

HSBC HOLDINGS PLC
2002 FINAL RESULTS – HIGHLIGHTS

- Operating income up 2.7 per cent to US\$26,595 million (US\$25,888 million in 2001).

On a cash basis (excluding goodwill amortisation):

- Operating profit before provisions up 3.2 per cent to US\$11,641 million (US\$11,283 million in 2001).
- Group pre-tax profit up 19.4 per cent to US\$10,513 million (US\$8,807 million in 2001).
- Attributable profit up 22.5 per cent to US\$7,102 million (US\$5,799 million in 2001).
- Return on invested capital of 12.8 per cent (11.2 per cent in 2001).
- Cash earnings per share US\$0.76 (US\$0.63 in 2001).

On a reported basis (after goodwill amortisation):

- Operating profit before provisions up 2.9 per cent to US\$10,787 million (US\$10,484 million in 2001).
- Group pre-tax profit up 20.6 per cent to US\$9,650 million (US\$8,000 million in 2001).
- Attributable profit up 25.0 per cent to US\$6,239 million (US\$4,992 million in 2001).
- Return on average shareholders' funds of 12.3 per cent (10.4 per cent in 2001).
- Basic earnings per share US\$0.67 (US\$0.54 in 2001).

Dividend and capital position:

- Second interim dividend of US\$0.325 per share; total dividend for 2002 of US\$0.53 per share, an increase of 10.4 per cent over 2001.
- Tier 1 capital ratio of 9.0 per cent; total capital ratio of 13.3 per cent (2001: tier 1 capital ratio of 9.0 per cent and total capital ratio of 13.0 per cent).

The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on page 15.

HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US\$9,650 MILLION

HSBC made a profit on ordinary activities before tax of US\$9,650 million in 2002, an increase of US\$1,650 million, or 21 per cent, compared with 2001. On a cash basis, profit before tax increased by US\$1,706 million, or 19 per cent, compared with 2001.

The Directors have declared a second interim dividend for 2002 of US\$0.325 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US\$0.205 already paid, will make a total distribution for the year of US\$0.53 per share (US\$0.48 per share in 2001), an increase of 10.4 per cent. The dividend will be payable on 6 May 2003.

Net interest income of US\$15,460 million in 2002 was US\$735 million, or 5 per cent, higher than 2001. Net interest income in Europe and North America was higher than in 2001 mainly reflecting the growth in average interest-earning assets and the benefits of lower funding costs. In addition, GF Bital contributed US\$85 million of net interest income to the North American region. Net interest income in South America was lower than in 2001 as HSBC reduced the level of local debt securities in Brazil and in Argentina narrower spreads and the costs associated with the funding of the non-performing loan portfolio resulted in a net interest cost in 2002.

Other operating income of US\$11,135 million was in line with 2001 as growth in wealth management income was offset by falls in securities-related fee and commission income.

Operating expenses, excluding goodwill amortisation, were US\$349 million, or 2 per cent, higher than 2001 reflecting the cost structures of new acquisitions, investment in the expanding wealth management business and costs associated with the enhancement of business processes. HSBC's cost : income ratio, excluding goodwill amortisation, improved to 56.2 per cent compared with 56.4 per cent in 2001.

The charge for bad and doubtful debts was US\$1,321 million in 2002, which was US\$716 million lower than in 2001. Last year's charge included a US\$600 million provision for Argentine exposure.

Other charges of US\$107 million in 2002 were US\$1,062 million, 91 per cent lower than in 2001. The 2001 charges included the loss of US\$520 million arising from the foreign currency redenomination in Argentina and a charge of US\$575 million in respect of the Princeton Note Matter. The 2002 charge includes a US\$68 million charge in respect of losses in Argentina arising from judicial orders or 'amparos' allowing certain depositors to circumvent the mandatory pesification rules and recover their historical US dollar deposits at current exchange rates.

Gains on disposal of investments of US\$532 million included profit on the sales of CCF's stake in Lixxbail to its joint venture partner and HSBC's 6.99 per cent stake in Banco Santiago S.A. In addition, disposal gains of US\$170 million were realised from sales of investment debt securities to adjust to changes in interest rate conditions.

The tier 1 capital and total capital ratios for the Group remained strong at 9.0 per cent and 13.3 per cent, respectively, at 31 December 2002.

The Group's total assets at 31 December 2002 were US\$759 billion, an increase of US\$63 billion, or 9 per cent, since 31 December 2001.

Geographical distribution of results

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

Distribution of results by line of business

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

[†] *Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 ‘Deferred Tax’, details of which are in Note 1 on page 15.*

^{††} *Figures for 2001 have been restated to reflect a reclassification of Panama and Mexico to North America, from South America (formerly Latin America).*

^{†††} *The figures for 2001 have been restated to reflect a reclassification of US domestic private banking business previously included within the Personal Financial Services segment and HSBC Select previously included within other.*

Comment by Sir John Bond, Group Chairman

Against a background of difficult conditions in most of the world's economies, HSBC achieved a solid set of results in 2002. Our performance reflected the resilience of our local businesses and our ability to generate reasonable returns in them. In spite of the global economic downturn the strength of HSBC enabled us to grow our operating income and to take opportunities to lay the foundations for our future. I thank my talented colleagues whose hard work and dedication have made this superior performance possible.

In a testing year for the financial services industry we added revenues in excess of US\$700 million, more than twice our incremental costs. Our credit experience was better than last year, even adjusting for the exceptional events in Argentina in 2001. Credit costs absorbed 12 per cent of our operating profit before provisions, an improvement compared to 14 per cent last year.

Profit attributable to shareholders of US\$6,239 million was 25 per cent higher than that achieved in 2001 which bore the exceptional costs of the Argentine situation and the Princeton Note matter.

The improvement in our operating profit before provisions, a key measure of underlying performance, was partly driven by strong growth in our commercial banking business. It also reflected encouraging progress in personal financial services and the success we have had in broadening our relationships with our customers despite the difficult market for investment products. Customer satisfaction with, and trust in, HSBC's services continued to grow. In the UK, for example, First Direct was the most recommended bank and has the country's most satisfied customers for the 11th year running.

We now have 36 million personal customers around the world with more than 4.3 million registered for e-banking services. HSBC Premier, our service for our most valuable clients, was launched in a further six countries bringing the total to 29, the number of Premier centres to over 200 and the number of Premier customers to 632,000.

Responding to personal customer needs, we generated record sales of capital protected investment products, particularly in Hong Kong and in the rest of Asia. We also achieved record volumes of activity in mortgage banking, notably in the UK and the US. We grew insurance sales by 16 per cent. We continued to attract increasing volumes of lower cost retail balances as customers preferred liquid cash deposits to longer term savings products. This was a particular strength of our retail networks in France.

