze, Carole Taylor, all of whom are independent non-executive Directors, and co-opted members Baroness Brigstocke, Gerry Davis and Lord May.

Your Board

The composition and performance of boards is receiving considerable attention, and rightly so. HSBC attaches the greatest importance to maintaining the highest standards of corporate governance, and to complying with the letter, and the spirit, of regulations and codes around the world.

Your Board comprises eight executive Directors and 14 non-executive Directors. It is one of the most international boards in the world. And, in my view, the blend of knowledge and experience that our Directors bring to HSBC puts it among the best boards, anywhere.

In 2003, we commissioned MWM Consulting to undertake an independent performance evaluation of the Board and its committees. This evaluation covered board structure, dynamics, capabilities and processes; corporate governance; strategic clarity and alignment; and the performance of individual directors. Each Director and certain senior managers were interviewed individually by the consultants as part of this process and the assessment report has been reviewed by the Board. The rigour of this process and MWM Consulting's conclusions have given us an independent and robust quality assurance of the Board and of our corporate governance practices and procedures.

Your Directors bring experience of different geographies, different industries and different aspects of commerce, which is very important to a financial services institution with clients in almost every area of business. Collectively, they have worked in 33 countries.

Board members meet investors at least once a year and they also talk to our customers and our colleagues, most recently during a Board visit to Mexico. Your management is very grateful for their advice and support.

As I wrote last year, Keith Whitson retired as Group Chief Executive after 42 years' service; Stephen Green succeeded him. Following the acquisition of Household, Bill Aldinger was appointed to the Board on 25 April.

Lord Marshall will retire as a non-executive Director at this year's Annual General Meeting. I thank him for the valuable service and wise counsel he has given to HSBC and, previously, to Midland Bank.

Bill Dalton will also retire at the Annual General Meeting after 24 years of outstanding service to HSBC. As a leader, Bill has been an inspiration to colleagues in the banks he has run on both sides of the Atlantic.

Charles de Croisset retired from HSBC in February. Under his stewardship, CCF became one of the most respected banks in France. And it was his vision that brought CCF successfully into HSBC to the benefit of both organisations. We shall miss them all.

With effect from 1 March 2004, Michael Geoghegan has been appointed an executive Director and Rona Fairhead an independent non-executive Director.

Outlook

Turning to 2004, we have already seen growth in consumer spending and borrowing; in increased merger and acquisition activity; and a modest resumption of growth in demand for equity investment products. We see improving prospects for economic growth and private sector employment, particularly in the United States and in Hong Kong.

In emerging markets, such as Brazil, Mexico and the ASEAN countries, relatively stable currencies and historically low interest rates are promoting consumer activity, fuelling domestic growth and reducing export dependence.

However, we remain very conscious of the changing nature of the global economy and the speed

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HSBC will continue to enhance its profitable **cards** business, which is co-ordinated globally but marketed locally.

Left: A shopper makes a purchase with her HSBC Advantage credit card in an upmarket department store in Istanbul. HSBC Bank A.S.'s Advantage card business — the fifth largest in Turkey — involves 512 branded merchants operating 7,200 stores and has 1.4 million cardholders. This 'lifestyle' card can be used in outlets selling such items as clothes, accessories, home appliances, electronics, furniture and food from some the world's most recognised brands. HSBC supports its member merchant stores by supplying Advantage point of purchase signs, which are displayed prominently to encourage usage of the card.

Below: HSBC México, S.A.'s extensive ATM network serves local communities throughout the country. Customers have access to over 4,500 ATMs, day and night, including this one in the small rural town of Tepozotlán, Estado de México, 25 miles north of the capital. Rural ATMs provide the same wide range of services as those in big cities: cash withdrawal, balance enquiry, payment of telephone bills, purchase of mobile phone time — and even personal accident insurance and making donations to a favourite charity. All the GFBital ATMs — comprising a 34 per cent market share of Mexico's ATM network — have, since January 2004, been rebranded HSBC.

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Group Chairman's Statement (continued)

of change. China plays an increasingly important role, not just through its export growth, but also as the fastest growing market for commodity-producing countries, as well as for the developed countries which are supplying the technology, equipment and services to support its economic expansion.

Nor do we underestimate the impact on sentiment and consumer spending of globally strong property prices, which continue to rise faster than underlying wage growth in many developed markets. While such rises are understandable in the context of low interest rates and limited appetite for alternative investment opportunities, in the long run property prices have to be linked to income growth.

The picture, therefore, is one of improving sentiment and stronger growth prospects in the near term, but with the potential risk that structural imbalances might lead to economic weakness, or dislocation.

Against this backdrop, we are concentrating on building our businesses steadily. We expect to see lending to consumers around the world rise as a proportion of our total lending, with the emphasis on real estate secured lending.

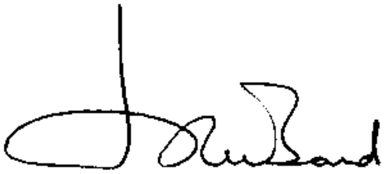
We also expect to see business in the United States grow in importance to HSBC as we fulfil the potential of the Household acquisition and as the US economy shows its flexibility and responds to the lower value of its currency.

We look forward to the future with confidence. We are second to none in terms of geographical and product diversification. We believe that Mexico, India, Brazil as well as China will become increasingly important to the global economy. We also believe many of the world's largest companies see the same opportunities as we do, and therefore we will use HSBC's position as 'the world's local bank' to serve their needs.

We have built a capital strength that allows us to develop our businesses wherever we see opportunities. Alternatively, such strength gives us resilience if economic conditions deteriorate.

We have an excellent customer base with opportunities across the board: in Personal Financial Services, in Commercial Banking where we have the largest international middle-market franchise in the world; and in Corporate, Investment Banking and Markets. We have a talented workforce and we have a commitment to do business only when it is in the interests of our customers and in line with our wider responsibilities to the communities we serve.

In so doing, we protect and strengthen the value of the HSBC brand and this lies at the heart of our ability to create value for our shareholders who have entrusted to us, directly or indirectly, an important element of their long-term savings and pensions provisions.



Sir John Bond, *Group Chairman*

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

Managing for Value

2003 was the final year of 'Managing for Value', the strategic plan that provided us with a blueprint for HSBC's progress during the last five years. 'Managing for Value' was a road map for marshalling our resources in the best interests of customers, shareholders, staff and our other stakeholders. When we embarked on the plan, HSBC had a market capitalisation of nearly US$70 billion. It had assets of US$483 billion, US$27.4 billion of shareholders' funds, 25 million customers and 136,000 employees. By the time the plan had run its course at the end of December last year, HSBC had a market capitalisation of US$172 billion, assets of US$1,034 billion and shareholders' funds of US$74.5 billion. We had over 110 million customers and some 223,000 employees. The company's progress under 'Managing for Value' was therefore very significant.

We also made good progress against all the strategic imperatives we set for ourselves in 'Managing for Value'. These included the alignment and subsequent integration of our Corporate and Investment Banking businesses; delivering personal financial services to selected markets, and introducing a risk-adjusted cost of capital methodology, known as economic profit, to enable us to determine where best to allocate our resources. Perhaps the most conspicuous success, however, was the creation of HSBC and its hexagon symbol as a globally recognised consumer brand.

Undoubtedly, 'Managing for Value' was a success. However, HSBC is a restless organisation and never satisfied. We seek constant improvement and new opportunities and we have launched a new strategic plan for 2004 to 2008 to build on the achievements of the last plan. I describe the new plan later in my report.

During 2003, we made further progress in all our lines of business, or customer groups as we now call them, to reflect our relentless focus on customer service. The acquisition of Household International, Inc. in March highlighted the importance within Personal Financial Services of a distinctive customer group, Consumer Finance, to augment HSBC's existing activities in Personal Financial Services.

Personal Financial Services

Personal Financial Services provides some 39 million individual and self-employed customers with a wide range of banking and related financial services. In 2003, the business made a pre-tax profit, before goodwill amortisation, of US$4.0 billion, an increase of 18 per cent compared with US$3.4 billion in 2002.

Our worldwide network continued to grow and, at the year-end, we had over 6,600 branches, 15,500 self-service terminals and more than 100,000 staff serving our personal customers. They are supported by increasingly advanced customer relationship management systems.

We benefited from the integration of new businesses, notably Mexico's Grupo Financiero Bital, S.A. de C.V., whose principal subsidiary became HSBC México, S.A. in January 2004. We have bedded down the new management structure, blending local and international expertise. We are strengthening operational credit technology and audit controls to bring them to HSBC standards. In its first full year with HSBC, GFBital's Personal Financial Services business contributed US$350 million in pre-tax profit before goodwill amortisation. This result exceeded our financial targets. We achieved 18 per cent deposit growth, more than 20 per cent growth in consumer lending, and double-digit growth in fees and commissions. Non-performing loans declined by 61 per cent as we cleansed the loan portfolio. We achieved a cash return on cash invested of 20 per cent. Our platform for further growth in Mexico is firmly in place.

HSBC *Premier*, the globally uniform service for our most valuable customers, increased customer numbers worldwide from 632,000 in 2002 to 880,000. The addition of Greece and Malta brought the total number of HSBC *Premier* countries and territories to 31, with more than 250 *Premier* centres. We also

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

introduced HSBC *Premier* International Services, offering credit history transfer across borders and seamless account opening in Canada, France, Hong Kong, India, Jersey, the United Arab Emirates, the United Kingdom and the United States.

Our investments in customer relationship management systems, used by our staff to identify the best products and services for our customers, brought further benefits. In the UK, we generated a significantly higher number of customer solutions, resulting in over nine million customer contacts and the sale of 2.6 million products and services — a conversion rate of 28 per cent. The scale of HSBC's international operations enables us to extend innovations from one market to another. For instance, the customer relationship management system developed by HSBC Bank plc in the UK was introduced into HSBC Bank USA in 2003.

Other examples of transfer of expertise can be found in our Amanah Finance business, which provides *shariah*-compliant products for Muslim communities. In 2003, HSBC Bank plc became the first UK bank to offer an Islamic home finance package to its customers, following the product's successful development by Amanah Finance in the United States. *Shariah*-compliant current accounts developed in the United States were also introduced into the UK, Malaysia and Saudi Arabia. In the United Arab Emirates, our Islamic product range includes vehicle finance and investment funds and, in Singapore, we launched Islamic insurance.

Mainland China's decision to open its personal financial services market to Hong Kong-based banks wishing to offer renminbi-denominated services means that HSBC will be among the first to do so in 2004. In co-operation with the Bank of Shanghai, HSBC became the first foreign bank to launch a US dollar credit card, enabling Chinese customers to make purchases worldwide and make payments in renminbi through a Bank of Shanghai account.

Residential mortgages increased by US$22.3 billion, of which US$7 billion arose in Household after the acquisition. Growth was particularly strong in the UK where our products are known for being transparent and competitively priced. In the United States, lower interest rates attracted refinancing business.

New credit card products launched during the year included CCF's Visa Infinite card targeted at high net worth customers. 'Chip and pin' cards, which improve security for customers and reduce the risk of fraud, will be introduced in the UK in 2004.

Online services continued to grow in popularity. Internet banking was launched in seven more countries and territories, bringing the total to 35, and the number of customers registered for HSBC's e-banking services grew by over 200 per cent to more than 13.5 million. More than 325 million customer log-ons were recorded during the year.

Internet bill payment facilities now account for 50 per cent of all bill payments in Hong Kong where 83 per cent of money transfers from bank accounts were made through remote channels. In the UK, over two million customers are registered for HSBC internet banking and more than half of First Direct's million-plus customers use the internet for their day-to-day transactions. For those looking to invest in equity markets, HSBC InvestDirect's online discount brokerage service has been established for personal customers in Canada and the UK while, in Hong Kong, online transactions now account for 74 per cent of HSBC's stock trades.

Premiums transacted by HSBC's insurance and retirement business reached almost US$12 billion in 2003, an increase of about 25 per cent. In the light of demographic changes in developed economies, and the increasing emphasis on private, as opposed to state, provision of services, we are focusing more on retirement benefits such as pension plans, annuities, estate planning and life insurance. Key developments during the year included our acquisition of Singapore's Keppel Group, which brought with it life, property and casualty underwriting expertise and Islamic insurance. We also acquired the 49 per cent of the GFBital insurance subsidiaries in Mexico that we did not already own and bought a Mexican pension administrator which has more than a million pension account holders.

The substantial investment we have made in our Personal Financial Services business model was recognised by the number of industry best practice awards we won. *Professional Advisor* magazine ranked HSBC Private Clients the number one UK independent financial adviser.

Among our other 2003 awards, *Euromoney* rated us 'Best bank in the Middle East' and our UK mortgage service was named 'Lender of the year' by *Mortgage* magazine. Our internet services received several awards from *Global Finance*, including 'Best consumer web site design' for our global web site and

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In 2003, **Consumer Finance** became a new, key customer group for HSBC, which allows it to extend its business with existing customers and to penetrate new markets such as Mexico and Brazil.

Above: A car sales executive at a dealership in Cuautitlán, Estado de México, shows one of his latest models to an HSBC México customer who is taking out a car loan for its purchase. The bank has formed alliances with car dealerships offering popular models from such manufacturers as Nissan, Honda and Volkswagen. Car loans have become a very successful product, with HSBC now registering a 12.3 per cent share of the total vehicle loans market in Mexico.

Right: The acquisition of Brazil's leading consumer credit institution, Losango Promotora de Vendas Ltda, is a strategic fit with Household. It allows HSBC to deploy for the first time, internationally, skills and techniques from the successful Household business model. This Losango customer, who is buying a television in a popular shopping centre in Curitiba, is typical of the seven million who take advantage of the instant credit lines offered through some 16,000 merchant outlets country-wide. The store posters advertise credit in 12 easy instalments for a range of electronic goods and household appliances. Losango serves middle to lower income people who are unable to obtain normal credit from banks.

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

'Best consumer internet bank' for web sites in Hong Kong and Malaysia. HSBC in the UK won the coveted 'Five-Star Award' from *Money Management* magazine for its regular premium stakeholder pensions.

Consumer Finance

In Consumer Finance, we lend money and provide related services responsibly to everyday people who do not qualify for loans from banks and typically are in the middle to lower credit segments. In 2003, this customer group earned a pre-tax profit, before goodwill amortisation, of US$2.2 billion.

The integration of Household into the HSBC Group was the main event of 2003 and realised immediate benefits in improved funding costs, and technology and administrative cost savings, as well as adding over 60 million customers. For example, processing costs have been reduced in Household's consumer lending and auto finance businesses by using HSBC's processing centres in India. We have implemented initiatives to consolidate data centres and to convert HSBC credit card portfolios onto Household's system. Based on the joint strengths of HSBC and Household, we have also renegotiated a wide range of supplier contracts, including telecommunications. We have achieved efficiency savings in a number of other areas through the integration of various functions including purchasing, human resources and facilities. We expect further synergy benefits in the years ahead.

Good progress was made in exporting Household's core skills, particularly in the areas of credit risk management, card management, collections, sales-focused organisation and customer-focused technology, to other parts of the Group. The Group-wide application of Household's credit scoring and data-mining technology is expected to produce synergy benefits in the near future.

As part of our plan to extend Household's consumer finance skills across the Group, we are exploring opportunities in South America and Central Europe. Household is already working with HSBC teams in Brazil, Mexico and various European countries to expand our business there. An important objective is to tap into the world's largest bilateral remittance flow of around US$10 billion a year between the United States and Mexico. Working closely with HSBC Mexico, Household is developing a remittance capability between customers in the United States and their families and friends in Mexico. This initiative includes a web-based option in which the recipient is able to access the funds via an ATM using a stored-value card and a remittance service via HSBC branches and kiosks in Mexico. Both services will provide cross-selling opportunities.

To reinforce our strategy we acquired, in December, the Brazilian businesses and assets of Lloyds TSB, which include Losango Promotora de Vendas Ltda, a consumer finance unit with over seven million customers.

The combined resources of HSBC and Household have enabled the Group to enter full-spectrum lending, with the ability to serve almost every type of consumer. Secured Plus, which bridges the gap between HSBC's and Household's traditional loan products, was launched through the HFC and Beneficial branch network in the United States, attracting customers with higher credit standing than traditional consumer lending customers. Since the June launch, 4,600 Secured Plus loans totalling almost US$600 million have been made.

Further opportunities include offering a broader range of products, such as mortgage insurance and HSBC banking services, to existing Household customers, cross-referring consumer finance and retail services customers between Household and HSBC, and automating the HSBC auto finance loan process. Also, in conjunction with HSBC Bank USA, Household has initiated a customer referral programme.

Household's core partnering skills led to it acquiring new partners in 2003 and extending the range of products it provides for them. These included a new card with General Motors, its partner in The GM Card®, one of the world's top five co-branded credit cards. Retail services added six new partners, including Suzuki, retail merchants Saks, Inc. and Gottshalks, while the UK business announced a long-term agreement with the John Lewis partnership for the joint management and operation of the John Lewis, Peter Jones and Waitrose store cards.

Household's e-business is thriving, with over seven million registered internet customers, and averaging 6.9 million unique visitors a month in 2003. Household is generating increased sales of products, loans and revenue for the Group's e-business.

In 2003, Household implemented its Consumer Protection Plan, a critical compliance programme featuring many industry-leading best practices. Working with consumer groups, legislators and customers, Household made several changes to its lending practices covering products, pricing and disclosures. Its investment in compliance, monitoring and training exceeded US$150 million in 2003, more than double that in 2002.

Among the US national awards won by Household during the year were *Computerworld* magazine's '100 best places to work in IT' and *Training* magazine's 'Training top 100'.

Commercial Banking

More than two million small and medium-sized enterprises (SMEs), from sole proprietors and partnerships to incorporated businesses and publicly quoted companies, buy products and services from HSBC. This business earned a pre-tax profit before goodwill amortisation of US$3,158 million in 2003, an increase of 5 per cent compared with US$3,014 million in 2002. We focused on extending our distribution network, particularly through e-commerce; improving our product range; and developing a more sophisticated customer database.

Business internet banking was launched in 13 more countries and territories, bringing the total to 20. The number of internet-registered customers more than doubled to over 538,000 and they logged on a total of 33.1 million times during the year.

In the UK, where we lead the start-up market with a 21 per cent share, we opened twice as many business accounts as we did five years ago. Our share of the SME market continued to increase. The launch of our Business Money Manager account helped increase our share of the UK commercial savings market.

We increased lending to UK customers and opened 22 specialist banking centres to capitalise on lending and cross-selling opportunities in the middle market. The number of customers actively using the UK's business internet banking service grew nearly five-fold from 21,000 to 100,000.