As equity markets slumped the demand from personal customers for equity products diminished significantly. However, interest rates were held low to stimulate consumption and we achieved strong growth in personal lending across all our major markets. We continued to increase the number of credit cards in issue bringing the total to almost 14 million worldwide and added 1.3 million store cards through the acquisition of Benkar in Turkey. Credit charges on personal lending remained in line with both history and expectations, as affordability and employment levels remained stable.

In contrast, lending to the corporate sector remained subdued in difficult market conditions. In aggregate, outstanding balances were held in line with last year. Although credit costs grew significantly in Corporate Banking to US\$184 million, the conservative and conventional positioning of our portfolio has protected HSBC from the marked deterioration seen in certain industries.

Comment by Sir John Bond, Group Chairman

The Group's debt capital markets business had a record year, achieving its highest ever ranking in European league tables to complement its leadership position in Hong Kong and in much of the rest of Asia. Revenues in this business grew by US\$40 million or 30 per cent and reflected continuing benefits from close co-operation between different parts of HSBC. The strong links between our teams in London, Paris and Düsseldorf for European distribution continue to provide a competitive advantage. International teamwork was also evident in our corporate finance business which had a strong year including leading Europe's largest IPO '*Autoroutes du Sud de la France*' and winning 10 mandates in mainland China as adviser or manager. This business has also made an encouraging start to 2003.

Our treasury operations continued to perform well. In 2002 we retained our leading position for Treasury and Capital Markets services in Asia and Europe. For the fifth consecutive year, we achieved the "Best at Treasury and Risk Management in Asia" Euromoney award for excellence.

The institutional equities business had a disappointing year as market revenues declined. However, the actions taken since the end of 2001 to keep costs more in line with revenue opportunities, resulted in a lower attributable loss.

Trading in debt securities across all major regions suffered as concerns about a slowdown in global economic growth and the impact of corporate scandals in the US widened credit spreads on corporate debt securities.

Argentina

The impact of the end of convertibility of the Argentine currency on a one for one basis with the US dollar, and the asymmetrical conversion of banks' balance sheets to pesos, has had a dramatic effect on the economic and social environment in Argentina. During 2002 the economy contracted over 11 per cent and consumer price inflation reached 41 per cent. The official rate of unemployment rose to almost 18 per cent.

Liquidity conditions in the banking sector were troubled during most of the year. Through the mechanism of "*amparos*", many depositors were able to obtain court orders for repayment of historically US dollar denominated deposits at current exchange rates, rather than the rate at which these deposits had been "pesified" by the Argentine Government. This further asymmetry cost HSBC Argentina US\$68 million in 2002. Together with the burden of funding a largely non performing asset book, this contributed to our operations in Argentina suffering a loss of US\$245 million in 2002. Of our Argentine bank's assets, 71 per cent are government obligations.

The HSBC Group's total assets in Argentina have shrunk to the equivalent of US\$1.6 billion, partly through actions taken to minimise risk exposure and also through the impact of exchange translation; this represents 0.2 per cent of total Group assets. Improvement in the situation in Argentina depends heavily on the government's ability to restore stability internally and credibility externally.

Comment by Sir John Bond, Group Chairman

Acquisitions

Our experience in the current subdued economic environment has reinforced the importance of growing the number of customers we reach geographically and extending the product coverage of HSBC. During the course of 2002 we were able to take advantage of some important new opportunities as well as to complement a number of our existing businesses through acquisition.

We believe that China is on course to become one of the world's leading economies. Our ambition is to be the leading international financial services organisation in China. Recognising the huge reach of domestic organisations, we see strong potential in partnership relationships. We were delighted to conclude an agreement to take a 10 per cent equity interest in Ping An Insurance at a cost of US\$600 million. Ping An is China's second largest life assurer reaching over 27 million policy holders through more than 210,000 sales agents.

Also, we completed the acquisition of Keppel Insurance Pte Limited in February this year for a consideration of approximately US\$88 million. Keppel is a leading insurance business in Singapore specialising in general life and Islamic insurance and through its acquisition HSBC will be able to expand an existing business in a country where we have a long history.

In November we completed the acquisition of GF Bital in Mexico for US\$1.1 billion. In December, as planned, we injected US\$800 million to recapitalise GF Bital. The importance of Mexico as a manufacturing base for US companies, the substantial remittance business flowing between the US and Mexico and the growing demographic importance of the Hispanic community in the US all supported the business case to grow our business in Mexico. GF Bital brings to the Group 6 million customers, 1,400 branches and a prominent position in the savings industry in Mexico.

In August we expanded our operations in Turkey through the acquisition of Benkar, a leading store card issuer, for up to US\$75 million. The business is being integrated into HSBC's banking operations in Turkey which were significantly enlarged in 2001 through the acquisition of Demirbank.

Later in 2002 we had talks with the management of Household International, Inc. in the US about a possible combination of our two businesses. This led to a joint announcement on 14 November last year of an agreement for HSBC to acquire Household, issuing HSBC shares in exchange for Household common stock. Based on our share price at the time this valued Household at US\$ 14.2 billion. Shareholders of both companies will be asked to approve the transaction in late March. It is also subject to various regulatory approvals and, subject to obtaining these, we expect to complete the transaction at the end of March. This will bring together one of the world's most successful deposit gatherers and one of the world's largest consumer asset generators. It is an extremely good match. We see a growing number of areas where the technology and marketing skills of Household, combined with the customer and geographic profile of HSBC, will generate valuable business opportunities. It is expected that the acquisition will be accretive in the first year. The successful integration of Household into HSBC will be our primary objective this year.

Comment by Sir John Bond, Group Chairman

Pensions

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

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

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

Outlook

In common with the last two years, prospects for 2003 are hard to predict. The beginning of the year has been characterised by a high degree of economic uncertainty. This has been compounded by political uncertainty about developments in the Middle East. So far during the economic and stock market downturn consumers and small business customers have proved surprisingly resilient. Policy initiatives to maintain economic activity through low interest rates and fiscal stimulus have been effective. Although equity markets have fallen, property markets have supported consumer confidence and have attracted savings and investment flows.

However, this cannot be a long term solution for repairing world economic growth prospects. Overcapacity still burdens many of the world's industries, leading to corporate activity focused on rationalisation rather than expansion. It is a period of cost reduction rather than revenue growth. Demand for investment funding remains very modest. Pension provision and, in the US, retirement health benefits obligations entered into by companies during a more benign economic climate, are likely to place a severe strain on future corporate profits. Employment levels remain a key factor in economic recovery.

During the current uncertainties, HSBC's policy of financial strength and its earning power are competitive advantages. The acquisitions announced last year will improve our geographical balance. They should also reduce risks within our financial framework by increasing the proportion of earnings from the personal sector which, long term, has more predictable revenue and cost characteristics. We remain well positioned to seek growth

Comment by Sir John Bond, Group Chairman

opportunities worldwide with few geographic or product constraints. The benefits derived from the breadth and capital generating strength of the HSBC Group's core domestic franchises continue to support resilient operating performance, including into the current year to date.

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

2001 ^{††††}	<i>Year ended 31 December</i>	2002		
<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
For the year				
Cash basis[†]				
8,807	Profit before tax	10,513	7,002	81,991
5,799	Profit attributable	7,102	4,730	55,388
Reported basis				
8,000	Profit before tax	9,650	6,427	75,261
4,992	Profit attributable	6,239	4,155	48,658
4,467	Dividends	5,001	3,331	39,003
At year-end				
46,388	Shareholders' funds	52,406	32,492	408,662
50,854	Capital resources	57,430	35,607	447,839
503,631	Customer accounts and deposits by banks	548,371	339,991	4,276,196
696,245	Total assets	759,246	470,733	5,920,600
391,478	Risk-weighted assets	430,551	266,942	3,357,437
<i>US\$</i>	Per share	<i>US\$</i>	<i>£</i>	<i>HK\$</i>
0.63	Cash earnings	0.76	0.51	5.93
0.54	Basic earnings	0.67	0.45	5.23
0.53	Diluted earnings	0.66	0.44	5.15
0.48	Dividends ^{††}	0.53	0.33	4.13
4.96	Net asset value	5.53	3.43	43.12
Share information				
9,355m	US\$0.50 ordinary shares in issue	9,481m		
US\$109bn	Market capitalisation	US\$105bn		
£8.06	Closing market price per share	£6.87		
	Total shareholder return against	HSBC	Benchmark	
	peer index ^{†††}			
	- over 1 year	89	76	
	- since 1 January 1999	155	95	

[†] Cash based measurements are after excluding the impact of goodwill amortisation.

^{††} The second interim dividend of US\$0.325 per share is translated at the closing rate on 31 December 2002 (see note 15 on page 29). Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 28 April 2003 (see note 2 on page 16).

^{†††} Total shareholder return (TSR) is as defined in the Annual Report and Accounts 2002. HSBC's governing objective is to beat the TSR of its defined benchmark, with a minimum objective to achieve double TSR over five years from 1 January 1999.

^{††††} The figures for 2001, excluding risk-weighted assets have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on page 15.

2001 ^{††††}	Year ended 31 December	2002
Performance ratios (%)		
On a cash basis[†]		
11.2	Return on invested capital ^{††}	12.8
17.4	Return on net tangible equity ^{†††}	19.8
1.00	Post-tax return on average tangible assets	1.11
1.76	Post-tax return on average risk-weighted assets	1.95
On a reported basis		
10.4	Return on average shareholders' funds	12.3
0.86	Post-tax return on average assets	0.97
1.55	Post-tax return on average risk-weighted assets	1.74
Efficiency and revenue mix ratios		
56.4	Cost:income ratio (excluding goodwill amortisation)	56.2
As a percentage of total operating income:		
56.9	- net interest income	58.1
43.1	- other operating income	41.9
28.9	- net fees and commissions	29.4
6.5	- dealing profits	4.9
Capital ratios		
9.0	- tier 1 capital	9.0
13.0	- total capital	13.3

[†] Cash based measurements are after excluding the impact of goodwill amortisation.

^{††} Return on invested capital is based on cash-based attributable profit adjusted for depreciation attributable to revaluation surpluses. Average invested capital is measured as shareholders' funds after adding back goodwill amortised and goodwill previously written-off directly to reserves and deducting property revaluation reserves. This measure broadly reflects invested capital.

^{†††} Cash basis attributable profit divided by average shareholders' funds after deduction of average purchased goodwill.

^{††††} The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are set out in Note 1 on page 15.

Within this document, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'.

31 December 2001[†]

Year ended 31 December 2002

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

[†]

The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax' details of which are set out in Note 1 on page 15.

<i>At 31 December 2001</i> †		<i>At 31 December 2002</i>		
<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
ASSETS				
6,185	Cash and balances at central banks	7,659	4,749	59,725
	Items in the course of collection			
5,775	from other banks	5,651	3,504	44,066
17,971	Treasury bills and other eligible bills	18,141	11,247	141,463
	Hong Kong SAR Government			
8,637	certificates of indebtedness	9,445	5,856	73,654
104,641	Loans and advances to banks	95,496	59,207	744,678
308,649	Loans and advances to customers	352,344	218,453	2,747,578
160,579	Debt securities	175,730	108,953	1,370,343
8,057	Equity shares	8,213	5,092	64,045
292	Interests in joint ventures	190	118	1,482
1,056	Interests in associates	1,116	692	8,703
120	Other participating interests	651	404	5,076
14,564	Intangible fixed assets	17,163	10,641	133,837
13,521	Tangible fixed assets	14,181	8,792	110,583
38,632	Other assets	45,884	28,448	357,802
7,566	Prepayments and accrued income	7,382	4,577	57,565
<u>696,245</u>	Total assets	<u>759,246</u>	<u>470,733</u>	<u>5,920,600</u>
LIABILITIES				
	Hong Kong SAR currency			
8,637	notes in circulation	9,445	5,856	73,654
53,640	Deposits by banks	52,933	32,819	412,771
449,991	Customer accounts	495,438	307,172	3,863,425
	Items in the course of transmission to			
3,798	other banks	4,634	2,873	36,136
27,098	Debt securities in issue	34,965	21,678	272,657
72,623	Other liabilities	72,090	44,696	562,157
7,149	Accruals and deferred income	7,574	4,696	59,062
	Provisions for liabilities and charges			
1,057	- deferred taxation	1,154	715	8,991
3,883	- other provisions	3,683	2,284	28,728
	Subordinated liabilities			
3,479	- undated loan capital	3,540	2,195	27,605
12,001	- dated loan capital	14,831	9,195	115,652
	Minority interests			
2,210	- equity	2,122	1,315	16,547
4,291	- non-equity	4,431	2,747	34,553
4,678	Called up share capital	4,741	2,940	36,970
41,710	Reserves	47,665	29,552	371,692
46,388	Shareholders' funds	52,406	32,492	408,662
<u>696,245</u>	Total liabilities	<u>759,246</u>	<u>470,733</u>	<u>5,920,600</u>

† The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax' details of which are set out in Note 1 on page 15.