In France, CCF targeted investment funds under management through the introduction of guaranteed investment funds and the appointment of experts in personal financial services. Together, these initiatives attracted €241 million in new money.

In Hong Kong, a pilot exercise for medium-sized companies saw the total exposure of the portfolio grow by 16 per cent in the first three months and, for SME customers, we have introduced three credit-scoring initiatives that achieved satisfactory business growth. In mainland China, we launched a programme enabling customers in Hong Kong to get seamless, one-stop service when they arrange banking facilities. Hang Seng also introduced an Integrated Business Solutions Account offering small businesses consolidated statements, free payroll services and online credit applications. In the insurance and pensions market, we reinforced our dominant position as a provider under Hong Kong's Mandatory Provident Scheme, with assets under management and revenues continuing to grow ahead of expectations.

In Malaysia, a newly created team of business development managers led to the approval of a total of US$1.3 billion in new and incremental business, including Islamic-based facilities of US$250 million, and our share of palm oil export transactions increased from 11 per cent to almost 20 per cent. Malaysia also saw increases of 150 per cent in registered internet banking users and 80 per cent in business telephone banking customers, and launched the Business ATM Card and its Islamic account equivalent.

In Singapore, where average new business booked almost doubled, we launched insurance and packaged products, while India concentrated on small businesses with the introduction of new asset and liability products. In the Middle East, we established client service teams to get closer to our customers.

More business relationship managers were appointed in the United States where an overhaul of our small business credit approval and scoring system led to a 17 per cent increase in small business loans. A joint initiative between the United States and Canada to create seamless North American cross-border banking for our clients has resulted in a doubling of cross-border business since September 2001.

In South America, new products included a pension plan for Brazilian business employees and a collection product for specific niches, such as schools and condominiums.

Our commercial banking awards in 2003 included seven international and domestic accolades for our

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

internet services. Our UK business internet banking service, for instance, was named 'Best internet banking service' by the Institute of Financial Services while HSBC Bank plc received the institute's coveted Grand Prix Award for general innovation. We also won the 'Best small business bank' award from the UK's Chartered Institute of Management Accountants.

FinanceAsia named us the 'Best local bank' in Hong Kong and 'Best foreign bank' in China, India and Indonesia, and we were voted the number one cash management business in Asia and the Middle East by readers of *Euromoney*, which also gave us the title 'Best bank in Saudi Arabia'. Members of the Canadian Federation of Independent Business rated HSBC first for service among Canadian banks.

Corporate, Investment Banking and Markets

HSBC's Corporate, Investment Banking and Markets (CIBM) business provides tailored financial products and services to major government, corporate and institutional clients worldwide. It includes four main business lines — Corporate and Institutional Banking, Global Investment Banking, Global Markets and Global Transaction Banking — which, in 2003, contributed a pre-tax profit before goodwill amortisation of US$4,443 million, an increase of 14 per cent compared with US$3,896 million in 2002.

CIBM has a long-term relationship management philosophy to build a full understanding of our clients' financial requirements. In 2003, we reinforced our industry-specific approach by creating global sector teams to work across all business lines. We also completed the development of our new client relationship management system, enhancing our global service and improving our consistency, product and geographical coverage. We also launched a new pan-CIBM web site.

Global Markets' performance was strong. We gained market share in foreign exchange in London and New York, and built up our currency options business, managed globally from London, and our

HSBC is one of the world's leading banks for the provision of **Commercial Banking** services to small and medium-sized enterprises — a vital engine of growth in many economies.

Top left: Nowhere is the small and medium-sized business sector more important than in Hong Kong. This skilled craftsman is setting an emerald and diamond necklace in a modern jewellery manufacturing factory — one of HSBC's best business banking customers. Employing around 100 people, the factory in Kowloon produces a variety of jewellery — rings, earrings, bracelets, brooches and others — contributing to Hong Kong's reputation as the world's third largest exporter of precious jewellery.

Top right: Soccer and Brazil — the current world champions — go together, so HSBC has come up with the idea of a Father's Day sales promotion kit for sports shops. This window display in the Vila Hauer district of Curitiba advertises the price of the items for sale — including the popular national soccer team T-shirt — as well as methods of payment, such as by credit card or by cheque. In addition to Father's Day, in 2004 displays will also be produced for retailers promoting items for Mother's Day and Christmas.

Left: The winner of the 2003 UK 'Start-up Stars' competition (centre) for businesses under two years old — who beat over 500 other competitors — discusses packaging of her product, frozen baby food made by Babylicious Ltd, with a staff member at her home-cum-office in Ealing, west London. Sponsored by HSBC Bank plc, the competition is aimed at boosting creativity, innovation and entrepreneurial skills among small businesses, and demonstrates HSBC's commitment to local communities throughout the UK. The publicity generated by the competition since it started in 2001 has been partly responsible for the great increase in the number of HSBC's customers from the start-up sector.

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credit derivatives business, managed from New York. The integration of our London and Paris dealing rooms, with each site taking a lead role in specific product areas, has proved to be a key competitive advantage. An innovative risk-analysis software tool was launched for clients in Asia and we completed a major expansion of our New York dealing room. HSBC's equities business was integrated with Global Markets in September and our new business model will be implemented in 2004.

Corporate and Institutional Banking won significant new business across a wide range of industries with a high number of cross-border and cross-regional transactions.

Our Debt and Equity Financing businesses, which are supported by the main business lines, achieved significant gains. Debt Financing's market share in issuance of all international bonds rose from 3.3 per cent to 4.4 per cent and, in the fourth quarter, HSBC was third in the international bond bookrunner league table compared with eighth for the full year and 11th in 2002. Equity Financing took lead roles in Lucent Technologies' US$1.63 billion convertible bond issue and PPR's €417 million rights issue, and was sole bookrunner and lead manager of Beijing Capital Land's HK$938.7 million initial public offering in Hong Kong.

Global Investment Banking includes our Corporate Finance and Advisory, Project and Export Finance, and Finance and Risk Advisory businesses. Our UK Corporate Finance and Advisory business was joint adviser to Safeway on its £3 billion recommended merger with Morrison and advised LNM Holdings on its US$1.2 billion acquisition of Polish steel maker Polski Huty Stali. In China, HSBC advised Tsingtao Beer on its strategic alliance with Anheuser-Busch. In Project and Export Finance, HSBC was mandated lead arranger and bookrunner on the financing and acquisition of a 1,000-megawatt power and water project in Abu Dhabi and was adviser to the export credit agencies participating in the US$2.7 billion Shell/CNOOC integrated chemical complex in Guangdong, China. In the UK, HSBC was mandated lead arranger and bookrunner of a £1 billion satellite communications project.

Within Global Transaction Banking, Payments and Cash Management improved its position in key markets, ranking second globally, first in Asia and in the Middle East, third in Europe and fourth in North America in the *Euromoney* cash management poll, and was selected to handle Yahoo's treasury needs in Europe. Online activity within the CIBM sector more than doubled in 2003, with e-commerce accounting for 40 per cent of all foreign exchange trades.

Trade Services established a Structured Trade Finance team in Singapore, launched a factoring business in the Middle East and Japan, and generated increased turnover through its specialised internet product.

Securities Services' sub-custody business was ranked first in *Global Investor*'s annual survey in 60 per cent of the 32 markets in which it operates. Among other accolades were *Euromoney*'s 'Best debt house in the Middle East'; *FinanceAsia*'s 'Best international bond house' and 'Best local currency bond house'; and *IFR Asia*'s 'Domestic bond house of the year'. *Euromoney* also named HSBC 'Best bank at risk management and treasury in Asia' for the sixth consecutive year and we were ranked first in *Asiamoney*'s annual foreign exchange survey. We were also awarded the titles 'Best trade finance bank in Asia' by *FinanceAsia* and *Cargonews Asia*, and 'Best factoring house' by *Trade Finance*.

Private Banking

Private Banking provides world class financial services to high net worth individuals and their families in 60 locations worldwide. We made a pre-tax profit before goodwill amortisation of US$563 million, an increase of 36 per cent compared with US$413 million in 2002. Funds under management grew by 18 per cent to US$169 billion. Our private banking operations posted improved financial results in all regions, led by Asia, which had a record year.

HSBC Private Bank's alternative investment capability brought in more than US$3 billion in new assets, increasing total client assets invested in hedge funds to US$14 billion. New product launches included Strategic Investment Solutions, which provides clients with externally managed, multi-manager investment portfolios. Following the Group's acquisition of Household, HSBC Private Bank offered its clients access to the Household European Commercial Paper programme and Household Puttable Floating Rate Notes. The response amongst those clients seeking an alternative to traditional money market products was positive, with investments now totalling US$3 billion.

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Corporate, Investment Banking and Markets is managed as a global business, tapping into HSBC's worldwide capabilities, but with dedicated offices on the ground in over 40 countries and territories in order to serve clients better.
An HSBC Relationship Manager and an executive from a Chinese state-owned enterprise are on the Bund in Shanghai discussing a business project while on their way to a meeting in Pudong (seen in the background). HSBC's Corporate, Investment Banking and Markets team is well-positioned to offer its expertise to large state-owned enterprises in energy, telecommunications and motor-vehicle manufacturing, as well as to the many multinational companies that have located their Asia-Pacific head offices in Pudong, Shanghai's financial hub, following China's entry into the World Trade Organisation in 2001.

HSBC Private Bank's Global Wealth Solutions business increased trustee assets to US$59 billion in 2003, an increase of 5 per cent, while HSBC Wealth and Tax Advisory Services, Inc., particularly in the United States, has been reorganised to work more closely with other Group entities.

HSBC Private Bank's Family Office Advisory team launched Consolidation and Analysis of Investment Portfolios to provide wealthy clients with a single set of statements and performance analysis covering their wealth.

HSBC Private Bank's internet service saw impressive growth during the year, with the total number of registered users reaching 11,199 worldwide, an increase of 96 per cent. Plans are under way to expand the service further in 2004.

Four French private banking subsidiaries combined in 2003 to form HSBC Private Bank France S.A., with over US$15 billion in assets under management. France also led the way in inaugurating our new brand, HSBC Private Bank, unveiled in December as the new worldwide name for our principal private banking businesses.

HSBC Guyerzeller Bank AG improved its performance substantially in 2003. In Germany, HSBC Trinkaus & Burkhardt KGaA's private banking operations posted a robust performance in a difficult market and exploited cross-sales with Corporate Banking and Corporate Finance.

A January 2004 *Euromoney* wealth management survey rated HSBC among the top three global private banks. HSBC Republic Investments Limited also received *Financial Adviser* magazine's gold award as a 'Top provider' in the long/short funds of funds sector.

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

New Strategic Plan

Our new strategic plan for 2004 to 2008, which we call 'Managing for Growth', sets HSBC's course for the next five years, and aims to build on our strengths while addressing areas where we can improve.

Our vision remains unchanged: HSBC aims to be the world's leading financial services company. By 'leading' we mean 'preferred', 'admired' and 'dynamic', recognising the strength of our brand, our corporate character and our earnings per share growth. It also means achieving a leadership position within each of our customer groups in key markets. We will, of course, remain focused on growing our total shareholder return and will continue to commit to exceeding a peer group benchmark.

HSBC's core values are integral to our plan. These values comprise a preference for long-term, ethical client relationships; high productivity through teamwork; a confident and ambitious sense of excellence; internationalism in outlook and character; prudence; creativity and strong marketing.

Our plan also recognises fully the importance of our wider obligations to society and calls for the increasing involvement of our colleagues in corporate social activities, especially in our support for education and the environment. Internally and externally, we will communicate our policies and practices as effectively as possible.

Key to achieving our goals will be accelerating our rate of revenue growth; becoming even more customer-driven; improving productivity substantially; and managing our costs strategically in a highly competitive market-place.

Achieving the revenue growth that we seek will require more proactive marketing. The challenge now is to build upon HSBC's expansion over the last five years which has given us a unique, well-balanced, international franchise. We must increase the rate of revenue growth by building a world class, ethical sales and marketing culture throughout the Group. The HSBC brand has been an outstanding success and we will continue to develop it.

HSBC has one of the world's largest **private banking** businesses, serving high net worth clients in 60 locations from Asia-Pacific to the Americas. HSBC uses its worldwide strengths to provide a bespoke, client-orientated service tailored to the particular needs of each location.

HSBC Private Bank's new flagship office in London's exclusive St James's Street brings together six offices, including the Group's asset management business, under one roof to provide a more integrated service to clients. The elegant Victorian structure, built in the 1840s and preserved as a building of historical and architectural significance, opens for business in March 2004. The move follows the adoption on 1 January of 'HSBC Private Bank' as the international marketing name for the Group's principal private banking business, replacing HSBC Republic.

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In many ways, 'the world's local bank' philosophy starts with HSBC's **international secondment policy**. The aims are to transfer best practice to other parts of HSBC, to instil corporate culture and values, and to develop HSBC's diverse workforce. In an attempt to nurture executive talent, HSBC has over 600 international secondees working in some 50 countries worldwide.

Above: A typical seconded executive is Osamu Okada (left), now a corporate and institutional banking Relationship Manager with HSBC Bank Middle East in Dubai and previously with HSBC in Tokyo. Okada, who is half-way through his two-year secondment, is having a meeting with an Arab client and an expatriate colleague in a Jumeirah Beach hotel. They are discussing the financing of a government loan to reclaim land for Dubai's ambitious Palm project to create a commercial, residential and recreational complex built on the world's largest group of man-made islands.

Above right: Fernando Moreira (standing), formerly a senior executive with HSBC Bank Brasil S.A., is now on a three-year secondment to the Shenzhen head office of Ping An Insurance Company of China, in which HSBC has a 10 per cent stake. An expert on change implementation and business management, Moreira is helping his local colleagues at China's third largest life insurance company to design and implement a customer-focused business model.

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

The growing use of new channels, in particular the internet, calls for creativity on our part and a bold approach to the ways in which we do business. More than 90 per cent of customer transactions now originate electronically, from cards, self-service devices, automated payments, call centres or the internet. The acquisitions of Household and GFBital increased our technology spending in 2003 by almost US$1 billion to US$3.5 billion. Household's leading-edge systems and expertise in credit cards, consumer lending, risk management and sales will gradually be introduced in other parts of the Group.

Demographic changes also present exciting and important opportunities. For instance, we will launch initiatives to reflect the growing importance of retirement services in an ageing population and consumer finance for the younger sections of society.

Our efficiency objectives will require a thorough approach to process engineering and global resourcing, which will remain an essential element of our strategy. Further details of our views on this important topic can be found in a recent speech made by Alan Jebson, Group Chief Operating Officer, which is reproduced on pages 27 to 31.

We need to invest systematically in our people, with special emphasis on cultivating talent. Diversity will be a major theme. We believe that cultural diversity is intrinsic to the HSBC brand and one of the keys to remaining sustainably competitive and profitable. We want to attract the best people and we want the best to rise to the top, regardless of race, ethnicity, religion or gender. We have made good progress, but we recognise we still have some way to go.

2004 is the first year of our plan. The goals we have set ourselves are challenging but attainable. I look forward to keeping you informed of our progress.

Stephen Green, *Group Chief Executive*

A Profile of Household International, Inc.

On 28 March 2003, HSBC acquired Household International, Inc., one of the largest and oldest financial services companies in the United States. The acquisition brings together one of the world's largest deposit gatherers with one of the world's largest asset generators. This transaction brought to HSBC national coverage in the United States for consumer lending, credit cards, retail cards and credit insurance through multiple and varied distribution channels and products — and transformed the shape of HSBC by significantly increasing the overall profit contribution of North America.

History

In 1878 Household's founder, Frank Mackey, pioneered the concept of lending to honest, hard-working people of average means. He made the first personal cash loan from a small back room in a jewellery store. Household was born and launched the business that shaped the consumer finance industry. For over 125 years, it has helped millions of American consumers establish a financial footing, make important purchases, send their children to college, or simply meet unexpected expenses.

The Philosophy

In many cases, Household provides credit to consumers who would not otherwise have access to it from a traditional bank due to most banks' inability to accommodate them. Household's core strength is its ability to listen to, understand and serve the borrowing needs of average, ordinary people — putting its philosophy into practice: 'Helping everyday people. Every day.' The following comments are made by some typical customers.

- *'It was getting pretty stressful, not being able to get everything paid, but Household helped us get our bills under control. They have given us the peace of mind a family should have.'* Joleen and Bret, Iowa
- *'When I found out my first grandchild was on the way, I wanted to make some improvements on our home to make room for one more. Household was there for me to make that dream happen.'* Kenneth, New York
- *'I worked hard to build this home. When my wife and I got into trouble with our finances, I hated to think I might lose it. Household stood behind us. They were there.'* Ron, Iowa

The Company

Every day, Household serves the financial needs of a broad cross section of working people. Its 60 million customers are classified as prime (those with good credit) and non-prime (those whose credit standing is less good due to limited credit or employment history, past or current credit problems, or modest incomes or other factors, who are not usually served by banks).

The strength of Household's business model, along with its diverse product range, strong market position, multiple distribution channels and broad geographical reach, helps it to meet the changing needs of consumers, reaching them in numerous ways and throughout their lives.

The Business

Household's businesses and products include the following.

Consumer lending

Household's consumer lending business — its largest unit — operates in the United States under the HFC and Beneficial brands, with a network of over 1,300 retail branches in 45 states. It is America's second largest consumer finance company, providing a variety of loan products — including real estate secured, unsecured loans and personal home-owner loans — primarily to non-prime customers. Typically, consumer lending customers are charged higher interest rates than at a bank, reflecting the higher risks and servicing costs associated with lending to this underserved market.

Household has long been an innovator in the consumer finance industry. It was the first US consumer finance company to extend unsecured loans, the first to develop monthly instalment plans making interest payments more affordable, and one of the first to offer revolving lines of credit.

Mortgage services

Home-ownership is a key component of the 'American dream' and Household is committed to helping consumers achieve that goal. The combined HSBC Bank USA and Household mortgage operations originate, service and purchase loans for both prime and non-prime customers. In its wholesale and correspondent channel, Household purchases mortgages in the secondary market from a network of over 200 unaffiliated third-party lenders.

A Profile of Household International, Inc. (continued)

Retail services

Household is one of the largest providers of private label (merchant-branded) credit cards in the United States. It offers customised financing programmes for national retailers and manufacturers. Through over 60 business partners, Household serves largely prime consumers in many industries, including furniture, home and building products, consumer electronics and department stores. Retail partners include Best Buy (electronics) and Saks Fifth Avenue (department store).