<i>Figures in US\$m</i>	<i>Year ended 31 December</i>	
	<i>2002</i>	<i>2001</i>
Net cash inflow from operating activities	16,426	12,915
Dividends received from associated undertakings	114	113
Returns on investments and servicing of finance:		
Interest paid on finance leases and similar hire purchase contracts	(29)	(27)
Interest paid on subordinated loan capital	(870)	(1,116)
Dividends paid to minority interests – equity	(480)	(472)
– non-equity	(357)	(599)
Net cash (outflow) from returns on investments and servicing of finance	(1,736)	(2,214)
Taxation paid	(1,371)	(2,106)
Capital expenditure and financial investments:		
Purchase of investment securities	(130,171)	(148,826)
Proceeds from sale and maturities of investment securities	122,559	145,361
Purchase of tangible fixed assets	(1,723)	(1,873)
Proceeds from sale of tangible fixed assets	328	557
Net cash (outflow) from capital expenditure and financial investments	(9,007)	(4,781)
Acquisitions and disposals:		
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings	264	(834)
Net cash inflow from disposal of subsidiary undertakings	-	26
Purchase of interest in associated undertakings and other participating interests	(649)	(154)
Proceeds from disposal of associated undertakings and other participating interests	341	79
Net cash (outflow) from acquisitions and disposals	(44)	(883)
Equity dividends paid	(3,609)	(3,528)
Net cash inflow/(outflow) before financing	773	(484)
Financing:		
Issue of ordinary share capital	337	112
Redemption of preference share capital	(50)	(825)
Subordinated loan capital issued	4,105	456
Subordinated loan capital repaid	(1,923)	(965)
Net cash inflow/(outflow) from financing	2,469	(1,222)
Increase/(decrease) in cash	3,242	(1,706)

Statement of total consolidated recognised gains and losses for the year ended

	<i>31 December</i>	
	<i>2002</i>	<i>2001</i>
	<i>US\$m</i>	<i>US\$m</i> †
Profit for the financial year attributable to shareholders	6,239	4,992
Unrealised (deficit) on revaluation of investment properties:		
- subsidiaries	(22)	(18)
- associates	(1)	(5)
Unrealised (deficit) on revaluation of land and buildings (excluding investment properties):		
- subsidiaries	(297)	(227)
Exchange and other movements	3,781	(1,242)
Total recognised gains and losses for the year	<u>9,700</u>	<u>3,500</u>

Reconciliation of movements in consolidated shareholders' funds for the year ended

	<i>31 December</i>	
	<i>2002</i>	<i>2001</i>
	<i>US\$m</i>	<i>US\$m</i> †
Profit for the financial year attributable to shareholders	6,239	4,992
Dividends	(5,001)	(4,467)
	1,238	525
Other recognised gains and losses relating to the year	3,461	(1,492)
New share capital subscribed, net of costs	337	112
Reserve in respect of obligations under CCF share options	(41)	(16)
Amounts arising on shares issued in lieu of dividends	1,023	866
Net addition to shareholders' funds	6,018	(5)
Shareholders' funds at 1 January	46,388	46,393
Shareholders' funds at 31 December	<u>52,406</u>	<u>46,388</u>

† *The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax' details of which are set out in Note 1 on page 15.*

1. Accounting policies

The accounting policies adopted are consistent with those described in the *Annual Report and Accounts 2001* except as noted below.

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

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

Consolidated profit and loss account – tax on profit on ordinary activities

<i>Figures in US\$m</i>	<i>Year ended 31 December 2001</i>
Under previous policy	(1,574)
Adoption of FRS 19	<u>(414)</u>
Under new policy	<u><u>(1,988)</u></u>

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

Consolidated balance sheet

<i>Figures in US\$m</i>	<i>Intangible Fixed assets</i>	<i>Other assets</i>	<i>Provisions for liabilities and charges - deferred tax</i>	<i>Minority interests -equity</i>	<i>Reserves</i>
At 31 December 2001					
Under previous policy	14,581	38,247	1,109	2,199	41,301
Adoption of FRS 19	<u>(17)</u>	<u>385</u>	<u>(52)</u>	<u>11</u>	<u>409</u>
Under new policy	<u><u>14,564</u></u>	<u><u>38,632</u></u>	<u><u>1,057</u></u>	<u><u>2,210</u></u>	<u><u>41,710</u></u>

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

- reversal of a benefit taken in 2001 under UK Statement of Standard Accounting Practice 15 in respect of deferred tax assets attributable under FRS 19 to prior periods;
- reversal of a benefit taken in 2001 under SSAP 15 in respect of the release of a provision for additional UK tax on remittances, such provision not being permissible under FRS 19; and
- establishment of a provision required under FRS 19 in respect of a possible claw-back of capital allowances.

2. Dividend

The Directors have declared a second interim dividend for 2002 of US\$0.325 per ordinary share, an increase of 12.1 per cent. The dividend will be payable on 6 May 2003 to shareholders on the Register at the close of business on 21 March 2003. The dividend will be payable in cash, in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the exchange rates on 28 April 2003, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 1 April 2003, and elections will be required to be made by 24 April 2003.

The dividend payable in cash on shares held through Euroclear France, the settlement and central depository system for Euronext Paris, will be converted into euros at the exchange rate on 28 April 2003 and paid on 6 May 2003 through CCF, HSBC's paying agent.

The dividend payable in cash to holders of American Depositary Shares (ADSs), each of which represents five ordinary shares, will be paid in US dollars on 6 May 2003.

The Company's shares will be quoted ex-dividend in London and in Hong Kong on 19 March 2003 and in Paris on 24 March 2003. The ADSs will be quoted ex-dividend in New York on 19 March 2003.

3. Earnings and dividends per share <i>Figures in US\$</i>	<i>Year ended 31 December</i>	
	<i>2002</i>	<i>2001</i>
Cash earnings per share	0.76	0.63
Basic earnings per share	0.67	0.54
Diluted earnings per share	0.66	0.53
Dividends per share	0.53	0.48
Dividend pay out ratio [†]	70%	76%

[†] *Dividends per share expressed as a percentage of cash earnings per share.*

Basic earnings per ordinary share was calculated by dividing the earnings of US\$6,239 million by the weighted average number of ordinary shares outstanding, excluding own shares held by trustees to satisfy employee share options and awards, of 9,339 million shares (2001 earnings of US\$4,992 million and 9,237 million shares).

Diluted earnings per share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive potential ordinary shares, by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (being share options outstanding not yet exercised) of 9,436 million shares (2001: 9,336 million shares).