Credit card services

Household is also one of the 10 largest MasterCard and Visa card issuers in the United States, specialising in credit cards with value-added features and benefits. Its principal programmes are The GM Card®, in partnership with General Motors, which allows cardholders to earn discounts on the purchase or lease of a new GM vehicle; and the Union Plus® card, an affinity programme providing benefits to members of AFL-CIO, America's largest labour union. While the majority of its cardholders are prime customers, Household also offers specialised credit cards to non-prime consumers not served by traditional providers.

International

Household is among the three largest consumer lenders in Canada. It offers secured and unsecured consumer loans and credit lines under the HFC brand. It also provides retail finance programmes for leading furniture and consumer electronics merchants.

In the United Kingdom, under the Household Bank and Beneficial brands, personal loan products are offered through over 200 branches. Under HFC Bank, Household is the third largest issuer of retail store cards. It also provides credit cards, secured loans, direct personal loans, and insurance products and services.

Auto finance

Household purchases instalment contracts for the purchase of new and used vehicles for consumers not served by traditional lending sources, and also directly offers refinancing of existing vehicle loans. It is one of the three largest independent providers of non-prime vehicle finance lending in the United States, serving customers through approximately 5,000 active car dealerships nationwide.

Insurance

The synergy created by combining HSBC Bank USA's and Household's insurance operations has produced a variety of credit and speciality insurance products for Household's customers. Product offerings include credit, life, disability and unemployment; term insurance and annuities; membership for home-owner, vehicle and legal services; and non-credit insurance designed to protect recreational vehicles and revolving card customers.

Refund lending

Household is one of the largest providers of tax-related financial services in the United States, offering tax refund anticipation loans to taxpayers based on the amount of their US federal income tax refund.

The Business Model

Household's inherent strengths support the diversity and growth of its businesses. All of its businesses share several common characteristics:

- A centralised approach to doing business, which has important cost and management control implications.
- A strong sales and a strengthened compliance culture.
- Excellent 'partnering' skills and a partnering culture, with over 50 per cent of loans originating from its business partners.
- A low-cost and efficient producer.
- 'Best-in-class', advanced technology that supports all aspects of its business.
- Unique data analysis process and risk management expertise, resulting in better customer service and greater profitability.

Commitment to the Community

Household fosters the economic vitality of the cities and towns where it is based. It supports programmes that provide life skills and job training, stabilise or improve housing, rehabilitate communities, and promote work, family and diversity initiatives. In 2003, Household donated more than US$18 million to educational, civic and community, health and human services, and cultural causes.

At Bernard Chevrolet, Libertyville, Illinois, thanks to reward points earned with her GM Card, a GM Cardmember picks up her keys and significant savings on a brand-new Chevrolet. General Motors is the world's largest motor-vehicle manufacturer and Household is a top 10 US Visa card and MasterCard issuer. In 2003, Household's partnership with GM reached a major milestone — the four-millionth GM Card redemption.

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A Profile of Household International, Inc. (continued)

During 2003, Household launched 'Build Your Tomorrow'SM, a nationwide consumer education programme on understanding and using credit. Oscar-nominated actress Angela Bassett served as Household's corporate spokesperson through a series of live television and radio appearances, newspaper and online interviews, and public service announcements.

A key component of 'Build Your Tomorrow' was the 'Your Credit CountsSM Challenge', which provided consumers with the opportunity to access a complimentary credit package, including their credit report, credit score and personalised score analysis. Over 100,000 consumers participated in the three-month programme.

In partnership with the National Center for Neighborhood Enterprise, Household is helping citizens of Lowndes County, Alabama — a rural, economically depressed region — improve their lives and repair their homes. This project includes establishing a community resource centre, repairing or establishing consumers' personal credit, financial literacy education and home-ownership training.

Household does not just write cheques; it builds relationships. Nowhere is this philosophy expressed more clearly than in the many ways its employees give of themselves. Company-wide programmes, such as United Way's annual giving campaign and Junior Achievement, are all made possible by the generosity of its employees, who roll up their sleeves and open their hearts to help others.

In 2003, 900 employee volunteers donated 12,000 hours of their time to teach more than 23,000 children in 29 states. Household also contributed more than US$480,000 and sponsored a national 'bowl-a-thon' that raised a record-breaking US$710,000 for local Junior Achievement offices.

National Employer of Choice

Household is annually recognised as one of America's best places to work because of its corporate culture of opportunity that rewards exemplary performance. People choose to work at Household because its employee benefits are progressive and industry-leading.

Household is committed to developing its employees' talent and full potential through extensive mentoring, training and coaching. Its programmes and employee networks support the professional needs of a diverse workforce and promote job satisfaction.

In 2003, Household received numerous national and local 'employer of choice' awards, including the national *Working Mother* magazine's '100 best companies for working mothers', Argus Leader's 'Best in the business', *Jacksonville* magazine's 'Top 25 best family friendly companies', and *Oregon Business* publication's '100 best companies to work for in Oregon'. Household also received two special awards for supporting US troops serving overseas.

Global Resourcing: HSBC's Perspective

The issue of the international deployment of work — which HSBC refers to as global resourcing — is both topical and sensitive in many developed countries. We therefore reproduce here the text of a speech given by Alan Jebson, Group Chief Operating Officer, at a Financial Times-*Indian National Association of Software and Services Companies (Nasscom) conference in London on 25 November 2003.*

I am here today to give you HSBC's perspective on the growth of global resourcing, which we define as the distribution of work on an international basis.

In order to see where we're going, it is useful to know where we are and where we've come from. So the first thing I should say is that this process is not new, either for business as a whole or for HSBC. What is new is the pace of change.

So to give you HSBC's perspective, let me tell you a little about us. Here in the UK, you probably know HSBC best through our retail bank, or you may be customers of First Direct. But, internationally, we have major retail banking operations in Europe, Asia and the Americas. We have probably the largest international commercial banking franchise in the world. We also have extensive investment banking, private banking and asset management operations.

We operate in 79 countries and territories and we have some 100 million customers around the world. So we do not regard ourselves as a UK bank but, rather, a truly international financial services company that is headquartered in the UK.

For instance, we are celebrating our 150th anniversary in India this year, and we have been in China for 138 years and Malaysia 120 years.

Because of our history and our international orientation, we have always had to manage what consultants call the 'glocal' element; that is, the continuum between global and local. Indeed, we call ourselves the world's local bank.

For us, this is all about what we can do for our customers. We recognise that local is vital; we need to understand the local environment that our customers operate in. We don't try to be the same in every country. In Brazil, we are Brazilian, in France French — and *vive la difference.*

But we recognise that global is also vital. Many of our customers operate across borders and even for those that don't, the effects of the process of globalisation are felt locally. On a very basic level, no single economy has best practice for every aspect of business.

Like all of you, we operate in a world that is increasingly interconnected. The impacts of the revolutions in transport, communications and technology are part of that interconnection. The free flow of capital, the dramatic increase in international trade, the impact of deregulation, and international agreements like the GATT and WTO are other components.

We believe that the impact on humanity as a whole is tremendously beneficial, as the process of wealth creation has lifted hundreds of millions of people out of poverty. But the impact has also been uneven, with large parts of the world excluded from the process.

The movement of jobs internationally is nothing new. Those of you who are my age will remember the disruptive effect in this country of what we can now see as the first major wave of job migration, which occurred in manufacturing and took root in the UK in the 1960s and '70s.

Shipbuilding, steel, the British auto industry, the British motorcycle industry — as a Yorkshireman I particularly think of textiles — whole industries were reconfigured or destroyed by lower cost competition often, it has to be said, with superior products.

In one way, this process was inevitable. Britain was the first nation to industrialise and was the world's largest trading economy. As other countries followed, so increased competition meant a relative decline in Britain's dominance. Britain's share of world trade was one-quarter in 1880, one-sixth in 1913 and one-eighth in 1948.

What I think was not inevitable was the speed of collapse of some sectors of British manufacturing, where entire industries disappeared almost overnight. The reasons for this are complex and many factors are held up as the cause: poor management, intransigent unions, the government, protectionism, workers with insufficient productivity, unfair competition. And there is probably some truth in all of those.

But I think the fundamental truth is that when competition is allowed in any sector, then it is inevitable that there will be winners and losers. And the winners will be those that supply their customers with the goods and services they want at the best

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HSBC's international character and worldwide capabilities are clearly manifested in its six Group Service Centres in India, Malaysia and China. A seventh centre is due to open in Sri Lanka in mid-2004. Currently employing over 8,000 people, these state-of-the-art facilities handle a variety of back office processing and call centre functions, such as account opening and closing, customer service and sales calls, payments, credit cards and mortgage processing, for HSBC operations in the UK, North America, Asia-Pacific and the Middle East.

Above: This customer telephone service section at the Futura Group Service Centre in Bangalore, India, takes service and sales calls from the UK and the United States. Bangalore, India's IT capital, is attracting some of the world's biggest names in IT, making it a conducive environment for HSBC to expand its workforce, which will reach 2,500 by the end of 2004.

Above right: HSBC's newest and largest Group Service Centre opened in January 2004 in Cyberjaya, the high-tech city in Malaysia's 'Multimedia Super Corridor', 38 kilometres south of Kuala Lumpur. The reception area offers a foretaste of the centre's ultra-modern processing facilities — which will cater for 2,000 people by the end of 2004 — as well as excellent staff amenities, including coffee bars, an internet café, a 500-seat canteen, a language laboratory and a learning centre. Translated as 'cyber success', Cyberjaya is billed as Malaysia's first 'intelligent city', offering tax incentives for international household names to locate there to help develop a 21st century, knowledge-based economy.

price; a view that both Karl Marx and Adam Smith would not argue with.

This fundamental truth is vitally important today when we talk about service jobs moving internationally to locations where they can be done most effectively. The truth is that this is an absolutely inevitable process. But it can happen in one of two ways. One is that British companies can ignore the realities of the global economic environment and watch their businesses being taken away by other low-cost operators — either domestic or foreign — or they can manage the process themselves for the benefit of their customers.

After all, a customer of HSBC — and they could be from any one of dozens of countries — gets up in the morning, puts on clothes made in India and trainers from Indonesia at the weekend, or French designer wear and a good pair of Italian shoes in the week; drives to work in a German car; uses software from Finland on a PC made in Taiwan while talking

Global Resourcing: HSBC's Perspective (continued)

to a colleague in Brazil on a phone made in China; goes home, and, after putting the children to bed, watches an American film on a television made in Korea while eating Swiss chocolate.

Is it really so surprising that some of this customer's banking is done in another country?

HSBC has long managed its work internationally. In fact, this is one of the key competitive advantages of an international group. If we do not do this, we are simply a federation of local entities, which do not add value to each other.

So, for instance, we developed computer systems in the 1960s in Hong Kong which we used in the rest of Asia. In a similar way today, we have five IT centres around the world — in Canada, the US, Hong Kong, India and the UK — doing our systems development work for our operations in 79 countries and territories.

This exploration of comparative advantage is not limited to IT. In our treasury business, we have three main centres: Hong Kong servicing 18 countries in Asia; London/Paris for Europe and the Middle East; and New York for NAFTA countries. We do data processing for our Middle East operations in the UK; there are many other examples.

So there is already a complex cat's cradle of work being done in one country on behalf of customers in another. The difference today is one of scale; we are in the next evolutionary stage.

You will all be familiar with Moore's law which, in its narrowest sense, states that the number of transistors you can put on an integrated circuit doubles every couple of years. In its wider sense, it predicts that the cost of technology will halve, or the speed will double, roughly every 18 months.

So a single Playstation has more computing power than NASA had in total when it put man on the moon in 1969. And your mobile phone is no longer the size of a brick, but fits in your pocket.

This exponential effect is very apparent in international telephony. In 1956, when the Trans-Atlantic One cable was completed, the cost per voice path was US$600,000 for each of the 89 lines. For TAT-12 in 1995, that cost was under US$1,000 for each of the 600,000 lines.

Which is why, together with the impact of deregulation, it cost £2.80 a minute to make a transatlantic call in 1956 and less than 0.5 pence today. The cost of a one-minute call from India to the UK or US has fallen by 80 per cent since January 2001.

Put this revolution in telecoms together with advances in computing, the internet and imaging systems and we have a very powerful set of tools — and a set of tools not available a decade ago.

What difference has this made?

In banking in the UK, the recent history of the branch has been one of the removal and centralising of back office functions. First we started by moving back office functions to regional processing centres. This freed up staff to talk to customers instead of doing the paperwork. And this centralisation allowed us radically to improve the accuracy of processing.

Then call centres allowed customers to talk to their bank at their convenience. First Direct, with its 24-hour telephone service, took the concept to its logical conclusion. And you'd be surprised how many people call on New Year's Eve.

Having moved from local to regional, today we are managing our processing on an international basis. One slightly surreal effect of this is that we can now do 28 hours' work in a 24-hour day, starting as we do in the morning in New Zealand and finishing at the end of the day in Vancouver.

By the end of this year [2003], we will have around 8,000 people working in global service centres in Hyderabad and Bangalore in India, Guangzhou and Shanghai in China, and Kuala Lumpur in Malaysia. Activities include account processing, mortgages, credit cards, payments, call centres. And they service customers from the UK, the US, Canada, the Middle East, Hong Kong, Singapore and other operations in Asia-Pacific.

Of course, the fact that technology makes something possible is not a reason to do it. The real reason to do it is that you can provide the service that your customers expect and deserve in the most efficient way.

When we look at the criteria for placing work, we have a whole 'must-have' list of things we need. The quality of staff is vital. Banking is an internationally competitive business and we cannot hope to compete without the right people. So we look for a well-educated workforce. We look at the quality of the infrastructure in its widest sense — on a very basic level, the physical infrastructure: roads, transport, power, the environment, security. On a deeper level,

Global Resourcing: HSBC's Perspective (continued)

we look at the regulatory and legal infrastructure, all of which derives from the quality of government.

And, of course, we also look at cost.

We are not alone in seeing India as an attractive location. Many international companies have reached the same conclusion. Kiran Karnik, President of Nasscom, put it this way: 'Our assets are a stable polity, independent judiciary, strong democratic institutions and a huge pool of educated, talented and industrious people. The infrastructure is efficient and rapidly getting even better. All of this makes for a high quality business environment, with a productivity level which matches — and often exceeds — that of many developed countries.'

We agree.

On a global scale, the changes that we will see will be profound. Forrester Research estimates that 3.3 million jobs will shift from the US to low-cost countries by 2015 and the same number from other developed economies.

This is creating serious disquiet in some sections of society in developed economies. If you read the press, you will see evidence of this disquiet. When HSBC announced the creation of 4,000 jobs in our global service centres in India and China, thereby reducing jobs in the UK, the press response here was intense. And understandably so. Because if you look at the issue locally, it is true that the effects are problematic.

HSBC is a decent and fair employer. We work very hard at managing this process of change as sensitively as we can for our colleagues. For instance, in the UK, we have set aside £4 million to support and advise staff affected by the changes. We aim to achieve our objectives through a headcount freeze, through natural attrition and voluntary redundancies, with as few compulsory redundancies as possible. We are also in close consultation with the union.

But I acknowledge that no matter how sensitively we handle this, it will be painful.

But we do this because we absolutely believe that by not managing this process, we would be abrogating our responsibilities to all our 200,000-plus staff as well as customers and shareholders. Because if you hide from this issue or pretend it's not there, a reckoning will come later.

I should also say that we are delighted to be creating good-quality jobs in countries that desperately need them. There can be no doubt that the disparity in income between developed and developing countries is unjustifiable and that the migration of jobs will help to address that.

So, not surprisingly, the perspective is different in developing economies. The press we get in India is fantastic.

We create great jobs in state-of-the-art facilities. This helps boost the local economy in any number of ways: infrastructure improvements, training of the workforce, the introduction of global best practices, and the creation of new jobs in the service and supply sectors.

In the long term, this will help create new consumer markets for developed countries to trade with, and economic benefits will accrue to both countries. Indeed, research by McKinsey shows that for every dollar of labour costs moved from the US by offshoring, something like $1.45-$1.47 of value-added is created globally, of which the US captures $1.12-$1.14 and the receiving country 33 cents. So this is not a zero-sum game.

What does the future hold? Well, the near future holds more of the same.

That is the inevitable truth I talked about earlier. What can move, will. Almost every day, you see announcements in the paper of this company, or that, setting up offshore operations for services work.

Countries like India and China will continue to attract work because of the benefits companies can derive. Mr Raman Roy of Wipro Spectramid, India's largest third-party call centre put it very well: 'Customers come to us for the price, but they stay with us for quality.'

Indian universities produce something like two million English-speaking graduates a year. So there is plenty of capacity. And it is not just India. China has massive potential as do many other countries across Asia-Pacific and elsewhere.

There will also be a trend for higher-value jobs to migrate. We are seeing this already in some areas. Some US banks are hiring MBA graduates in India to carry out financial analysts' tasks like modelling and database maintenance. American Express has its Fraud Analytics department based in India employing 60 PhDs. The Ford Motor Company has 1,000 designers based in India.

How far up the value chain the migrating work will go remains to be seen. But ever more complex work will be done remotely. The time will come when the best surgeons in the world perform operations on patients in another country using new technologies. Sounds like science fiction? Actually it's already been done. The first operation was two years ago for a gall-bladder by a surgeon in New York and a patient in France.

Beyond that, your guess is as good as mine. But what I do know is that the future will show the same degree of change in services that we have already seen in manufacturing. In two or three decades, the distribution of work will look completely different internationally to what it does today — which can only be a good thing for developing economies.

Does this pose a threat to Western economies? Not in the long run. Consumers will inevitably benefit through lower costs and higher incomes. And companies and their shareholders will also benefit from lower costs, as well as new markets to compete in.

Those Western economies with flexible job markets will be able to adjust and grow in productivity and living standards. They will be able to move up the value chain by creating higher value work domestically. In Britain, manufacturing accounted for 26 per cent of total employment in 1979 and less than 13 per cent today. But equally in the last 25 years, while some 3.3 million jobs were lost in manufacturing, service sector employment rose by 6.5 million. And the end result of that move from manufacturing into services has been lower unemployment, and a doubling of real average earnings for workers over the last 40 years.

Clearly, some sectors are better insulated from change than others. Many jobs are geographically fixed. For instance, leisure and tourism are local in nature; you can't move a hotel or airport offshore, although you can move their sales ledger. There are others: public sector work, entertainment, hospitals, even agriculture. The key factor for society, as always, will be education which allows the workforce to move to higher value jobs.

It would be dishonest to say that the transition will always be smooth. Some of it will inevitably be painful and some of you will have difficult decisions to make. But it is far less painful to manage the process actively and safeguard the whole, than to stand back and have it managed for you by a competitor.

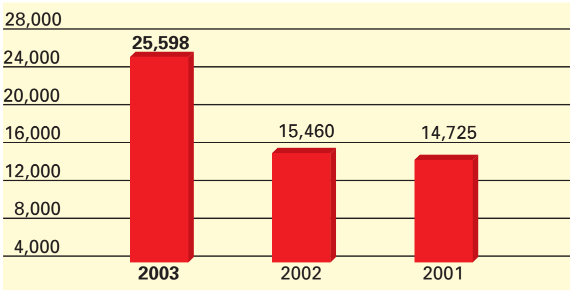
The challenge for us all is, as former President Clinton put it, 'to realise the full possibilities of this economy, we must reach beyond our own borders to shape the revolution that is tearing down barriers and building new networks among nations and individuals and economies and cultures: globalisation. It's the central reality of our time'.

My final thought is this. We have a responsibility here. If we do not manage our businesses for long-term success, we are not doing the right thing for our customers, our staff or our shareholders. We have entered a period of irreversible change in business. It is our responsibility to manage that change. If we do this properly, it will be to the long-term benefit of everybody involved in your company and of society as a whole.

Financial Review

Net Interest Income

Net interest income (US$m)



Net interest income in 2003 was US$10,138 million, or 66 per cent higher than 2002, at US$25,598 million. Of this increase, Household contributed US$8,305 million, and HSBC Mexico US$874 million. Excluding these acquisitions, and at constant exchange rates, net interest income was only marginally higher than in 2002, as the impact of growth in interest-earning assets was offset by continuing margin compression from the effect of low interest rates worldwide. This impact is expected to continue in 2004 unless interest rates rise ahead of market expectations.

In Europe, net interest income was US$1,197 million, or 19 per cent, higher than in 2002. HFC Bank contributed US$438 million of this increase. Excluding this acquisition and at constant exchange rates, net interest income was slightly higher than in 2002, reflecting growth in average interest-earning assets. This was partly offset by the cost of paying interest on small and medium-sized business accounts in the UK and the impact of liquidity being redeployed at lower yields as assets matured. In North America, net interest income increased by US$9,045 million. Excluding Household and HSBC Mexico, the growth was US$304 million, or 11 per cent, primarily reflecting the benefits of strong growth in mortgage lending and savings products, good balance sheet management, which improved the mix of lending by exiting less profitable businesses. Benefit was also gained from the elimination of funding costs following the closure of arbitrage trading activities in the US. In Hong Kong, net interest income declined by 6 per cent, largely due to spread compression on the value of deposits and continued pressure on margins on the mortgage business. This pressure on margins depressed mortgage yields in an environment of very low credit demand. This was partly offset by a 7 per cent growth in average interest-earning assets, increased customer deposits and the redeployment of interbank placements in holdings of debt securities. Credit card lending also grew by 6 per cent, improving the mix of assets.

In the rest of Asia-Pacific, net interest income increased by 8 per cent. In constant currency, this increase was 5 per cent, driven by growth in mortgages and credit card lending, and the beneficial effect of the acquisition of the retail deposit and loan business of AMP Bank Limited in the first half of 2003.

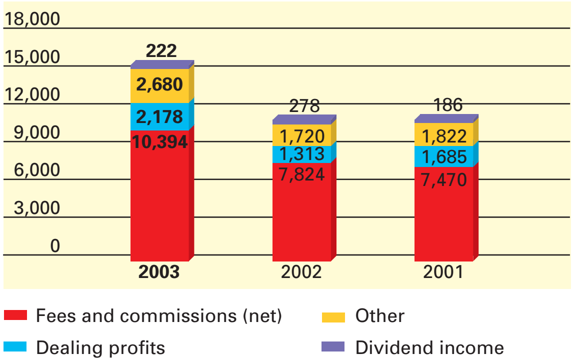
In South America, net interest income was broadly in line with last year. In constant currency, net interest income grew by 10 per cent. In Brazil, net interest income was marginally higher than in 2002, benefiting from the acquisition of the Brazilian businesses of Lloyds TSB Group plc in December 2003. Excluding this, the favourable effect of higher levels of customer lending and deposits were fully offset by reduced spreads as interest rates fell during the year. Argentina recorded net interest income of US$14 million in 2003 compared with a net interest expense last year. As the domestic economy began to recover and the trade surplus grew, interest rates fell. The effect of the continuing reduction in average interest-earning assets was more than offset by the lower cost of funding the non-performing loan portfolio.

Overall, average interest-earning assets increased by US$169.7 billion, or 28 per cent, compared with 2002. Of the increase, Household contributed US$92.0 billion and HSBC Mexico US$17.8 billion. At constant exchange rates, underlying average interest-earning assets increased by 4 per cent. This growth was driven principally by higher mortgage balances and personal lending in the UK, France, the US, Canada, Malaysia, Australia and Singapore, and an increase in holdings of long-term securities in the US and debt securites in Hong Kong.

HSBC's net interest margin was 3.29 per cent in 2003, compared with 2.54 per cent in 2002. The acquisitions of Household and HSBC Mexico increased net interest margin by 77 and 6 basis points respectively. On an underlying basis, HSBC's net interest margin fell by 8 basis points to 2.46 per cent.

Other Operating Income

Other operating income (US$m)



Other operating income of US$15,474 million, was US$4,339 million, or 39 per cent, higher than in 2002. Of this increase, Household contributed US$1,878 million and HSBC Mexico contributed US$599 million. On an underlying basis, and at constant exchange rates, growth in other operating income was 9 per cent, principally as a result of higher dealing profits throughout HSBC's operations.

The acquisitions of Household and HSBC Mexico reduced the proportion of fee revenues exposed to stock market fluctuations by bringing into the Group significant levels of account service fees (HSBC Mexico) and credit card fee income (Household). Fees from credit cards now constitute close to 24 per cent of total fees receivable compared with 13 per cent in 2002.

Fees and commission income, excluding Household and HSBC Mexico and at constant exchange rates, increased by 4 per cent compared with 2002. In Europe, fee income increased by US$664 million, or 15 per cent, of which HFC Bank contributed US$49 million. Excluding this acquisition and at constant exchange rates, fee income increased by 2 per cent, mainly from growth in sales of creditor protection insurance, cards transactions and loan fees. Within the UK, personal loan protection premiums grew by 19 per cent, reflecting growth in mortgages and personal loans. However, this was partly offset by a decline in sales of investment and pension products, mainly reflecting uncertainty in the equity markets.

In North America, excluding US$1,167 million and US$453 million relating to Household and HSBC Mexico respectively, fee income was marginally higher than in 2002. Growth in income from securities advisory services, deposit-related service charges and card fees were partly offset by lower earnings from mortgage servicing.

In Hong Kong, fee income increased by US$119 million, primarily due to higher revenues from wealth management services. There was strong growth in fees from sales of unit trusts and capital guaranteed funds, which increased by US$1.6 billion in 2003. HSBC expanded its range of structured deposit products, further benefiting fee income. Revenues from securities and stockbroking also increased in line with a buoyant stock market in the second half of the year and increased market share. In addition, the insurance business generated strong results reflecting growth in new individual life business written.

HSBC's operations in the rest of Asia-Pacific increased fee income by US$81 million with strong growth in wealth management income, reflecting higher unit trust sales and funds under management. Fee income from credit cards rose in a number of countries.

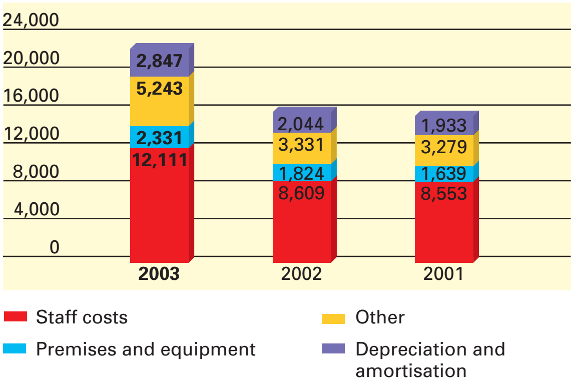
In South America, fee income increased by 10 per cent at constant exchange rates, mainly in Brazil. The increase reflected good growth in credit-related revenue, account service fees and cards. In Argentina a decline in fee income was recorded.

Dealing profits of US$2,178 million were US$865 million, or 66 per cent, higher than in 2002 and reflected investment in and refocusing of HSBC's markets businesses, primarily in the US and in Europe. In Asia a wider range of structured solutions were offered to customers which boosted revenues. Acquisitions were not significant contributors to growth in this area with HSBC Mexico contributing US$103 million. Within dealing profits, there was strong growth in fixed income earnings, predominantly in Europe and Hong Kong, as a result of favourable credit spreads and strong investor demand for yield enhancement products. Foreign exchange revenues increased in both Europe and North America, with volatility in the major currencies driving sales of hedging products and sales activity generally. In Hong Kong, a greater focus on tailored solutions generated a significant increase in corporate sales during the year.

Financial Review (continued)

Operating Expenses

Operating expenses (US$m)



Staff numbers (full-time equivalent)

	As at 31 December		
	2003	2002	2001
Europe	**73,943**	72,260	73,326
Hong Kong	**23,636**	23,786	24,654
Rest of Asia-Pacific	**31,827**	28,630	26,259
North America	**65,021**	34,207	19,291
South America	**28,292**	25,522	27,519
Total staff numbers	**222,719**	184,405	171,049

Growth in operating expenses of US$6,724 million, or 43 per cent, principally reflected the acquisitions of Household, US$3,787 million, and HSBC Mexico, US$964 million. Excluding the impact of these acquisitions and expressed in terms of constant currency, underlying operating expenses excluding goodwill amortisation were 5 per cent higher than in 2002. Virtually all of this growth was in staff costs, reflecting restructuring and higher social costs. In 2003, HSBC's Group Service Centre in Malayasia became operational. Overall, these centres now employ in excess of 7,000 employees. In addition, Corporate, Investment Banking and Markets incurred higher costs reflecting expansion of the business and increased profitability. Notwithstanding this growth, the cost:income ratio of Corporate, Investment Banking and Markets improved by 3 per cent to 48.9 per cent. HSBC's cost:income ratio (excluding goodwill amortisation) was 51.3 per cent for 2003, compared with 56.2 in 2002. Excluding Household, the cost:income ratio was 57.3 per cent.

In Europe, costs excluding goodwill amortisation increased by US$1,651 million compared with 2002, of which Household contributed US$299 million. At constant exchange rates and excluding Household and goodwill amortisation, expenses were 5 per cent higher than in 2002. This increase in expenses was primarily due to higher pension provision and employment costs, particularly in the UK, where social taxes were raised. Redundancy and property provisioning costs also increased, as HSBC restructured and relocated positions to the Group Service Centres in order to reduce its long-term staff costs. In addition, higher bonus accruals reflected stronger Global Markets revenues.

Operating expenses in Hong Kong, excluding goodwill amortisation, were marginally higher than in 2002. Increased staff costs were mainly attributable to higher performance-related bonuses, reflecting strong Global Markets performance, and provisions for restructuring costs. Marketing expenses also rose in Personal Financial Services as Hong Kong's economy rebounded after SARS abated. These increases were partly offset by reductions in staff numbers in Hong Kong as HSBC continued its policy of migrating back office processing functions to the Group Service Centres.

In the rest of Asia-Pacific, costs in 2003, excluding goodwill amortisation, increased by US$213 million, or 14 per cent, compared with 2002. At constant exchange rates, the increase was 9 per cent, primarily from recruitment to support business expansion, branch opening costs, acquisitions, and provisions for restructuring. In addition, the continued migration of processing activities from other regions to the Group Service Centres in India, Malaysia and mainland China added to costs.

In North America, operating expenses, excluding goodwill amortisation, increased by US$284 million, or 11 per cent, in 2003 excluding Household and HSBC Mexico. This increase was largely driven by higher staff costs, namely pension and healthcare provisions, performance-related incentives, and expenses associated with long-term restructuring programmes. In the US during 2003, severance costs of US$47 million were recorded for expense reduction initiatives, global resourcing moves and Household integration efforts, a US$28 million increase over the prior year. In additon costs rose from the first full year inclusion of HSBC's high net worth personal tax advisory business. These increases were partly offset by the benefits obtained from discontinuing certain of HSBC's government and agency securities arbitrage operations in the US, and from business disposals.

In South America, operating expenses, excluding goodwill amortisation, were broadly in line with 2003.

HSBC's operations throughout the world are regulated and supervised by approximately 370 different central banks and regulatory authorities in those jurisdictions in which HSBC has offices, branches or subsidiaries. HSBC estimates the cost of this regulation and supervision to be approximately US$400 million in 2003.

Provisions for Bad and Doubtful Debts

	Year ended 31 December					
	2003		2002		2001	
	US$m	**%**	US$m	%	US$m	%
By geographical region:						
Europe	**874**	**14.3**	569	43.1	441	21.6
Hong Kong	**400**	**6.6**	246	18.6	197	9.7
Rest of Asia-Pacific	**85**	**1.4**	89	6.7	172	8.4
North America	**4,676**	**76.7**	300	22.7	300	14.7
South America						
— normal	**58**	**1.0**	313	23.7	327	16.1
— additional general provision against Argentine exposures	**–**	**–**	(196)	(14.8)	600	29.5
Total charge for bad and doubtful debts	**6,093**	**100.0**	1,321	100.0	2,037	100.0

The acquisition of Household significantly affected the geographical and customer segment distribution of the Group's lending activities and, more markedly, the distribution of its credit costs. At 31 December 2003, 76 per cent of customer lending was located, fairly equally, in Europe and North America, compared with 69 per cent in 2002, with Europe two-thirds of that total. At 31 December 2003, personal lending accounted for 56 per cent of the customer loan portfolio compared with 42 per cent at 31 December 2002.

Excluding the effect of foreign exchange translation and the acquisition of Household, over 90 per cent of loan growth in 2003, excluding the financial sector, was generated in personal lending, predominantly mortgages, credit cards and other personal products.

Over 90 per cent of the charge for bad and doubtful debts in 2003 related to lending to the personal sector, including consumer finance, compared with 65 per cent in 2002. Similarly, over 90 per cent of the charge related to lending in the US and Europe, compared with 66 per cent in 2002.

The charge for specific bad and doubtful debts adjusts the specific balance sheet provisions to the level that management deems adequate to absorb actual and inherent losses in the Group's loan portfolio from homogenous portfolios of assets and individually identified customer loans. Following the acquisition of Household, the majority of specific provisions are now determined on a portfolio basis. In addition, the acquisition of Household has resulted in a significant increase in the extent to which HSBC employs statistical calculations using roll rate methodology to determine specific provisions for bad and doubtful debts. Other than this, there have been no significant changes to HSBC's procedures in determining the various components of the charge for specific bad and doubtful debts. The charge for specific provisions in 2003 was US$6,214 million compared with US$1,672 million in 2002, an increase of US$4,542 million. New specific provisions, which increased by US$5,099 million, principally reflected the acquisitions of Household (US$4,773 million) and HSBC Mexico (US$47 million). Excluding the effect of the acquisitions, new specific provisions rose by US$249 million, or 9 per cent, compared with 2002.

Non-performing loans (net of suspended interest) of US$15 billion at 31 December 2003 included US$5 billion relating to Household's loan book. Excluding Household, and at constant exchange rates, there was a decrease in the level of non-performing loans (net of suspended interest) in 2003 compared with 2002 mainly as a result of the write-off of loans from the legacy portfolio acquired on the acquisition of HSBC Mexico.

Gains on Disposal of Investments

During 2003, HSBC made 26 business acquisitions and completed 14 business disposals.

HSBC's profit on disposal of investments was US$451 million, US$81 million lower than in 2002. The profits in 2002 included gains of US$39 million on the sale of HSBC's 50 per cent share of Lixxbail to its joint venture partner, and US$38 million on the sale of HSBC's 6.99 per cent share in Banco Santiago S.A.

Realised gains on the sale of debt and equity investment securities during the period were broadly in line with 2002.

Financial Review (continued)

Taxation

Figures in US$m	Year ended 31 December **2003**	2002	2001
UK corporation tax charge	**547**	684	416
Overseas taxation	**2,590**	1,217	1,570
Joint ventures	**–**	(6)	(13)
Associates	**20**	17	26
Current taxation	**3,157**	1,912	1,999
Origination and reversal of timing differences	**(5)**	615	(14)
Effect of decreased tax rate on opening asset	**(7)**	–	3
Adjustment in respect of prior years	**(25)**	7	
Deferred taxation	**(37)**	622	(11)
Total charge for taxation	**3,120**	2,534	1,988
Effective taxation (per cent)	**24.3**	26.3	24.9
Standard UK corporation tax rate (per cent)	**30.0**	30.0	30.0

Analysis of overall tax charge

Figures in US$m	Year ended 31 December **2003**	2002	2001
Taxation at UK corporate tax rate of 30% (2002:30.0% 2001: 30.0%)	**3,845**	2,895	2,400
Net impact of differently taxed overseas profits in principal location	**(366)**	(472)	(616)
Tax free gains	**(17)**	(19)	(102)
Argentine losses	**(25)**	87	336
Goodwill amortisation	**476**	261	263
Acquisition accounting adjustments	**(331)**	–	–
Prior period adjustments	**(230)**	(90)	(167)
Other items	**(232)**	(128)	(126)
Overall tax charge	**3,120**	2,534	1,988

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporate tax at 30 per cent, the rate for the calendar year 2003 (2002: 30 per cent).

HSBC's effective tax rate of 24.3 per cent in 2003 was lower than the corporate tax rate of 30 per cent. The main factors accounting for the divergence were the geographic mix of profits, acquisition accounting and prior period adjustments that reduced and goodwill amortisation that increased the rate.

Overseas tax included Hong Kong profits tax of US$483 million (2002: US$408 million) provided at a rate of 17.5 per cent (2002: 16 per cent) on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates of taxation.

Profits arising in North America represented a higher percentage of HSBC's profits in 2003 compared with 2002 largely because of the acquisition of Household. US profits are taxed at a higher rate than the average for the rest of the Group and this change in mix raised the overall tax rate of the Group.

The acquisition accounting adjustments relating to Household and HSBC Mexico resulted in a credit to the profit and loss account with no corresponding tax charge. A more detailed explanation of this is disclosed in the 2003 Annual Report and Accounts (Note 8 of the 'Notes to the Financial Statements').

Prior period adjustments arose in 2003 which reduced HSBC's overall tax charge and related mainly to audit settlements and the recognition of deferred tax assets on losses which were previously treated as potential. Goodwill amortisation was higher than in the previous year, mainly due to the acquisition of Household.

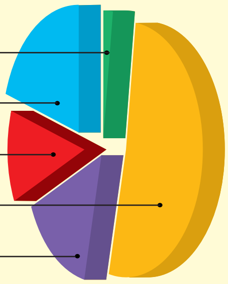
HSBC's effective tax rate of 24.3 per cent in 2003 was lower than that for 2002 (26.3 per cent). This was largely due to acquisition accounting adjustments.