3. Earnings and dividends per share (continued)

The cash earnings per share was calculated by dividing the basic earnings, after adding back the amortisation of goodwill, by the weighted average number of ordinary shares outstanding, excluding own shares held.

4. Taxation	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>
<i>Figures in US\$m</i>	<u>2002</u>	<u>2001</u>
UK corporation tax charge	684	416
Overseas taxation	1,217	1,570
Joint ventures	(6)	(13)
Associates	17	26
Current taxation	<u>1,912</u>	<u>1,999</u>
Deferred taxation	622	(11)
Total charge for taxation	<u>2,534</u>	<u>1,988</u>
Effective tax rate	26.3 %	24.9 %

The Company and its subsidiary undertakings in the UK provided for UK corporation tax at 30 per cent, the rate for the calendar year 2002 (2001: 30 per cent). Overseas tax included Hong Kong profits tax of US\$408 million (2001: US\$450 million) provided at the rate of 16 per cent (2001: 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.

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

Analysis of overall tax charge	<i>Year ended</i> <i>31 December</i>	<i>Year ended</i> <i>31 December</i>
<i>Figures in US\$m</i>	<u>2002</u>	<u>2001</u>
Taxation at UK corporate tax rate of 30.0%	2,895	2,400
Impact of differently taxed overseas profits in principal locations	(472)	(616)
Tax free gains	(19)	(102)
Argentine losses	87	336
Goodwill amortisation	261	263
Prior period adjustments	(90)	(167)
Other items	(128)	(126)
Timing differences impact on deferred tax	<u>(622)</u>	<u>11</u>
Current tax charge	1,912	1,999

4. Taxation (continued)

Accelerated capital allowances	(23)	84
Timing differences on lease income	90	97
Provisions for general bad debts	29	(46)
Relief for losses	125	(85)
Short term timing differences and other	401	(61)
Deferred tax charge	<u>622</u>	<u>(11)</u>
Overall tax charge	<u>2,534</u>	<u>1,988</u>

5. Subordinated liabilities

	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>
<i>Figures in US\$m</i>	<u>2002</u>	<u>2001</u>
Dated subordinated loan capital which is repayable:		
- within 1 year	956	1,393
- between 1 and 2 years	862	950
- between 2 and 5 years	1,957	2,165
- over 5 years	<u>11,056</u>	<u>7,493</u>
	<u>14,831</u>	<u>12,001</u>

6. Assets charged as security for liabilities

HSBC has pledged assets as security for liabilities included under the following headings:

	<i>Amount of liability secured</i>	
	<i>At</i>	<i>At</i>
<i>Figures in US\$m</i>	<i>31 December</i>	<i>31 December</i>
	<u>2002</u>	<u>2001</u>
Deposits by banks	1,661	290
Customer accounts	4,204	5,371
Debt securities in issue	1,437	1,692
Other liabilities	<u>2,884</u>	<u>3,175</u>
	<u>10,186</u>	<u>10,528</u>

The amount of assets pledged to secure these amounts is US\$44,457 million (31 December 2001: US\$32,757 million). This is mainly made up of items included in 'Debt securities' and 'Treasury bills and other eligible bills' of US\$40,799 million (31 December 2001: US\$30,682 million).

7. Capital resources	<i>At</i>	<i>At</i>
<i>Figures in US\$m</i>	<i>31 December</i>	<i>31 December</i>
	<u>2002</u>	<u>2001</u>
Capital ratios (%)		
Total capital ratio	13.3	13.0
Tier 1 capital ratio	9.0	9.0
Composition of capital		
<i>Figures in US\$m</i>		
Tier 1:		
Shareholders' funds	52,406	45,979
Minority interests	3,306	3,515
Innovative tier 1 securities	3,647	3,467
Less: property revaluation reserves	(1,954)	(2,271)
: goodwill capitalised and intangible assets	(17,855)	(14,989)
: own shares held [†]	(601)	(628)
Total qualifying tier 1 capital	<u>38,949</u>	<u>35,073</u>
Tier 2:		
Property revaluation reserves	1,954	2,271
General provisions	2,348	2,091
Perpetual subordinated debt	3,542	3,338
Term subordinated debt	12,875	9,912
Minority and other interests in tier 2 capital	775	693
Total qualifying tier 2 capital	<u>21,494</u>	<u>18,305</u>
Unconsolidated investments	(2,231)	(1,781)
Investments in other banks	(638)	(627)
Other deductions	(144)	(116)
Total capital	<u>57,430</u>	<u>50,854</u>
Total risk-weighted assets	<u>430,551</u>	<u>391,478</u>

[†] *This principally reflects shares held in trust to fulfil the Group's obligations under employee share option plans.*

The above figures were computed in accordance with the EU Banking Consolidation Directive. The comparative figures for 2001 have not been restated for the impact of FRS 19, details of which are set out in Note 1.

8. Foreign exchange exposure

The Group's foreign exchange exposure comprises trading exposures and structural foreign currency translation exposure. Foreign exchange trading exposure comprises those which arise from foreign exchange dealing within Treasury and currency exposures originated by commercial banking businesses in HSBC. The latter are transferred to local treasury units where they are managed, together with exposures which result from dealing activities, within limits approved by the Group Executive Committee.

The Group's structural foreign currency translation exposures are represented by the net asset value of the holding company's foreign currency equity and subordinated debt investments in its subsidiaries, branches and associated undertakings. Gains or losses on structural foreign currency exposures are taken to reserves. The Group's structural foreign currency exposures are managed with the primary objective of ensuring, where practical, that the Group's and individual banking subsidiaries' tier 1 capital ratios are protected from the effect of changes in exchange rates.