At 31 December 2003 there were potential future tax benefits of US$963 million (2002: US$885 million). The potential benefits are in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowable for tax, and capital losses which had not yet been recognised because realisation of the benefits was not considered likely in the foreseeable future.

Assets

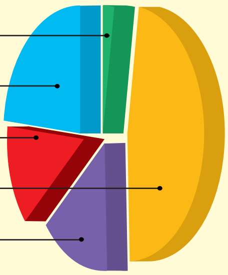
Assets 2003 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Treasury and other eligible bills	**2.0**	**20.4**
Debt securities	**20.1**	**205.7**
Loans and advances to banks	**11.5**	**117.2**
Loans and advances to customers	**51.7**	**529.0**
Other	**14.7**	**150.9**
Total	**100.0**	**1,023.2**



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	107.6
Total	100.0	749.2



HSBC's total assets (excluding Hong Kong Government certificates of indebtedness) at 31 December 2003 were US$1,023 billion, an increase of US$274 billion, or 36 per cent, since 31 December 2002. Of this increase, US$131 billion were assets (including the related goodwill) added as at the date of the acquisition of Household. Excluding this and at constant exchange rates, total assets grew by US$92 billion or 11 per cent.

At 31 December 2003, HSBC's balance sheet remained highly liquid, reflecting continued strong growth in customer deposits. As a result of the Household acquisition, lending in Europe and North America rose to over 75 per cent of the total lending portfolio.

Foreign exchange translation had a significant impact on reported growth. Within the balance sheet, as the US dollar weakened by 9.7 and by 16.8 per cent over the year against sterling and the euro respectively.

Growth in lending in 2003 was concentrated in the personal sector. This was mainly as a result of increased mortgage lending in the UK, and the United States, the acquisitions in Brazil and New Zealand, and post-acquisition growth in Household, where lending grew at an annualised 11 per cent since acquisition.

Underlying commercial and corporate lending, excluding lending to governments, grew by under 2 per cent as corporate demand for credit remained subdued and HSBC maintained its cautious lending criteria.

In Hong Kong there was only modest growth in customer lending against a backdrop of weak consumer demand, the impact of SARS and intense competition in the mortgage market In the rest of Asia-Pacific, growth in assets was driven by increased personal customer advances. At constant exchange rates, personal lending increased by 33 per cent compared with 31 December 2002, mainly as a result of increased mortgage lending in Australia and New Zealand, where HSBC acquired the AMP Bank's mortgage business, and in Korea, Singapore, India, Malaysia and Taiwan In North America, the increase in total assets (excluding that relating to the acquisition of Household) was primarily in residential mortgages and other personal lending in both the US and Canada, as customers took the opportunity to consolidate their debt and re-mortgage at the lower prevailing interest rates.

In South America, growth in total assets reflected the inclusion of the consumer lending portfolios of Losango and the ex Lloyds TSB corporate lending portfolio.

Funds under management

Funds under management of US$399 billion were US$47 billion, or 13 per cent, higher than at 30 June 2003 and US$93 billion, or 30 per cent, higher than at the end of 2002. During the year both the asset management and private banking businesses reported net fund inflows. The weakening of the US dollar benefited the translation of sterling and euro-denominated funds, and contributed to the positive market performance which resulted from the upturn in global equity markets. As at 31 December 2003, HSBC's asset management business reported funds under management of US$193 billion, including affiliates, and the private banking business reported funds under management of US$169 billion.

Board of Directors and Senior Management

Directors

Sir John Bond, *Group Chairman*
Age 62. 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 and a Director of The Hongkong and Shanghai Banking Corporation Limited. A Director of Ford Motor Company and a member of the Court of the Bank of England.

***The Baroness Dunn,** DBE, *Deputy Chairman and senior non-executive Director*
Age 64. Executive Director of John Swire & Sons Limited and a Director of Swire Pacific Limited. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A member of the Nomination Committee. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. 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 65. A member of the Court of the Bank of England and a non-executive Director of Nosmas Investment Holdings BV. A non-executive Director since 1998. Chairman of the Group Audit Committee and of the Nomination Committee. Former Chairman of Corus Group plc.

S K Green
Age 55. Group Chief Executive. An executive Director since 1998. Executive Director, Corporate, Investment Banking and Markets from 1998 to May 2003. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Bank Middle East Limited and HSBC Private Banking Holdings (Suisse) S.A. Deputy Chairman of HSBC Bank plc. A Director of CCF S.A., Grupo Financiero HSBC, S.A. de C.V., HSBC North America Holdings Inc., HSBC Trinkaus & Burkhardt KGaA, The Bank of Bermuda Limited and The Hongkong and Shanghai Banking Corporation Limited.

A W Jebson
Age 54. Group Chief Operating Officer. Group IT Director from 2000 to May 2003. An executive Director since 2000. Joined HSBC in 1978. A Director of Household International, Inc. Group General Manager, Information Technology from 1996 to 2000.

W F Aldinger
Age 56. Chairman and Chief Executive Officer of Household International, Inc. An executive Director since 25 April 2003. Chairman, and Chief Executive Officer of HSBC North America Holdings Inc. Chairman, President and Chief Executive Officer of HSBC North America Inc., and Chief Executive Officer of Household Finance Corporation. Chairman of HSBC Bank USA, HSBC Bank Canada and HSBC USA Inc. A Director of MasterCard International, Inc., Illinois Tool Works, Inc., AT&T Corp., and the combined board of the Children's Memorial Medical Center/Children's Memorial Hospital and the Children's Memorial Foundation. Past Vice Chairman of Wells Fargo Bank.

†The Rt Hon the Lord Butler of Brockwell, KG, GCB, CVO
Age 66. Master, University College, Oxford and a non-executive Director of Imperial Chemical Industries plc. Recently appointed to chair the United Kingdom Government Review of Intelligence on Weapons of Mass Destruction. A non-executive Director since 1998. Chairman of the Corporate Social Responsibility Committee and a member of the Nomination Committee. Chairman of the 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 52. Executive Chairman of chinadotcom corporation as well as Executive Chairman of chinadotcom Mobile Interactive Corporation and Chairman of hongkong.com corporation, both subsidiaries of chinadotcom corporation. A non-executive Director since 1998 and a member of the Group Audit Committee. Non-executive Chairman of HSBC Private Equity (Asia) Limited, non-executive Chairman of MTR Corporation Limited and a Director of Inchcape 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.

W R P Dalton
Age 60. An executive Director since 1998. Joined HSBC in 1980. Director and Chief Executive of HSBC Bank plc from 1998 to 2003. President and Chief Executive Officer, HSBC Bank Canada from 1992 to 1997. A Director of CCF S.A., HSBC Private Banking Holdings (Suisse) S.A. and Household International, Inc. A non-executive Director of MasterCard International, Inc.

D G Eldon
Age 58. 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.

†R A Fairhead
Age 42. Finance Director of Pearson plc and former Executive Vice President, Strategy & Group Control of ICI plc. A non-executive Director since 1 March 2004. A member of the Group Audit Committee. A non-executive Director of Harvard Business School Publishing.

D J Flint
Age 48. 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.

Board of Directors and Senior Management (continued)

†W K L Fung, OBE
Age 55. Group Managing Director and Chief Executive Officer of Li & Fung Limited. A non-executive Director since 1998. A member of the Remuneration Committee and of the Corporate Social Responsibility Committee. 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.

M F Geoghegan, CBE
Age 50. An executive Director since 1 March 2004. Chief Executive Officer, HSBC Bank plc since January 2004. Joined HSBC in 1973. President of HSBC Bank Brasil S.A.-Banco Múltiplo from 1997 to 2003 and responsible for all HSBC's business throughout South America from 2000 to 2003. A non-executive Director of Young Enterprise.

†S Hintze
Age 59. 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 member of the Corporate Social Responsibility Committee and of the Remuneration Committee. A non-executive Director of Safeway plc.

†Sir John Kemp-Welch
Age 67. Former Joint Senior Partner of Cazenove & Co and former Chairman of the London Stock Exchange. A Deputy Chairman of the Financial Reporting Council and a member of the Panel on Takeovers and Mergers from 1994 to 2000. A non-executive Director since 2000 and a member of the Remuneration Committee and of the Group Audit Committee.

***The Lord Marshall**
Age 70. Chairman of British Airways Plc and Pirelli UK 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 63. Chairman of Anglo American plc. A non-executive Director since 2001 and Chairman of the Remuneration Committee. A Director and former Chairman of The 'Shell' Transport and Trading Company, plc and former Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies. A 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.

†S W Newton
Age 62. Founder of Newton Investment Management, from which he retired in 2002. Chairman of The Real Return Holdings Company Limited. A non-executive Director since 2002. A Member of the Advisory Board of the East Asia Institute at Cambridge University.

***H Sohmen,** OBE
Age 64. Chairman and President of World-Wide Shipping Group Limited and Chairman of Bergesen dy ASA and Bergesen Worldwide Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1984 and Deputy Chairman since 1996.

†C S Taylor
Age 58. Chair of Canadian Broadcasting Corporation. A non-executive Director since 2002 and a member of the Corporate Social Responsibility Committee. Chair of Vancouver Board of Trade from 2001 to 2002. A non-executive Director of HSBC USA Inc., HSBC North America Inc. and HSBC Bank USA. A Director of Canfor Corporation and Fairmont Hotels and Resorts.

†Sir Brian Williamson, CBE
Age 59. Chairman of Electra Investment Trust plc and a member of the Supervisory Board of Euronext NV. A non-executive Director since 2002. Senior adviser to Fleming Family and Partners. Former Chairman of London International Financial Futures and Options Exchange and Gerrard Group plc. A former Director of the Financial Services Authority and a former Director of the Court of The Bank of Ireland.

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

Adviser to the Board

D J Shaw
Age 57. An Adviser to the Board since 1998. Solicitor. A partner of Norton Rose from 1973 to 1998. A Director of HSBC Private Banking Holdings (Suisse) S.A.

Secretary

R G Barber
Age 53. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

Board of Directors and Senior Management (continued)

Group Managing Directors

C-H Filippi
Age 51. A Group Managing Director and Chairman and Chief Executive Officer of CCF S.A. since 1 March 2004. A Director of HSBC Bank plc. Joined HSBC in 1987 having previously held senior appointments in the French civil service. Appointed a Group General Manager in 2001 as Global Head of Corporate and Institutional Banking.

S T Gulliver
Age 44. A Group Managing Director since 1 March 2004. Co-Head Corporate, Investment Banking and Markets since June 2003. Joined HSBC in 1980. Head of Treasury and Capital Markets in Asia-Pacific from 1996 to 2002 and Head of Global Markets from 2002 to 2003.

Y A Nasr
Age 49. A Group Managing Director since 1 March 2004. President, HSBC Bank Brasil S.A.-Banco Múltiplo since October 2003. Joined HSBC in 1976. Appointed a Group General Manager in 1998. President and Chief Executive Officer of HSBC USA Inc. and HSBC Bank USA from 1999 to 2003. President and Chief Executive Officer of HSBC Bank Canada from 1997 to 1999.

J J Studzinski
Age 47. A Group Managing Director since 1 March 2004. Co-Head Corporate, Investment Banking and Markets since June 2003. Joined HSBC in June 2003 having previously been with Morgan Stanley from 1980 to 2003, most recently as Deputy Chairman of Morgan Stanley International. Appointed a Group General Manager in August 2003.

Group General Managers

R J Arena
Age 55. Group General Manager, Global e-business. Joined HSBC in 1999. Appointed a Group General Manager in 2000.

C C R Bannister
Age 45. Chief Executive Officer, Group Private Banking. Joined HSBC in 1994. Appointed a Group General Manager in 2001.

R E T Bennett
Age 52. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

N S K Booker
Age 45. Group General Manager and Chief Executive Officer, India. Joined HSBC in 1981. Appointed a Group General Manager in January 2004.

Z J Cama
Age 56. 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 55. 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.

R J Duke
Age 53. General Manager Banking Services, HSBC Bank plc. Joined HSBC in 1971. Appointed a Group General Manager in October 2003.

A A Flockhart
Age 52. Group General Manager and Chief Executive Officer, Mexico. Joined HSBC in 1974. Appointed a Group General Manager in 2002.

M J G Glynn
Age 52. Group General Manager, President and Chief Executive Officer, HSBC Bank USA. Joined HSBC in 1982. Appointed a Group General Manager in 2001.

D H Hodgkinson
Age 53. Group General Manager and Deputy Chairman, HSBC Bank Middle East Limited. Joined HSBC in 1969. Appointed a Group General Manager in May 2003.

A P Hope
Age 57. Group General Manager, Insurance. Joined HSBC in 1971. Appointed a Group General Manager in 1996.

D D J John
Age 53. Chief Operating Officer and Director, HSBC Bank plc. Joined HSBC in 1971. Appointed a Group General Manager in 2000.

M J W King
Age 47. Group General Manager, Internal Audit. Joined HSBC in 1986. Appointed a Group General Manager in 2002.

M B McPhee
Age 62. Group General Manager, Credit and Risk. Joined HSBC in 1984. Appointed a Group General Manager in 1997.

T W O'Brien, OBE
Age 56. Group General Manager, Strategic Development. Joined HSBC in 1969. Appointed a Group General Manager in 1992.

R C F Or
Age 54. General Manager, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in 2000.

K Patel
Age 55. Group General Manager and Head of Corporate, Investment Banking and Markets, Emerging Europe and Africa. Joined HSBC in 1984. Appointed a Group General Manager in 2000.

R C Picot
Age 46. Group Chief Accounting Officer. Joined HSBC in 1993. Appointed a Group General Manager in October 2003.

A F Rademeyer
Age 45. 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 62. Group General Manager, Human Resources. Joined HSBC in 1960. Appointed a Group General Manager in 1990.

B Robertson
Age 49. Group General Manager and Head of Corporate, Investment Banking and Markets, HSBC Bank USA. Joined HSBC in 1975. Appointed a Group General Manager in March 2003.

Dr S Rometsch
Age 65. Chairman of the Managing Partners, HSBC Trinkaus & Burkhardt KGaA. Joined HSBC in 1983. Appointed a Group General Manager in 2001.

D A Schoenholz
Age 52. President and Chief Operating Officer, Household International, Inc. Joined HSBC in 1985. Appointed a Group General Manager in October 2003.

M R P Smith, OBE
Age 47. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1978. Appointed a Group General Manager in 2000.

I A Stewart
Age 45. Group General Manager and Head of Transaction Banking, Corporate, Investment Banking and Markets. Joined HSBC in 1980. Appointed a Group General Manager in 2000.

P E Stringham
Age 54. Group General Manager, Marketing. Joined HSBC in 2001. Appointed a Group General Manager in 2001.

P A Thurston
Age 50. General Manager, Personal Financial Services, Asia-Pacific. Joined HSBC in 1975. Appointed a Group General Manager in October 2003.

Results for 2003

HSBC reported operating profit before provisions of US$18,540 million. Profit attributable to shareholders of HSBC Holdings was US$8,774 million, a 13.0 per cent return on shareholders' funds. The retained profit transferred to reserves was US$2,242 million.

Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of banking and related financial services. HSBC operates through long-established businesses and has an international network of over 9,500 offices in 79 countries and territories in five regions: Europe; Hong Kong; the rest of Asia-Pacific, including the Middle East and Africa; North America; and South America.

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 5 to 22.

Dividend

A first interim dividend of US$0.24 per ordinary share was paid on 7 October 2003 and a second interim dividend of US$0.12 per ordinary share was paid on 20 January 2004. The Directors have declared a third interim dividend of US$0.24 per ordinary share in lieu of a final dividend, making a total distribution for the year of US$6,532 million. The third interim dividend will be payable on 5 May 2004 in cash in United States dollars, sterling or Hong Kong dollars, or a combination of these currencies, at exchange rates to be determined on 26 April 2004, with a scrip dividend alternative. A financial calendar, including the key dates for payment of the third interim dividend for 2004, is on pages 65 and 66.

Directors

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

W F Aldinger was appointed a Director on 25 April 2003. Sir Keith Whitson retired as a Director on 30 May 2003.

R A Fairhead and M F Geoghegan were appointed Directors on 1 March 2004. Having been appointed since the Annual General Meeting in 2003, they will retire at the forthcoming Annual General Meeting and offer themselves for re-election. Lord Butler, W R P Dalton, Baroness Dunn, W K L Fung, S Hintze, Sir John Kemp-Welch, Lord Marshall, Sir Mark Moody-Stuart and H Sohmen will retire by rotation at the forthcoming Annual General Meeting. With the exception of W R P Dalton and Lord Marshall, who are to retire, they will offer themselves for re-election.

Donations

During the year, HSBC made charitable donations totalling US$47,374,000. Of this amount, US$17,069,000 was given for charitable purposes in the United Kingdom.

Following its acquisition on 28 March 2003 and until 30 September 2003 to allow time for any commitments to be honoured, Household International continued its previous policy of making political donations in the United States. During that period donations totalling US$455,270 were made, comprising US$143,250 to 174 affiliates of the Democratic Party, US$197,000 to 271 affiliates of the Republican Party and US$115,020 to 18 non-affiliated organisations. Since 1 October 2003, Household International has adopted HSBC's longstanding policy of not making contributions to any political party. Save for the donations made by Household International before 1 October 2003, no political donations were made by HSBC during the year.

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

Auditors' Report

The auditors' report on the full accounts for the year ended 31 December 2003 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 1 March 2004

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 2003, the members of the Remuneration Committee were Sir Mark Moody-Stuart (Chairman), W K L Fung and Sir John Kemp-Welch, all of whom are independent non-executive Directors. S Hintze, an independent non-executive Director, was appointed a member of the Committee on 30 January 2004.

There were eight meetings of the Remuneration Committee during 2003. All of the members attended each of these meetings. The terms of reference of the Committee are available on www.hsbc.com by selecting 'About HSBC', then 'Board of Directors', then 'Board Committees'.

During 2003, the Committee conducted a review of external specialist remuneration consultants. After a rigorous selection process, the Committee retained the services of Towers Perrin, a firm of specialist human resources consultants, who provide independent advice on executive remuneration issues. A further selection process will take place in 2006. As a global firm, Towers Perrin also provide other remuneration, actuarial and retirement consulting services to various parts of HSBC. Other than the provision of expert advice in these areas to the Remuneration Committee and to HSBC, Towers Perrin have no connection with HSBC. Other consultants are used from time to time to validate their findings. The Remuneration Committee also receives advice from the Group General Manager, Group Human Resources and the Senior Executive, Group Reward Management.