9. Contingent liabilities and commitments

The total contract amounts of contingent liabilities and commitments which, at 31 December 2002, were US\$276,884 million (31 December 2001: US\$242,504 million) are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

10. Reconciliation of operating profit to net cash flow from operating activities

<i>Figures in US\$m</i>	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2001</i>
Operating profit	9,035	7,153
Change in prepayments and accrued income	355	452
Change in accruals and deferred income	190	(2,207)
Interest on finance leases and similar hire purchase contracts	36	27
Interest on subordinated loan capital	862	1,074
Depreciation and amortisation	2,044	1,933
Amortisation of discounts and premiums	(8)	(640)
Provisions for bad and doubtful debts	1,321	2,037
Loans written off net of recoveries	(1,931)	(1,893)
Provisions for liabilities and charges	879	1,229
Provisions utilised	(1,331)	(542)
Amounts written off fixed asset investments	324	125
Net cash inflow from trading activities	11,776	8,748
Change in items in the course of collection from other banks	124	1,009
Change in treasury bills and other eligible bills	715	2,200
Change in loans and advances to banks	16,550	19,601
Change in loans and advances to customers	(35,332)	(16,072)
Change in other securities	2,543	(20,307)
Change in other assets	(7,055)	(1,856)
Change in deposits by banks	(3,505)	(8,546)
Change in customer accounts	31,161	19,799
Change in items in the course of transmission to other banks	716	(827)
Change in debt securities in issue	2,935	(1,437)
Change in other liabilities	(1,580)	9,179
Elimination of exchange differences [†]	(2,622)	1,424
Net cash inflow from operating activities	16,426	12,915

[†] *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as it cannot be determined without unreasonable expense.*

11. Bad and doubtful debts

<i>Figures in US\$ millions</i>	<i>2002 Half-year ended</i>			<i>2001 Half-year ended</i>		
By category:	<i>30 June</i>	<i>31 December</i>	<i>2002</i>	<i>30 June</i>	<i>31 December</i>	<i>2001</i>
Loans and advances to customers						
- specific charge:						
new provisions	1,340	1,338	2,678	1,079	1,487	2,566
Releases and recoveries	(502)	(504)	(1,006)	(629)	(473)	(1,102)
	838	834	1,672	450	1,014	1,464
- net general charge/(release):						
Argentina exposures	(114)	(82)	(196)	-	600	600
Other	(9)	(146)	(155)	(9)	(18)	(27)
	(123)	(228)	(351)	(9)	582	573
Customer bad and doubtful debt charge	715	606	1,321	441	1,596	2,037
Total bad and doubtful debt charge	<u>715</u>	<u>606</u>	<u>1,321</u>	<u>441</u>	<u>1,596</u>	<u>2,037</u>

12. Analysis of fees and commissions receivable and payable

<i>Figures in US\$m</i>	<i>2002 Half-year ended</i>			<i>2001 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2002</i>	<i>30 June</i>	<i>31 December</i>	<i>2001</i>
Account services	802	913	1,715	814	806	1,620
Credit facilities	366	386	752	311	317	628
Remittances	127	141	268	121	125	246
Cards	577	665	1,242	537	579	1,116
Imports/Exports	263	293	556	257	267	524
Underwriting	96	77	173	86	49	135
Insurance	379	396	775	337	331	668
Mortgage servicing rights	38	39	77	40	38	78
Trust income	62	63	125	58	56	114
Broking income	402	371	773	499	429	928
Global custody	146	150	296	158	150	308
Maintenance income on operating leases	78	82	160	84	81	165
Funds under management	600	426	1,026	520	445	965
Corporate finance	56	66	122	88	27	115
Other	550	635	1,185	522	624	1,146
Total fees and commissions receivable	4,542	4,703	9,245	4,432	4,324	8,756
Less: fees payable	(685)	(736)	(1,421)	(664)	(622)	(1,286)
Net fees and commissions	3,857	3,967	7,824	3,768	3,702	7,470

13. Geographical distribution of results

HSBC European Operations

<i>Figures in US\$m</i>	<i>2002 Half-year ended</i>			<i>2001 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2002</i>	<i>30 June</i>	<i>31 December</i>	<i>2001</i>
Net interest income	3,056	3,287	6,343	2,635	2,928	5,563
Dividend income	118	93	211	58	58	116
Net fees and commissions	2,216	2,312	4,528	2,166	2,044	4,210
Dealing profits	245	263	508	341	367	708
Other income	516	509	1,025	473	549	1,022
Other operating income	3,095	3,177	6,272	3,038	3,018	6,056
Operating income	6,151	6,464	12,615	5,673	5,946	11,619
Staff costs	(2,141)	(2,284)	(4,425)	(2,055)	(2,172)	(4,227)
Premises and equipment	(435)	(531)	(966)	(387)	(399)	(786)
Other	(812)	(951)	(1,763)	(737)	(882)	(1,619)
Depreciation	(309)	(415)	(724)	(324)	(332)	(656)
Goodwill amortisation	(307)	(344)	(651)	(319)	(313)	(632)
Operating expenses	(4,004)	(4,525)	(8,529)	(3,822)	(4,098)	(7,920)
Operating profit before provisions	2,147	1,939	4,086	1,851	1,848	3,699
Customers:						
- new specific provisions	(448)	(515)	(963)	(328)	(474)	(802)
- releases and recoveries	167	162	329	175	150	325
- net general release	(281)	(353)	(634)	(153)	(324)	(477)
Total bad and doubtful debt charge	1	64	65	25	11	36
Provisions for contingent liabilities and commitments	(280)	(289)	(569)	(128)	(313)	(441)
Provisions for contingent liabilities and commitments	(20)	5	(15)	(9)	(21)	(30)
Amounts written off						
fixed asset investments	(128)	(139)	(267)	(27)	(63)	(90)
Operating profit	1,719	1,516	3,235	1,687	1,451	3,138
Share of operating (loss) in joint ventures	(20)	(6)	(26)	(42)	(37)	(79)
Share of operating profits in associates	6	(3)	3	23	19	42
Investment and fixed asset disposal gains	162	126	288	386	55	441
Profit before tax	1,867	1,633	3,500	2,054	1,488	3,542

HSBC Hong Kong Operations

Figures in US\$m	2002 Half-year ended			2001 Half-year ended		
	30 June	31 December	2002	30 June	31 December	2001
Net interest income	2,065	2,068	4,133	2,073	2,092	4,165
Dividend income	10	15	25	12	14	26
Net fees and commissions	612	652	1,264	564	608	1,172
Dealing profits	59	74	133	134	84	218
Other income	234	261	495	209	227	436
Other operating income	915	1,002	1,917	919	933	1,852
Operating income	2,980	3,070	6,050	2,992	3,025	6,017
Staff costs	(596)	(653)	(1,249)	(619)	(660)	(1,279)
Premises and equipment	(107)	(126)	(233)	(110)	(124)	(234)
Other	(207)	(252)	(459)	(199)	(229)	(428)
Depreciation	(99)	(99)	(198)	(97)	(102)	(199)
Goodwill amortisation	-	-	-	-	-	-
Operating expenses	(1,009)	(1,130)	(2,139)	(1,025)	(1,115)	(2,140)
Operating profit before provisions	1,971	1,940	3,911	1,967	1,910	3,877
Customers:						
- new specific provisions	(226)	(302)	(528)	(206)	(243)	(449)
- releases and recoveries	104	81	185	108	135	243
	(122)	(221)	(343)	(98)	(108)	(206)
- net general release/(charge)	1	96	97	11	(2)	9
Total bad and doubtful debt charge	(121)	(125)	(246)	(87)	(110)	(197)
Provisions for contingent liabilities and commitments	4	(18)	(14)	2	4	6
Amounts written off						
fixed asset investments	(7)	(3)	(10)	(14)	(4)	(18)
Operating profit	1,847	1,794	3,641	1,868	1,800	3,668
Share of operating profit in associates	8	3	11	12	5	17
Investments and fixed asset disposal gains	45	13	58	175	23	198
Profit before tax	1,900	1,810	3,710	2,055	1,828	3,883