General Policy on Employees

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

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

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

Within the authority delegated by the Board of Directors, the Remuneration Committee is responsible for determining the remuneration policy of HSBC including the terms of bonus plans, share 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 ensure that remuneration is competitive in relation to comparative organisations in each of the countries or regions in which HSBC operates;
- to offer fair and realistic salaries with an important element of variable pay 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; and
- since 1996, to follow a policy of moving progressively from defined benefit to defined contribution Group pension schemes for new employees only.

In line with these principles:

- employees' salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. Allowances and benefits are largely determined by local market practice;
- employees participate in various bonus arrangements. The level of performance-related variable pay depends upon the performance of HSBC Holdings, constituent businesses and the individual concerned. Key measures of success include: achievement of financial goals, encompassing 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 employees 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; and

- in order to align the interests of employees with those of shareholders, employees generally are eligible to be considered for discretionary awards of share options under the HSBC Holdings Group Share Option Plan. 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 48 and 49). Separate transitional arrangements are currently in place for employees of CCF.

  In addition, to allow more employees to participate in the success they help to create, employees may also participate in the HSBC Holdings savings-related share option plans and in local share ownership and profit sharing arrangements.

The impact on existing equity of granting share options which are to be satisfied by the issue of new shares is shown in diluted earnings per share on the face of the consolidated profit and loss account, with further details disclosed in Note 11 of the 'Notes on the Financial Statements'. The effect on basic earnings per share of exercising all outstanding share options would be to dilute it by 0.40 per cent.

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.

During 2004, the Committee will conduct a comprehensive and fundamental review of all share-based remuneration. Before presenting any proposed changes for shareholder approval, the Committee will ensure appropriate consultation is undertaken with shareholders and their representatives.

Directors and Senior Management

HSBC's operations are substantial, diverse and international; for example, over 74 per cent of net income is derived from outside the United Kingdom.

HSBC Holdings' Board is currently composed of 14 non-executive Directors and eight executive Directors. With businesses in 79 countries and territories, HSBC aims to attract Directors with a variety of experience, in both its key markets and internationally. The Board currently includes nationals of seven different countries. The eight executive Directors, four Group Managing Directors and 27 Group General Managers have in total more than 900 years of service with HSBC.

Directors' fees

Directors' fees are regularly reviewed and compared with other large international companies. The current fee, which was approved by shareholders in 2000, is £35,000 per annum. Recent developments in corporate governance and reporting obligations, and the expansion of HSBC's business, continue to increase the commitment required of Directors. In accordance with the recommendations of an independent external review, the approval of shareholders will be sought at the 2004 Annual General Meeting for the basic fee to be increased to £55,000 per annum with effect from 1 January 2004.

In addition, non-executive Directors receive, with effect from 1 January 2004, the following fees:

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

During 2003, five Audit Committee meetings were held. A Director's commitment to each meeting, including preparatory reading and review, can be as much as 15 hours.

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

During 2003, eight meetings of the Remuneration Committee were held.

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

The Nomination Committee met once during 2003. The terms of reference of the Committee have been broadened substantially and more meetings will be held in 2004 and future years.

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

This Committee first met in February 2004 and will meet on a quarterly basis.

Executive Directors are normally permitted to retain only one Director's fee from HSBC. For example, 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

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.

Having regard to the broad international nature of the Group, the annual market survey of senior executive remuneration takes into account not only remuneration data in the UK but also in other overseas markets.

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

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

The Committee generally provides, on a discretionary basis, long-term share incentives to executive Directors and members of senior management through conditional awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000 rather than through the HSBC Holdings Group Share Option Plan, as explained under 'Long-term incentive plan' below.

The level of awards available to the executive Directors under the annual cash bonus scheme and the HSBC Holdings Restricted Share Plan 2000 is entirely dependent on performance. Remuneration policy for executive Directors is intended to provide competitive rates of base salary but with the potential for the majority of the value of the remuneration package to be delivered in the form of both short and long-term incentives. This typically results in base salary comprising around 40 per cent of total direct pay and the remaining 60 per cent split equally between annual bonus and the expected value of Performance Share awards. The remuneration package of W F Aldinger has a smaller proportion of fixed salary and a higher proportion of annual bonus and Restricted Share awards. The awards are in accordance with the minimum level of awards set out under his employment agreement entered into at the time of the acquisition of Household.

Each component of executive Directors' remuneration is explained in detail below. The current approach and structure of remuneration has been in place since 2000 and the Committee believes it has served HSBC well. The Committee has, however, made the following modifications to the performance condition for future awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000 in order to make the condition more relevant and long-lasting:

- the elimination of any re-testing provision so that awards lapse if the performance condition is not satisfied after the initial three-year performance period; and
- a change to the benchmark group (set out on page 49) to make it more relevant as a benchmark against which HSBC's performance is measured.

The use of Performance Shares and the HSBC Holdings Restricted Share Plan 2000 will fall within the Committee's review of share-based remuneration to be undertaken in 2004.

Salary

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

Base salaries with effect from April 2004 will be:

W F Aldinger	US$1,000,000	D J Flint	£462,500
Sir John Bond	£1,202,800	M F Geoghegan	£575,000
W R P Dalton	£521,500	S K Green	£700,000
D G Eldon	US$290,340	A W Jebson	£515,000

This represents an average increase from 2003 of 18.9 per cent.

As an International Manager, D G Eldon's current base salary, shown above, is calculated on a net basis and will be subject to a separate review in April 2004.

Annual cash bonus

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

Measurement against these key performance factors may, exceptionally, result in discretionary cash bonuses up to 250 per cent of basic salary. For 2003, bonuses have ranged from 60 per cent to 250 per cent of base salary, with all but two of the executive Directors and members of Senior Management receiving discretionary bonuses of less than 110 per cent of base salary.

Long-term incentive plan

The HSBC Holdings Restricted Share Plan 2000 is the principal long-term incentive plan used 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 vesting of Performance Share awards is subject to the attainment of a predetermined TSR target.

Awards

In recent years, the Remuneration Committee has adopted a policy that the face value of annual awards of Performance Shares 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).

Additionally, executive Directors and members of Senior Management who participate in the HSBC Holdings Restricted Share Plan 2000 have not received awards under the HSBC Holdings Group Share Option Plan.

The Remuneration Committee has proposed to the Trustee of the HSBC Holdings Restricted Share Plan 2000 that the following conditional awards should be made to executive Directors in 2004:

	£000
Sir John Bond	2,100
D G Eldon	750
D J Flint	1,040
M F Geoghegan	780
S K Green	1,430
A W Jebson	1,040
Total	7,140

The Trustee to the Plan will be provided with funds to acquire HSBC Holdings ordinary shares at an appropriate time after the announcement of the annual results. The 2004 conditional awards proposed for executive Directors and members of Senior Management in respect of 2003 will have an aggregate value at the date of award of £16,860 million.

Under the terms of his employment agreement entered into at the time of the acquisition of Household, W F Aldinger will receive an award of US$5.5 million which will be used to purchase Restricted Shares in HSBC Holdings. These Restricted Shares are not subject to the TSR performance conditions set out on pages 48 to 50. One-third of this award of Restricted Shares will vest on each of the three anniversaries following the date of grant.

C F W de Croisset, who retired from HSBC on 29 February 2004, has not received any awards of Performance Shares under the HSBC Holdings Restricted Share Plan since the acquisition of CCF in 2000. Rather, in accordance with the arrangements agreed with CCF in 2000, Mr de Croisset received share option awards under the HSBC Holdings Group Share Option Plan. The awards in 2001 and 2002 were not subject to performance conditions; 50 per cent of the award made in 2003 was subject to the TSR performance conditions set out below.

W R P Dalton, who is to retire at the Annual General Meeting on 28 May 2004, will not receive an award of Performance Shares under the HSBC Holdings Restricted Share Plan in 2004.

Performance conditions

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 57.

TSR is defined as the growth in share value and declared dividend income, measured in sterling, during the relevant period. In calculating TSR, dividend income is assumed to be reinvested in the underlying shares.

The TSR performance condition for awards of Performance Shares under the Restricted Share Plan remained the same from 1999 to 2003, the five years of the Managing for Value strategy. For awards made in 2004, changes have been made to the peer group (as described below) and re-testing provisions have been eliminated so that awards will lapse if the performance condition is not satisfied after the initial three-year performance period.

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

1. a peer group of nine banks weighted by market capitalisation which are considered most relevant to HSBC in terms of size and international scope. For performance periods up to and including the one beginning in 2003, this group comprised ABN AMRO Holdings N.V., The Bank of East Asia Limited, Citigroup Inc., Deutsche Bank A.G., J P Morgan Chase & Co., Lloyds TSB Group plc, Mitsubishi Tokyo Financial Group Inc., Oversea-Chinese Banking Corporation Ltd. and Standard Chartered plc. To be more relevant to HSBC in terms of size and international scope, this peer group has been amended for conditional awards made in 2004 and onwards by the replacement of Lloyds TSB Group plc, Oversea-Chinese Banking Corporation Ltd, Mitsubishi Tokyo Financial Group Inc. and The Bank of East Asia Limited with Bank of America Corporation, The Royal Bank of Scotland plc, Banco Santander Central Hispano S.A. and UBS AG;
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 paragraph 1 and paragraph 2 above, weighted by market capitalisation.

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

The extent to which awards will vest will be determined by reference to HSBC Holdings' TSR measured against the TSR benchmark. 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 2004 is 1 March. The starting point will be, therefore, the average over the period 1 to 26 March inclusive. TSR for the benchmark constituents will be based on their published share prices on 26 March 2004.

If HSBC Holdings' TSR over the performance period exceeds the benchmark TSR, awards with a value, at the date of grant, of up to 100 per cent of the individual's earnings, will vest. For higher value awards, the greater of 50 per cent of the award or the number of shares equating at the date of grant to 100 per cent of 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.

For awards made in 2004 and thereafter, under the HSBC Holdings Restricted Share Plan 2000 only, the initial performance period will be three years from the date of grant. As before, if the upper quartile performance target is achieved, an additional award equal to 20 per cent of the initial Performance Share award will be made and will vest at the same time as the original award to which it relates. However, regardless of whether the upper quartile is achieved, full vesting and transfer of the shares will not generally occur until the fifth anniversary of the date of grant. If the performance test is not passed at the third anniversary, the shares will be forfeited.

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.

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

1. revenue growth;
2. revenue mix;
3. cost efficiency;

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

Awards will vest immediately in cases of death. The Remuneration Committee retains discretion to recommend early release of the shares to the plan 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.

Pension

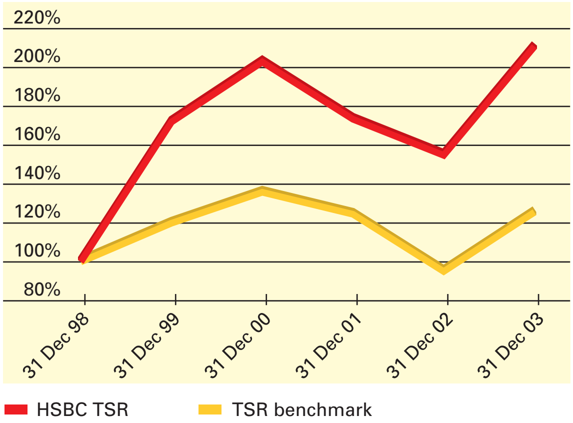
The pension entitlements earned by the executive Directors during the year are set out on pages 54 and 55.

Total shareholder return (TSR)

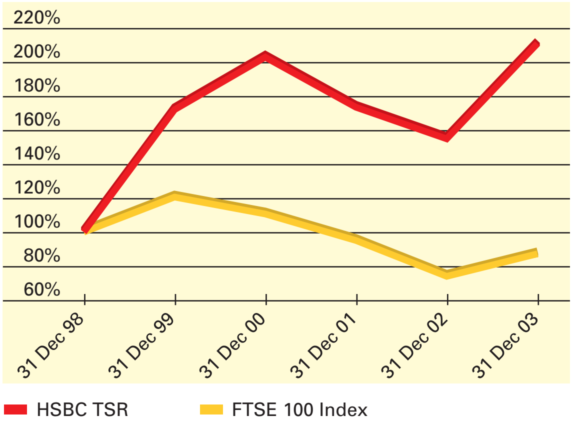
Graph 1 below shows HSBC Holdings' TSR performance against the benchmark TSR.

Pursuant to the Directors' Remuneration Report Regulations 2002, the following graphs show HSBC Holdings' TSR performance against the Financial Times-Stock Exchange (FTSE) 100 Index (graph 2), the Morgan Stanley Capital International (MSCI) World Index (graph 3), and Morgan Stanley Capital International (MSCI) Financials Index (graph 4). These measures have been chosen as they are the main published indices against which HSBC monitors its performance.

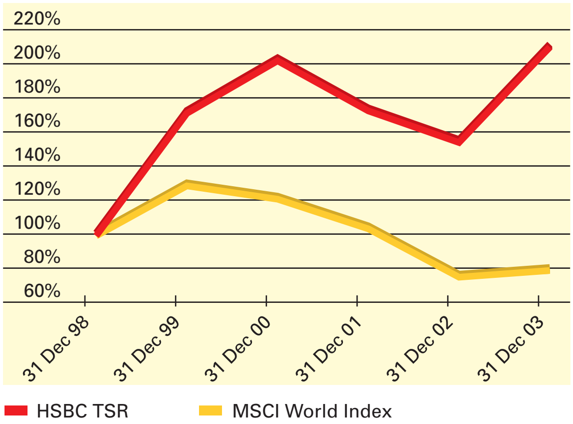
Total shareholder return GRAPH 1



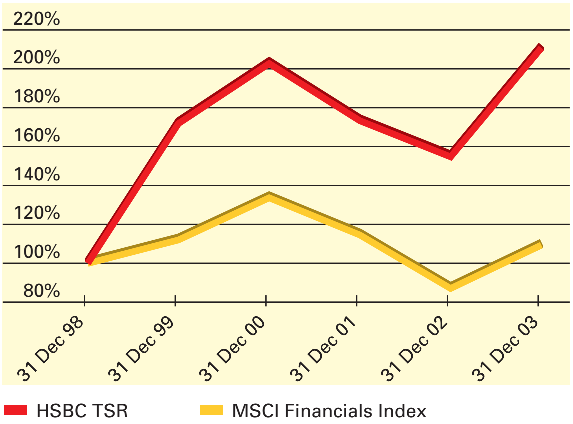
Total shareholder return GRAPH 2



Total shareholder return GRAPH 3



Total shareholder return GRAPH 4



Source: Datastream

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 W F Aldinger and C F W de Croisset, details of which are set out below.

Mr Aldinger entered into a new employment agreement with Household on 14 November 2002 for a term of three years, such term commencing on the effective date of the acquisition of Household by HSBC. Full details of the agreement were set out in the Discloseable Transaction Circular relating to the acquisition of Household sent to shareholders on 26 February 2003 in advance of the Extraordinary General Meeting to approve the acquisition. The terms of the employment agreement, which were an integral part of the Household acquisition that shareholders approved at the Extraordinary General Meeting, are unchanged. The effective date of acquisition, and commencement date of the contract, was 28 March 2003.

During the term of the agreement Mr Aldinger will be paid an annual base salary equal to his annual base salary as at the date of the merger agreement between Household and HSBC (US$1 million) and an annual bonus in an amount at least equal to the annual average of Mr Aldinger's bonuses earned with respect to the three-year period ended 2001 (pro rated for any partial year) (US$4 million). Within 30 days of the effective date, Mr Aldinger received a one-time special retention grant of HSBC Holdings ordinary shares under the HSBC Holdings Restricted Share Plan 2000 with a value equal to US$10 million. These Restricted Shares will vest in three equal instalments on each of the first three anniversaries of the effective date, as set out on pages 57 and 58. After each of the second and third anniversaries of the effective date, subject to the approval of the Trustee of the HSBC Holdings Restricted Share Plan 2000, Mr Aldinger will receive an additional grant of HSBC Holdings ordinary shares with a value equal to at least US$5.5 million. The purpose of these arrangements is to retain the services of Mr Aldinger through the initial integration of Household. HSBC considers it is essential that the experience, knowledge and skills of Mr Aldinger be retained for the benefit of HSBC shareholders.

If Mr Aldinger's employment is terminated by him during its term for 'good reason', or by Household for reasons other than 'cause' or disability, he will be entitled to: a pro rata target annual bonus for the financial year of the date of termination; a payment equal to his annual base salary, plus the average of his annual bonuses with respect to the three-year period ended 2001, times the number of full and partial months from the date of termination until the third anniversary of the effective date, divided by 12; the immediate vesting and exercisability of each stock option, restricted stock award and other equity-based award or performance award (or cash equivalent) that is outstanding as at the date of termination and treatment as retirement eligible for purposes of exercising any such award; for the remainder of his life and that of his current spouse, continued medical and dental benefits at Household's cost; and his retirement benefits (as set out on page 54) in a lump sum.

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. In accordance with French legal requirements and practice, this contract was suspended while he served as an executive Director of CCF. On 29 February 2004, Mr de Croisset took early retirement from the Group, relinquishing his role as Chairman and CEO of CCF. In light of French legal requirements, a review of market practice was undertaken and it was agreed that a one-off payment of €2,427,000 would be made to Mr de Croisset, which is considered to be appropriate in all the circumstances. He will also receive a pension as set out on page 54.

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.

M F Geoghegan, who is to stand for re-election at the forthcoming Annual General Meeting, is employed on a rolling contract which requires 12 months' notice to be given by either party.

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

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

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

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

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 normally paid to the HSBC company by which the executive Director is employed, unless otherwise approved by the Remuneration Committee.

Sir John Bond retains his fees as a non-executive director of the Ford Motor Company, which are provided partly in the form of restricted shares, which become unrestricted over a period of five years. During 2003, the fees received were US$83,000 in cash and US$35,000 deferred into Ford common stock units. In addition, Ford provides US$200,000 of life assurance and US$500,000 of accidental death or dismemberment insurance. The life assurance can be continued after retirement from the Board or Sir John Bond could elect to have it reduced to US$100,000 and receive US$15,000 a year for life. The accidental death or dismemberment insurance ends upon retirement from the Board.

W F Aldinger retains his fees as a non-executive director of Illinois Tool Works, Inc. and as a non-executive director of AT&T Corp. During 2003 the fee received from Illinois Tool Works, Inc. was US$60,800 in the form of deferred stock and the fee received from AT&T Corp. was US$26,500 in cash and US$15,000 in the form of deferred shares. In addition, AT&T Corp. provide travel accident insurance when on AT&T Corp. company business and US$100,000 of life assurance.