HSBC Rest of Asia-Pacific Operations

Figures in US\$m	2002 Half-year ended		2002	2001 Half-year ended		2001
	30 June	31 December		30 June	31 December	
Net interest income	784	823	1,607	725	757	1,482
Dividend income	1	2	3	1	2	3
Net fees and commissions	358	366	724	332	349	681
Dealing profits	186	178	364	196	199	395
Other income	33	50	83	24	34	58
Other operating income	578	596	1,174	553	584	1,137
Operating income	1,362	1,419	2,781	1,278	1,341	2,619
Staff costs	(400)	(426)	(826)	(374)	(397)	(771)
Premises and equipment	(72)	(84)	(156)	(69)	(74)	(143)
Other	(198)	(256)	(454)	(186)	(215)	(401)
Depreciation	(44)	(48)	(92)	(41)	(41)	(82)
Goodwill amortisation	(17)	(16)	(33)	(4)	(4)	(8)
Operating expenses	(731)	(830)	(1,561)	(674)	(731)	(1,405)
Operating profit before provisions	631	589	1,220	604	610	1,214
Customers:						
- new specific provisions	(187)	(213)	(400)	(269)	(308)	(577)
- releases and recoveries	146	174	320	282	124	406
	(41)	(39)	(80)	13	(184)	(171)
- net general release/(charge)	(7)	(2)	(9)	5	(6)	(1)
Total bad and doubtful debt (charge)/release	(48)	(41)	(89)	18	(190)	(172)
Provisions for contingent liabilities and commitments	14	4	18	(33)	(10)	(43)
Amounts written off fixed asset investments	(1)	(1)	(2)	(6)	(5)	(11)
Operating profit	596	551	1,147	583	405	988
Share of operating profit/(loss) in joint ventures	(1)	1	-	(3)	(2)	(5)
Share of operating profit in associates	55	58	113	51	48	99
Investments and fixed asset disposal gains/(losses)	3	(3)	-	3	3	6
Profit before tax	653	607	1,260	634	454	1,088

HSBC North American Operations

Figures in US\$m	2002 Half-year ended		2002	2001 Half-year ended		2001
	30 June	31 December		30 June	31 December	
Net interest income	1,292	1,440	2,732	1,186	1,264	2,450
Dividend income	12	12	24	16	13	29
Net fees and commissions	493	491	984	445	468	913
Dealing profits	75	86	161	221	125	346
Other income	123	210	333	94	113	207
Other operating income	703	799	1,502	776	719	1,495
Operating income	1,995	2,239	4,234	1,962	1,983	3,945
Staff costs	(765)	(772)	(1,537)	(726)	(714)	(1,440)
Premises and equipment	(167)	(189)	(356)	(158)	(165)	(323)
Other	(296)	(355)	(651)	(390)	(263)	(653)
Depreciation	(64)	(67)	(131)	(62)	(62)	(124)
Goodwill amortisation	(67)	(79)	(146)	(72)	(73)	(145)
Operating expenses	(1,359)	(1,462)	(2,821)	(1,408)	(1,277)	(2,685)
Operating profit before provisions	636	777	1,413	554	706	1,260
Customers:						
- new specific provisions	(243)	(156)	(399)	(145)	(247)	(392)
- releases and recoveries	64	50	114	47	38	85
- net general (charge)/release	(179)	(106)	(285)	(98)	(209)	(307)
Total bad and doubtful debt charge	(3)	(12)	(15)	(20)	27	7
Provisions for contingent liabilities and commitments (excluding Princeton)	(182)	(118)	(300)	(118)	(182)	(300)
Amounts written off fixed asset investments	(1)	4	3	(2)	(5)	(7)
Operating profit	(2)	(7)	(9)	(4)	(1)	(5)
Share of operating (loss) in joint ventures	451	656	1,107	430	518	948
Share of operating profit in associates	(2)	-	(2)	(3)	(4)	(7)
Investments and fixed assets disposal gains	4	4	8	4	1	5
Profit before tax (before Princeton provision)	105	20	125	110	22	132
Princeton provision	558	680	1,238	541	537	1,078
Profit before tax	-	-	-	-	(575)	(575)
	558	680	1,238	541	(38)	503

HSBC South American Operations

Figures in US\$m	2002 Half-year ended		2002	2001 Half-year ended		2001
	30 June	31 December		30 June	31 December	
Net interest income	396	249	645	573	492	1,065
Dividend income	15	-	15	12	-	12
Net fees and commissions	179	145	324	261	233	494
Dealing profits	81	66	147	(16)	34	18
Other income	87	23	110	183	173	356
Other operating income	362	234	596	440	440	880
Operating income	758	483	1,241	1,013	932	1,945
Staff costs	(300)	(272)	(572)	(406)	(430)	(836)
Premises and equipment	(63)	(50)	(113)	(76)	(77)	(153)
Other	(185)	(145)	(330)	(220)	(215)	(435)
Depreciation	(29)	(16)	(45)	(30)	(43)	(73)
Goodwill amortisation	(4)	(20)	(24)	(6)	(8)	(14)
Operating expenses	(581)	(503)	(1,084)	(738)	(773)	(1,511)
Operating profit/(loss) before provisions	177	(20)	157	275	159	434
Customers:						
- new specific provisions	(236)	(152)	(388)	(131)	(215)	(346)
- releases and recoveries	21	37	58	17	26	43
Argentina general	(215)	(115)	(330)	(114)	(189)	(303)
- net general release/(charge)	114	82	196	-	(600)	(600)
Total bad and doubtful debt charge	17	-	17	(12)	(12)	(24)
Provisions for contingent liabilities	(84)	(33)	(117)	(126)	(801)	(927)
Loss on foreign currency redenomination in Argentina	-	(31)	(31)	-	-	-
Amounts written off fixed asset investments	(45)	(23)	(68)	-	(520)	(520)
Operating profit/(loss)	(2)	(34)	(36)	(2)	1	(1)
Operating profit/(loss)	46	(141)	(95)	147	(1,161)	(1,014)
Share of operating profit in associates	-	-	-	1	-	1
Investments and fixed assets disposal (losses)/gains	35	2	37	2	(5)	(3)
Profit/(loss) before tax	81	(139)	(58)	150	(1,166)	(1,016)

14. Registers of shareholders

The Overseas Branch Register of shareholders in Hong Kong will be closed for one day, on Friday 21 March 2003. Any person who has acquired shares registered on the Hong Kong Branch Register but who has not lodged the share transfer with the Branch Registrar should do so before 4.00 pm on Thursday 20 March 2003 in order to receive the dividend.