Employees' Emoluments

Set out below is information in respect of the five individuals who are not Directors of HSBC Holdings whose emoluments (excluding commissions or bonuses related to the revenue or profits generated by employees individually or collectively with others engaged in similar activities) were the highest in HSBC for the year ended 31 December 2003.

	£000
Basic salaries, allowances and benefits in kind	1,340
Pension contributions	122
Bonuses paid or receivable	30,117
Inducements to join paid or receivable	5,653
Compensation for loss of office	
— contractual	—
— other	—
Total	37,232
Total (US$000)	60,836

Their emoluments are within the following bands:

	Number of employees
£4,100,001 – £4,200,000	1
£4,900,001 – £5,000,000	2
£10,500,001 – £10,600,000	1
£12,600,001 – £12,700,000	1

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

	Number of Group Managing Directors and Group General Managers
£150,001 – £250,000	9
£250,001 – £350,000	14
£350,001 – £450,000	7
£450,001 – £550,000	1

The aggregate remuneration of Directors and Senior Management for the year ended 31 December 2003 was US$100,150,000.

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 2003 was US$4,321,000.

At 31 December 2003, executive Directors and Senior Management held, in aggregate, options to subscribe for 5,656,876 HSBC Holdings ordinary shares under the HSBC Holdings Executive Share Option Scheme, HSBC Holdings Group Share Option Plan and HSBC Holdings savings-related share option plans. These options are exercisable between 2004 and 2013 at prices ranging from £2.1727 to £9.642.

Directors' Emoluments

The emoluments of the Directors of HSBC Holdings for 2003 were as follows:

	Fees £000	Salary and other remuneration £000	Benefits in kind[1] £000	Bonuses[2] £000	Total 2003 £000	Total 2002 £000
Executive Directors						
W F Aldinger[3]	—	431	65	1,686	2,182	—
Sir John Bond	35	1,007	5	1,100	2,147	1,885
C F W de Croisset	35	382	—	917	1,334	609
W R P Dalton	35	582	14	—[4]	631	627
D G Eldon[5]	20	376	505	279	1,180	1,226
D J Flint	35	564	8	450	1,057	960
S K Green	35	551	1	650	1,237	965
A W Jebson	35	472	1	450	958	648
Sir Keith Whitson[6]	15	358	10	500	883	2,170
Non-executive Directors						
Lord Butler	45	—	—	—	45	40
R K F Ch'ien	159[7]	—	—	—	159	167
Baroness Dunn	35	—	—	—	35	35
W K L Fung	65[8]	—	—	—	65	61
S Hintze	35	—	—	—	35	35
Sir John Kemp-Welch	55	—	—	—	55	48
Lord Marshall	35	—	—	—	35	45
Sir Brian Moffat	50	—	—	—	50	45
Sir Mark Moody-Stuart	50	—	—	—	50	40
S W Newton	35	—	—	—	35	9
H Sohmen	25[9]	—	—	—	25	27
C S Taylor	64[10]	—	—	—	64	17
Sir Brian Williamson	35	—	—	—	35	9
Total	933	4,723	609	6,032	12,297	9,716
Total (US$000)	1,525	7,717	995	9,856	20,093	14,579

1 *Benefits in kind for executive Directors include provision of company car, medical insurance, other insurance cover and travel assistance.*
2 *These discretionary bonuses are in respect of 2003 and will be paid in 2004. W F Aldinger's guaranteed minimum bonus of US$4,000,000 has been prorated in respect of the period from 25 April 2003 (the date of his appointment) to 31 December 2003.*
3 *Appointed on 25 April 2003. W F Aldinger has elected to waive any fees payable to him by HSBC Holdings — 2003: £23,300.*
4 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount of £1,250,000 (2002: £400,000) which would otherwise have been paid.*
5 *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.*

6 *Retired on 30 May 2003.*
7 *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.*
8 *Includes fee as a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited.*
9 *Fees as a non-executive Director and member of the Audit Committee of The Hongkong and Shanghai Banking Corporation Limited. H Sohmen has elected to waive any fees payable to him by HSBC Holdings – 2003: £35,000 (2002: £35,000).*
10 *Includes fee as a non-executive Director of HSBC Bank USA.*

Pensions

There are separate schemes for UK-based and overseas-based employees: the UK scheme has a normal retirement age of 60; retirement ages for overseas schemes vary in accordance with local legislation and practice. Save as stated below no other Director participated in any Group pension schemes, none of the Directors participating in the Group's UK 'approved' pension schemes is subject to the earnings cap introduced by the 1989 Finance Act and only basic salary is pensionable. With four exceptions (see paragraphs below on W F Aldinger, 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.

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

Since the commencement of his new employment agreement on 28 March 2003, Mr Aldinger has continued to participate in the Household International Tax Reduction Investment Plan (TRIP), which is a 'qualified' funded deferred profit-sharing and savings plan for eligible employees, although no employer contributions have been made since 28 March 2003. Mr Aldinger also participated in Supplemental TRIP (a 'non-qualified' plan), which is an unfunded arrangement under which additional employer provision of US$41,539 has been made since 28 March 2003.

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

Until his retirement from CCF on 29 February 2004, C F W de Croisset was eligible for pension benefits which were supplementary to those accrued under the French State and Compulsory arrangements. The amount of this supplementary pension, payable from age 60, accrued at the rate of €6,098 per annum for each year of service (maximum 18 years) as an executive Director of CCF. Consequent upon Mr de Croisset's early retirement from CCF and following a review of market practice, it has been agreed to provide a pension of €341,467 per annum (equivalent to 32.5 per cent of his average total cash compensation over a three-year period) payable from 1 March 2004. The whole cost of this pension 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 2003 of £1,379,000 (2002: £529,000) including a bonus waiver of £1,250,000 (2002: £400,000).

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 2003 of £81,943 (2002: £80,092). 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 2003 £000	*Increase in accrued pension during 2003 £000*	*Increase in accrued pension during 2003, excluding any increase for inflation £000*	*Transfer value of accrued pension at 1 January 2003 £000*[1]	*Transfer value of accrued pension at 31 December 2003 £000*[1]	*Increase of transfer value of accrued pension (less personal contributions) in 2003 £000*[1]	*Transfer value (less personal contributions) at 31 December 2003 relating to increase in accrued pensions during 2003, excluding any increase for inflation £000*[1]
Sir John Bond[2]	398	74	66	5,504	7,924	2,420	1,306
C F W de Croisset	64	9	7	626	860	234	97
W R P Dalton	274	17	14	3,680	4,258	578	212
D G Eldon[3]	251	17	11	4,703	5,045	342[4]	205
S K Green	178	19	15	1,901	2,367	466	193
A W Jebson[5]	141	17	14	1,384	1,769	385	175
Sir Keith Whitson[6]	—	36	29	4,514	5,713	1,199	611

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 2003, 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 2003, is shown above.*
4 *D G Eldon made personal contributions towards his pension of £14,625 in respect of 2003.*
5 *A W Jebson's entitlement has been supplemented by an employer contribution of £175,000 in return for the prior waiver of part of his bonus in respect of 2002.*
6 *Sir Keith Whitson retired from the Group with effect from 30 May 2003, with a gross pension of £287,472 per annum. Sir Keith Whitson elected to commute part of this pension for a lump sum payment of £664,825 leaving a residual pension of £233,737 per annum. As a result, the pension in payment at 31 December 2003 is lower than the accrued pension at 1 January 2003. The increase in accrued pension during 2003 reflects the gross pension before commutation. The transfer value of benefits at 31 December 2003 reflects both the pension in payment and the commutation lump sum, increased with interest.*

The following unfunded pension payments, in respect of which provision has been made, were made during 2003 to four former Directors of HSBC Holdings:

	2003 £	*2002* £
B H Asher	83,277	81,564
R Delbridge	119,777	117,313
Sir Brian Pearse	49,947	48,918
Sir William Purves	88,158	86,343
	341,159	334,138

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 2003, the undernamed Directors held options to acquire the number of HSBC Holdings ordinary shares set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the HSBC Holdings savings-related share option plans before 2001 are exercisable at a 15 per cent discount to the market value at the date of award and those awarded since 2001 at a 20 per cent discount. The options are categorised as unlisted physically settled share options under the Securities and Futures Ordinance of Hong Kong.

Except as otherwise indicated, no options were exercised or lapsed during the year and there are no remaining performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares at 31 December 2003 was £8.78. The highest and lowest market values during the period were £9.135 and £6.31. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date.

On 27 August 2003, a payment of £400,000 was made to J M Gray, a former director of the Company and Chairman of The Hongkong and Shanghai Banking Corporation Limited, who retired in 1996. The payment, which was effected after having taken legal advice, represents compensation in respect of losses suffered by Mr Gray as a result of alleged negligent advice given to Mr Gray at the time of his retirement. The advice concerned the impact of his retirement on his then existing share options and the time at which these options would lapse. The compensation payment represents a portion of the loss suffered by Mr Gray on the lapse of those options.

	Options held at 1 January 2003	*Options awarded during year*	*Options exercised during year*	*Options held at 31 December 2003*	*Exercise price (£)*	*Date of award*	*Exercisable from*[1]	*Exercisable until*
Sir John Bond	75,000[2]	–	75,000[3]	–	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	–	–	2,798[4]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
C F W de Croisset	206,000	–	–	206,000[5]	8.7120	23 Apr 2001	23 Apr 2004	23 Apr 2011
	206,000	–	–	206,000[5]	8.4050	7 May 2002	7 May 2005	7 May 2012
	–	206,000[6]	–	206,000[5]	6.9100	2 May 2003	2 May 2006	1 May 2013
W R P Dalton	22,704	–	22,704[7]	–	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	30,273	–	30,273[7]	–	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	36,000	–	36,000[7]	–	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	36,000[2]	–	36,000[7]	–	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	–	–	2,798[4]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D G Eldon	36,000	–	36,000[8]	–	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	40,500[2]	–	40,500[8]	–	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
D J Flint	27,000[2]	–	–	27,000	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,617	–	–	2,617[4]	6.3224	2 May 2002	1 Aug 2007	31 Jan 2008
S K Green	2,498[4]	–	–	–[9]	6.7536	11 Apr 2001	1 Aug 2006	31 Jan 2007
	–	3,070[4]	–	3,070[4]	5.3496	23 Apr 2003	1 Aug 2008	31 Jan 2009
A W Jebson	1,434	–	–	1,434[4]	6.7536	11 Apr 2001	1 Aug 2004	31 Jan 2005
Sir Keith Whitson[10]	60,000	–	60,000[11]	–	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	–	–	2,798[12]	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 *At the date of exercise, 31 March 2003, the market value per share was £6.49.*
4 *Options awarded under the HSBC Holdings Savings-Related Share Option Plan.*
5 *Options awarded under the HSBC Holdings Group Share Option Plan.*
6 *Vesting of 50 per cent of the award is subject to the performance tests set out in the section headed 'Performance conditions' on pages 48 to 50.*
7 *At the date of exercise, 5 March 2003, the market value per share was £6.70.*
8 *At the date of exercise, 27 May 2003, the market value per share was £7.20.*
9 *Options lapsed on 9 April 2003 following closure of the associated savings-related account by the Director.*
10 *Retired on 30 May 2003.*
11 *At the date of exercise, 11 March 2003, the market value per share was £6.53.*
12 *Options held under the HSBC Holdings Savings-Related Share Option Plan at date of retirement (30 May 2003).*

At 31 December 2003, C F W de Croisset held the following options to acquire CCF shares of €5 each. On exercise of these options, each CCF share will be exchanged for 13 HSBC Holdings ordinary shares. The options were granted by CCF for nil consideration at a 5 per cent discount to the market value at the date of award. There are no remaining performance criteria conditional upon which the outstanding options are exercisable. No options over CCF shares of €5 each were awarded to or exercised by Mr de Croisset during the year.

CCF shares of €5 each

Options held at 1 January 2003	*Exercise price per share (€)*	*Options held at 31 December 2003*	*Equivalent HSBC Holdings ordinary shares of US$0.50 each at 31 December 2003*	*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

At 31 December 2003, W F Aldinger held options to acquire HSBC Holdings ordinary shares as set out in the table below. These options arise from the conversion of options he held over shares of Household International into options over HSBC Holdings ordinary shares in the same ratio as the offer for Household (2.675 HSBC Holdings ordinary shares for each Household common share) and the exercise prices per share adjusted accordingly. The Household options were granted at nil consideration.

No options over HSBC Holdings shares were awarded to Mr Aldinger from 25 April to 31 December 2003.

HSBC Holdings ordinary shares of US$0.50

Options held at 25 April 2003[1]	*Exercise price per share (US$)*	*Options exercised during year*[2]	*Options held at 31 December 2003*	*Date of award*	*Exercisable from*	*Exercisable until*
535,000	4.74	535,000	–	13 Sep 1994	13 Sep 1995	13 Sep 2004
971,025	5.09	971,025	–	7 Feb 1995	7 Feb 1996	7 Feb 2005
971,025	7.43	–	971,025	13 Nov 1995	13 Nov 1996	13 Nov 2005
1,003,125	11.43	–	1,003,125	11 Nov 1996	11 Nov 1997	11 Nov 2006
1,203,750	14.60	–	1,203,750	10 Nov 1997	10 Nov 1998	10 Nov 2007
1,337,500	13.72	–	1,337,500	9 Nov 1998	9 Nov 1999	9 Nov 2008
1,230,500	16.96	–	1,230,500	8 Nov 1999	8 Nov 2000	8 Nov 2009
1,605,000	18.40	–	1,605,000	13 Nov 2000	13 Nov 2001	13 Nov 2010
2,140,000	21.37	–	2,140,000	12 Nov 2001	12 Nov 2002	12 Nov 2011
2,140,000	10.66	–	2,140,000	20 Nov 2002	20 Nov 2003[3]	20 Nov 2012

1 *Date of appointment.*
2 *At the date of exercise, 19 December 2003, the market value per share was £8.82.*
3 *535,000 options are exercisable on each of the first, second, third and fourth anniversaries of the date of award.*

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

Restricted Share Plan

HSBC Holdings ordinary shares of US$0.50

	Awards held at 1 January 2003	*Awards made during the year*	*Monetary value of awards made during the year £000*	*Awards vested during the year*[1]	*Monetary value of awards vested during the year £000*	*Awards held at 31 December 2003*[1]	*Date of award*	*Year in which awards may vest*
W F Aldinger	–	942,808[2]	6,403	–	–	960,662	15 Apr 2003	2004 to 2006[3]
Sir John Bond	29,746	–	–	30,647[4]	193	–	2 Mar 1998	2003
	67,996	–	–	–	–	71,386	4 Mar 1999	2004
	85,365	–	–	–	–	89,621	10 Mar 2000	2005
	80,001	–	–	–	–	83,988	12 Mar 2001	2006
	119,795	–	–	–	–	125,767	8 Mar 2002	2007
	–	159,873[5]	1,100	–	–	167,843	5 Mar 2003	2008
W R P Dalton	19,833	–	–	20,433[4]	129	–	2 Mar 1998	2003
	39,665	–	–	–	–	41,643	4 Mar 1999	2004
	38,803	–	–	–	–	40,738	10 Mar 2000	2005
	45,715	–	–	–	–	47,994	12 Mar 2001	2006
	75,660	–	–	–	–	79,432	8 Mar 2002	2007
	–	109,004[5]	750	–	–	114,438	5 Mar 2003	2008
D G Eldon	23,796	–	–	24,516[4]	154	–	2 Mar 1998	2003
	39,665	–	–	–	–	41,643	4 Mar 1999	2004
	38,803	–	–	–	–	40,738	10 Mar 2000	2005
	7,388	–	–	7,388[6]	50	–	3 Apr 2000	2003
	45,715	–	–	–	–	47,994	12 Mar 2001	2006
	6,736	–	–	–	–	7,072[6]	30 Apr 2001	2004
	50,440	–	–	–	–	52,955	8 Mar 2002	2007
	9,340	–	–	–	–	9,806[6]	15 May 2002	2005
	–	72,669[5]	500	–	–	76,292	5 Mar 2003	2008
	–	13,081[6]	90	–	–	13,329	12 May 2003	2006
D J Flint	19,833	–	–	20,433[4]	129	–	2 Mar 1998	2003
	39,665	–	–	–	–	41,643	4 Mar 1999	2004
	34,922	–	–	–	–	36,663	10 Mar 2000	2005
	57,144	–	–	–	–	59,992	12 Mar 2001	2006
	75,660	–	–	–	–	79,432	8 Mar 2002	2007
	–	109,004[5]	750	–	–	114,438	5 Mar 2003	2008
S K Green	23,796	–	–	24,516[4]	154	–	2 Mar 1998	2003
	39,665	–	–	–	–	41,643	4 Mar 1999	2004
	38,803	–	–	–	–	40,738	10 Mar 2000	2005
	80,001	–	–	–	–	83,988	12 Mar 2001	2006
	94,575	–	–	–	–	99,290	8 Mar 2002	2007
	–	109,004[5]	750	–	–	114,438	5 Mar 2003	2008
A W Jebson	9,917	–	–	10,216[4]	64	–	2 Mar 1998	2003
	33,998	–	–	–	–	35,693	4 Mar 1999	2004
	31,041	–	–	–	–	32,589	10 Mar 2000	2005
	68,572	–	–	–	–	71,990	12 Mar 2001	2006
	88,270	–	–	–	–	92,671	8 Mar 2002	2007
	–	109,004[5]	750	–	–	114,438	5 Mar 2003	2008
Sir Keith Whitson[7]	23,796	–	–	24,516[4]	154	–	2 Mar 1998	2003
	56,663	–	–	–	–	58,383[8]	4 Mar 1999	2004
	54,323	–	–	–	–	55,971[8]	10 Mar 2000	2005
	62,858	–	–	–	–	64,765[8]	12 Mar 2001	2006
	94,575	–	–	–	–	97,444[8]	8 Mar 2002	2007

Unless otherwise indicated, vesting of these shares is subject to the performance tests set out in the section headed 'Performance conditions' on pages 48 to 50.

1 *Includes additional shares arising from scrip dividends.*
2 *The market value per share on 15 April 2003 was £6.81. The shares acquired by the Trustee were purchased at an average price of £6.79.*
3 *The shares will vest in three equal instalments on each of the first three anniversaries of 28 March 2003 so long as Mr Aldinger remains employed on the relevant vesting date, subject to accelerated vesting upon a termination of employment by Household without cause, or by Mr Aldinger for good reason or due to his death or disability.*
4 *At the date of vesting, 31 March 2003, the market value per share was £6.49. The market value per share (adjusted for the share capital reorganisation implemented on 2 July 1999) on 2 March 1998, the date of award, was £6.22. The awards were subject to earnings per share performance conditions, to be achieved in whole or in part, as follows: (1) earnings per share in the year 2001 to be greater than earnings per share in 1997 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; (2) earnings per share to increase relative to the previous year in not less than three of the four years of the performance period; and (3) 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, these conditions were retested over the years 1999 to 2002. The performance conditions were met in full and the shares were released.*
5 *The market value per share on 5 March 2003 was £6.70. The shares acquired by the Trustee of the Plan were purchased at an average price of £6.88.*
6 *50 per cent of D G Eldon's discretionary bonus in respect of 1999, 2000, 2001 and 2002 respectively was awarded in Restricted Shares with a three-year restricted period.*
7 *Retired on 30 May 2003.*
8 *Interest at date of retirement (30 May 2003).*

On behalf of the Board

Sir Mark Moody-Stuart, *Chairman of Remuneration Committee* 1 March 2004

Summary Consolidated Profit and Loss Account

2002 US$m	Year ended 31 December	**2003 US$m**	*2003 £m*	*2003 HK$m*
28,595	Interest receivable	**39,968**	*24,460*	*311,231*
(13,135)	Interest payable	**(14,370)**	*(8,794)*	*(111,899)*
15,460	**Net interest income**	**25,598**	*15,666*	*199,332*
11,135	Other operating income	**15,474**	*9,470*	*120,496*
26,595	**Operating income**	**41,072**	*25,136*	*319,828*
(14,954)	Operating expenses	**(21,082)**	*(12,902)*	*(164,166)*
(854)	Goodwill amortisation	**(1,450)**	*(887)*	*(11,291)*
10,787	**Operating profit before provisions**	**18,540**	*11,347*	*144,371*
(1,321)	Provisions for bad and doubtful debts	**(6,093)**	*(3,729)*	*(47,446)*
(39)	Provisions for contingent liabilities and commitments	**(35)**	*(21)*	*(273)*
(68)	Foreign currency redenomination in Argentina	**(9)**	*(6)*	*(70)*
(324)	Amounts written off fixed asset investments	**(106)**	*(65)*	*(825)*
9,035	**Operating profit**	**12,297**	*7,526*	*95,757*
(28)	Share of losses from joint ventures	**(116)**	*(71)*	*(903)*
135	Income from associated undertakings	**221**	*135*	*1,721*
	Gains on disposal of:			
532	— investments	**451**	*276*	*3,512*
(24)	— tangible fixed assets	**(37)**	*(23)*	*(288)*
9,650	**Profit on ordinary activities before tax**	**12,816**	*7,843*	*99,799*
(2,534)	Tax on profit on ordinary activities	**(3,120)**	*(1,909)*	*(24,295)*
7,116	**Profit on ordinary activities after tax**	**9,696**	*5,934*	*75,504*
	Minority interests:			
(505)	— equity	**(487)**	*(298)*	*(3,792)*
(372)	— non-equity	**(435)**	*(266)*	*(3,387)*
6,239	**Profit attributable to shareholders**	**8,774**	*5,370*	*68,325*
(5,001)	Dividends	**(6,532)**	*(3,998)*	*(50,865)*
1,238	**Retained profit for the period**	**2,242**	*1,372*	*17,460*
US$		**US$**	*£*	*HK$*
0.76	Earnings per ordinary share excluding goodwill amortisation	**0.99**	*0.61*	*7.71*
0.67	Basic earnings per ordinary share	**0.84**	*0.51*	*6.54*
0.53	Diluted earnings per ordinary share	**0.83**	*0.51*	*6.46*

Consolidated Balance Sheet

Summary Financial Statement

2002 US$m		2003 US$m	2003 £m	2003 HK$m
	ASSETS			
7,659	Cash and balances at central banks	**7,661**	4,290	59,472
5,651	Items in the course of collection from other banks	**6,628**	3,712	51,453
18,141	Treasury bills and other eligible bills	**20,391**	11,419	158,295
9,445	Hong Kong Government certificates of indebtedness	**10,987**	6,153	85,294
95,496	Loans and advances to banks	**117,173**	65,617	909,614
352,344	Loans and advances to customers	**528,977**	296,227	4,106,448
175,730	Debt securities	**205,722**	115,204	1,597,020
7,664	Equity shares	**12,879**	7,212	99,980
190	Interests in joint ventures	**10**	6	78
1,116	Interests in associated undertakings	**1,263**	707	9,805
651	Other participating interests	**690**	386	5,356
17,192	Intangible fixed assets	**28,640**	16,038	222,332
14,181	Tangible fixed assets	**15,748**	8,819	122,252
45,763	Other assets	**63,128**	35,352	490,061
7,382	Prepayments and accrued income	**14,319**	8,019	111,158
758,605	Total assets	**1,034,216**	579,161	8,028,618
	LIABILITIES			
9,445	Hong Kong currency notes in circulation	**10,987**	6,153	85,294
52,933	Deposits by banks	**70,426**	39,439	546,717
495,438	Customer accounts	**573,130**	320,953	4,449,208
4,634	Items in the course of transmission to other banks	**4,383**	2,454	34,025
34,965	Debt securities in issue	**153,562**	85,995	1,192,102
72,090	Other liabilities	**94,669**	53,012	734,911
7,574	Accruals and deferred income	**13,760**	7,706	106,819
	Provisions for liabilities and charges			
1,154	— deferred taxation	**1,670**	935	12,964
3,683	— other provisions	**5,078**	2,844	39,421
	Subordinated liabilities			
3,540	— undated loan capital	**3,617**	2,026	28,079
14,831	— dated loan capital	**17,580**	9,845	136,474
	Minority interests			
2,122	— equity	**2,162**	1,211	16,784
4,431	— non-equity	**8,719**	4,883	67,686
4,741	Called up share capital	**5,481**	3,069	42,549
47,024	Reserves	**68,992**	38,636	535,585
51,765	Shareholders' funds	**74,473**	41,705	578,134
758,605	Total liabilities	**1,034,216**	579,161	8,028,618
	MEMORANDUM ITEMS			
	Contingent liabilities			
4,711	— acceptances and endorsements	**5,412**	3,031	42,013
46,527	— guarantees and assets pledged as collateral security	**54,439**	30,486	422,610
17	— other contingent liabilities	**29**	16	225
51,255		**59,880**	33,533	464,848
225,629	Commitments	**428,764**	240,108	3,328,495

Sir John Bond, *Group Chairman*

1 Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings and in accordance with applicable accounting standards. The accounting policies adopted are consistent with those described in the 2002 *Annual Report and Accounts* except as noted below.

HSBC has adopted the provisions of the Urgent Issues Task Force ('UITF') Abstract 37 'Purchases and sales of own shares', and UITF Abstract 38 'Accounting for ESOP Trusts' and, as a result, the presentation of shares in HSBC Holdings held by HSBC changed in 2003. HSBC Holdings shares held on HSBC's own account are now deducted from shareholders' funds; previously, own shares held were included in equity shares and other assets. No gains or losses are recognised in the profit and loss account reserve on purchases, sales or cancellation of own shares. 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

UITF Abstract 38 does not impact on the profit and loss account. Profit and loss comparative figures have not been restated upon the adoption of UITF Abstract 37 since the effect is immaterial. The effect on the results for the current period of the adoption of UITF Abstract 37 is to reduce profits by US$39 million arising from the increase in the market value of own shares held within long term assurance assets attributable to policy holders.

Consolidated balance sheet

Figure in US$m	*OtherAssets*	*Equity shares*	*Own shares held reserve*	*Profit and loss account reserve*
At 31 December 2002				
Under previous policy	45,855[1]	8,213	–	33,335
Adoption of UITF 37 and 38	(92)	(549)	(646)	5
Under new policy	45,763	7,664	(646)	33,340
At 31 December 2001				
Under previous policy	38,632	8,057	–	27,296
Adoption of UITF 37 and 38	(92)	(608)	(686)	(14)
Under new policy	38,540	7,449	(686)	27,282
At 31 December 2000				
Under previous policy	36,030	8,104	–	27,057
Adoption of UITF 37 and 38	(92)	(670)	(723)	(39)
Under new policy	35,938	7,434	(723)	27,018

1 *This excludes US$29 million of intangible assets, which have now been combined with goodwill on the face of the balance sheet.*

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$20,093,000 (2002: US$14,579,000; 2001: US$12,718,000). Aggregate gains on the exercise of the share options were US$2,066,000 (2002: US$514,000; 2001: US$1,990,000). Restricted Share Plan awards of US$1,728,000 (2002: nil; 2001: US$756,000) vested.

There were annual payments under retirement benefit agreements with former Directors of US$557,000 (2002: US$501,000; 2001: US$472,000). The provision as at 31 December 2003 in respect of unfunded pension obligations to former Directors amounted to US$7,273,000 (2002: US$6,942,000; 2001: US$6,281,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$1,294,964 (2002: US$1,592,024; 2001: US$1,462,000).

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:

	2003		*2002*	
	Number	**US$m**	*Number*	*US$m*
Directors and connected persons and companies controlled by them:				
Loans and credit card transactions (including US$274,198 in credit card transactions (2002: US$367,665) and US$25,776,133 in guarantees (2002: US$14,538,793))	**82**	**353**	145	931
Officers:				
Loans and credit card transactions (including US$377,611 in credit card transactions (2002: US$169,025) and US$224,769 in guarantees (2002: US$nil))	**32**	**38**	28	18

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 2003 was US$7,500 million (2002 and 2001: US$7,500 million) divided into 15,000 million (2002 and 2001: 15,000 million) ordinary shares of US$0.50 each, and £301,500 (2002 and 2001: £301,500) divided into 301,500 non-voting deferred shares of £1 each.

	Number of HSBC Holdings ordinary shares	US$m
Issued:		
At 1 January 2003	9,480,820,796	4,741
Shares issued on acquisition of Household	1,273,297,057	637
Shares issued in connection with the early settlement of Household 8.875% Adjustable Conversion – Rate Equity Security Units	51,072,691	26
Shares issued under Household share plans	26,576	–
Shares issued under QUEST	2,200,630	1
Shares issued under other employee share schemes	33,858,455	17
Shares issued in lieu of dividends	118,742,275	59
At 31 December 2003	**10,960,018,480**	**5,481**

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 2003 and the closing rate at that date respectively. These were as follows:

	Average rate	*Closing rate*
US$1.00 = HK$	7.787	7.763
US$1.00 = £	0.612	0.560

6 Other information

This Summary Financial Statement is only a summary of information in the HSBC Holdings plc *Annual Report and Accounts 2003.* 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 2003* 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 2003* 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 1 March 2004.

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 44 to 63.

This statement is made solely to the company's members, as a body, in accordance with section 251 of the Companies Act 1985. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assure responsibility to anyone other than the company and the company's members as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the *Annual Review* in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statements within the *Annual Review* with the full annual accounts and 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 Practices Board for use in the United Kingdom. Our unqualified report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion

In our opinion the Summary Financial Statement are consistent with the full annual accounts, Directors' Report and the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2003 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

1 March 2004

Shareholder Information

Third Interim Dividend for 2003

The Directors have declared a third interim dividend of US$0.24 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US$0.24 and the second interim dividend of US$0.12 already paid, will make a total distribution for the year of US$0.60 per share, an increase of 13 per cent on 2002. Information on the scrip dividend scheme and currencies in which shareholders may elect to have the cash dividend paid will be sent to shareholders on or about 30 March 2004. The timetable for the dividend is:

	2004
Shares quoted ex-dividend in London, Hong Kong and Bermuda; American Depositary Shares ('ADSs') quoted ex-dividend in New York	17 March
Record date for third interim dividend for 2003 and closure of Hong Kong Overseas Branch Register of Shareholders for one day	19 March
Shares quoted ex-dividend in Paris	22 March
Mailing of *Annual Report and Accounts* and /or *Annual Review*, Notice of Annual General Meeting and dividend information	30 March
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	22 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	26 April
Payment date: dividend warrants, new share certificates or transaction advices and notional tax vouchers mailed and shares credited to stock accounts in CREST	5 May

Annual General Meeting

The 2004 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on 28 May 2004 at 11 a.m.

Interim Results

The interim results for the six months to 30 June 2004 will be announced on Monday 2 August 2004.

Interim Dividends for 2004

As announced in 2003, the Board has adopted a policy of paying quarterly dividends. Under this policy, it is intended to have a pattern of three equal interim dividends with a variable fourth interim dividend. It is envisaged that the first interim dividend in respect of 2004 will be US$0.13 per share. The proposed timetables for the dividends in respect of 2004 are:

	2004
First interim dividend for 2004	
Announcement	4 May
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	19 May
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	21 May
Shares quoted ex-dividend in Paris	24 May
Payment date	7 July
Second interim dividend for 2004	
Announcement	2 August
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	18 August
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	20 August
Shares quoted ex-dividend in Paris	23 August
Payment date	6 October

Shareholder Information (continued)

	2004
Third interim dividend for 2004	
Announcement	8 November
ADSs quoted ex-dividend in New York	23 November
Shares quoted ex-dividend in London, Hong Kong and Bermuda	24 November
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	26 November
Shares quoted ex-dividend in Paris	29 November
	2005
Payment date	20 January

	2005
Fourth interim dividend for 2004	
Announcement	28 February
Shares quoted ex-dividend in London, Hong Kong and Bermuda; ADSs quoted ex-dividend in New York	16 March
Record date and closure of Hong Kong Overseas Branch Register of Shareholders for one day	18 March
Shares quoted ex-dividend in Paris	21 March
Payment date	4 May

Shareholder Enquiries

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

Principal Register
Computershare Investor Services PLC
PO Box 1064, The Pavilions
Bridgwater Road
Bristol BS99 3FA
United Kingdom
Telephone: 44 0870 702 0137

Hong Kong Overseas Branch Register
Computershare Hong Kong Investor Services Limited
Rooms 1901-1905, Hopewell Centre
183 Queen's Road East
Hong Kong
Telephone: 852 2862 8555

Bermuda Overseas Branch Register
Corporate Shareholder Services
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda
Telephone: 1 441 299 6737

ADR Depositary
The Bank of New York
101 Barclay Street, Floor 22W
New York, NY 10286
USA
Telephone: 1 888 269 2377

Paying Agent in France
CCF
103 avenue des Champs Elysées
75008 Paris
France
Telephone: 33 1 40 70 22 56

Investor Relations

Enquiries may be directed to:

Senior Manager Investor Relations
HSBC Holdings plc
8 Canada Square
London E14 5HQ
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Telephone: 44 020 7991 8041
Facsimile: 44 020 7991 4663
E-mail: investorrelations@hsbc.com

Annual Review 2003

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 a printed copy or would like to receive future shareholder communications in printed form, please write to the appropriate Registrars listed under Shareholder Enquiries. Printed copies will be provided without charge.

Chinese translation

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

《年度回顧》及本公司日後其他文件備有中譯本，請向「股東參考資料」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:

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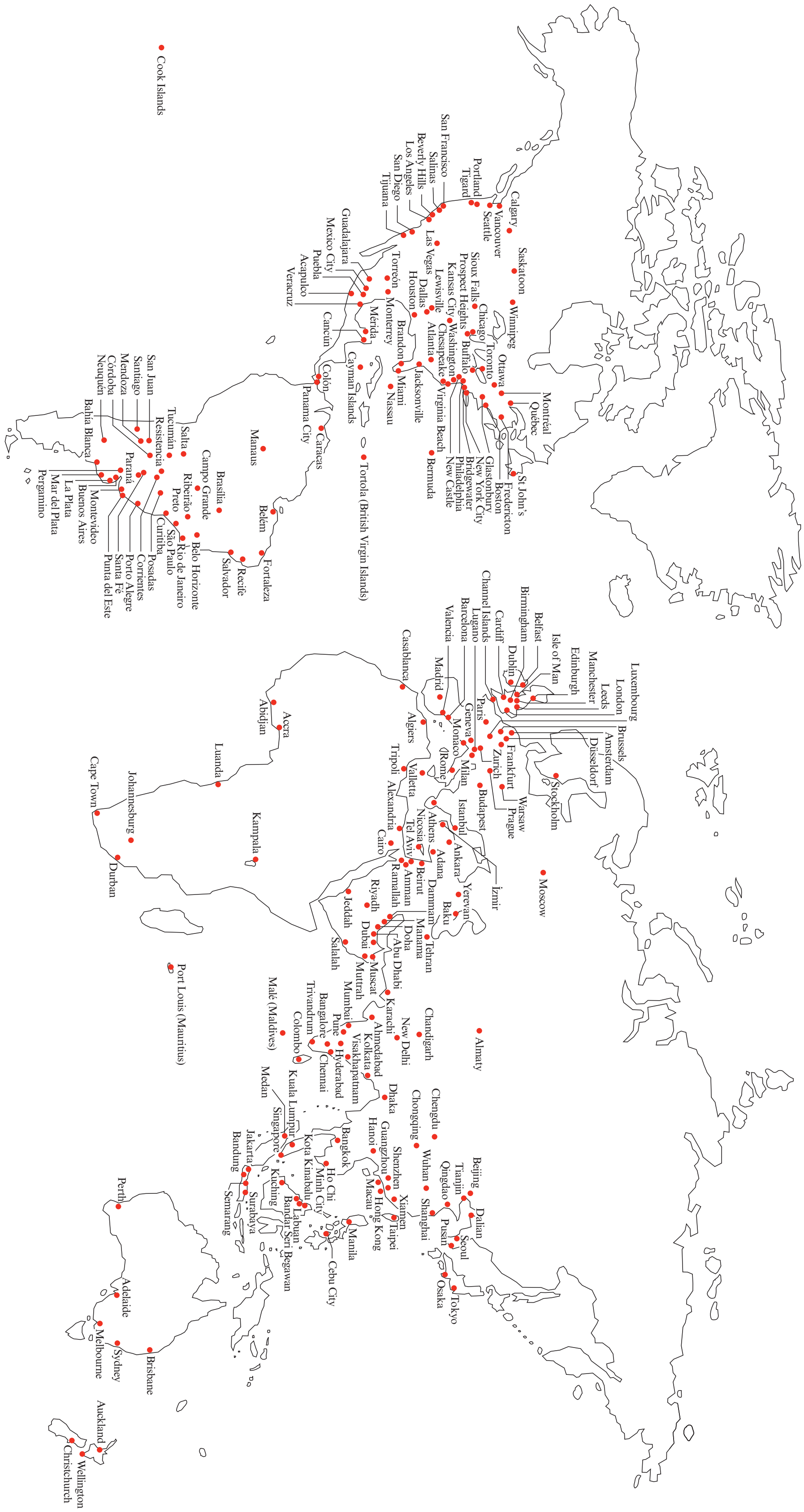

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