Any person who has acquired shares registered on the Principal Register in the United Kingdom but who has not lodged the share transfer with the Principal Registrar should do so before 4.00 pm on Friday 21 March 2003 in order to receive the dividend. Transfers between the Principal Register and the Branch Register may not be made while the Branch Register is closed.

Similarly, transfers of American Depositary Shares must be lodged with the depository by 12 noon on Friday 21 March 2003 in order to receive the dividend.

15. Foreign currency amounts

The sterling and Hong Kong dollar equivalent figures in the consolidated profit and loss account and balance sheet are for information only. These are translated at the average rate for the period for the profit and loss account and the closing rate for the balance sheet as follows:

<i>Period end</i>	<i>31 December 2002</i>	<i>31 December 2001</i>
Closing : HK\$/US\$	7.798	7.798
£/US\$	0.620	0.690
Average : HK\$/US\$	7.799	7.800
£/US\$	0.666	0.695

16. Litigation

HSBC, through a number of its subsidiary undertakings, is named in and is defending legal actions in various jurisdictions arising from its normal business. None of these proceedings is regarded as material litigation.

17. Dealings in HSBC Holdings shares

Except for dealings by HSBC Investment Bank plc (until 29 November 2002) and HSBC Bank plc (since 30 November 2002), trading as intermediaries in the Company's shares in London and the redemption on 31 July 2002 by the Company of £413,000,000 11.69 per cent Subordinated Bonds 2002 of £1 each, neither the Company nor any subsidiary undertaking has bought, sold or redeemed any securities of the Company during the year ended 31 December 2002.

18. Statutory accounts

The information in this news release does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the Act). The statutory accounts for the year ended 31 December 2002 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act and filed with the US Securities and Exchange Commission. The auditor has reported on those accounts; the report was unqualified and did not contain a statement under Section 237(2) or (3) of the Act.

19. Forward-looking statements

This news release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Certain statements, such as those that include the words 'potential', 'estimated', and similar expressions or variations on such expressions may be considered 'forward-looking statements'.

20. Remuneration

Within the authority delegated by the Board of Directors, the Remuneration Committee is responsible for determining the remuneration policy of HSBC. This includes the terms of bonus plans, share option plans and other long-term incentive plans, and for agreeing the individual remuneration packages of executive Directors and other senior Group employees. No Directors are involved in deciding their own remuneration.

The Remuneration Committee applies the following key principles:

- to pay against a market of comparative organisations;
- to offer fair and realistic salaries with an important element of variable pay based on relative performance;
- to have as many top-performers as possible at all levels within HSBC participating in some form of long-term share plan; and

20. Remuneration (continued)

- for new employees only, since 1996, to follow a policy of moving progressively from defined benefit to defined contribution Group pension schemes.

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. The level of performance-related variable pay depends upon the performance of HSBC Holdings, constituent businesses and of the individual concerned. Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration.

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

There were 184,405 full-time equivalent employees at 31 December 2002 (2001: 171,049). During 2002, 41,401 employees in 51 countries and territories applied for savings-related share options. Performance related share options were awarded to over 37,773 employees worldwide at all levels of the organisation. Nearly 4,900 employees in the UK participate in the UK Share Ownership Plan and around 10,000 CCF employees participate in the Plan d'Épargne in France through which they subscribe for HSBC shares.

21. Annual Review and Annual Report and Accounts

The *Annual Review 2002* and/or *Annual Report and Accounts 2002* will be mailed to shareholders on or about 1 April 2003. Copies may be obtained 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; CCF, Direction de la Communication, 103 avenue des Champs-Élysées, 75419 Paris Cedex 08, France; or from the HSBC Group website – www.hsbc.com.

Chinese translations of the *Annual Review* and *Annual Report and Accounts* may be obtained on request from Central Registration Hong Kong Limited, Rooms 1901-1905, Hopewell Centre, 183 Queen's Road East, Hong Kong.

A French translation of the *Annual Review* may be obtained on request from CCF, Direction de la Communication, 103 avenue des Champs-Élysées, 75419 Paris Cedex 08, France.

The *Annual Report and Accounts* and *Annual Review* will be available on the Stock Exchange of Hong Kong's website – www.hkex.com.hk.

21. Annual Review and Annual Report and Accounts (continued)

Custodians or nominees that wish to distribute copies of the *Annual Review* and/or *Annual Report and Accounts* to their clients may request copies for collection by writing to Group Corporate Affairs at the address given above. Requests must be received no later than 10 March 2003.

22. Annual General Meeting

The Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2 on 30 May 2003 at 11 a.m.

Notice of the meeting will be mailed to shareholders on or about 1 April 2002.

23. Interim results and first interim dividend for 2003

The interim results for the six months to 30 June 2003 will be announced on Monday 4 August 2003. It is intended that any first interim dividend for 2003 that is announced on that date would be payable on 7 October 2003 to shareholders on the Register on 22 August 2003. The Company's shares would be quoted ex-dividend in London and in Hong Kong on 20 August 2003 and in Paris on 25 August 2003. The American Depository Shares would be quoted ex-dividend in New York on 20 August 2003.

24. News release

Copies of this news release may be obtained from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; HSBC Bank USA, 452 Fifth Avenue, New York, NY 10018, USA; CCF, Direction de la Communication, 103 avenue des Champs-Élysées, 75419 Paris Cedex 08, France. The news release will also be available on the HSBC Group website – www.hsbc.com.

25. Household acquisition

A circular relating to the proposed acquisition of Household International has been mailed to HSBC Holdings shareholders. The circular incorporates notice of an Extraordinary General Meeting to be held on 28 March 2003 at which an ordinary resolution will be proposed to obtain the approval of HSBC Holdings shareholders for the acquisition of Household.

Investors and security holders are advised to read the prospectus regarding the business combinations transaction referenced in this announcement because it contains important information. The HSBC prospectus also constitutes the Household proxy statement and the final proxy statement/prospectus has been filed with the Securities and Exchange Commission by both companies. Household shareholders may obtain a free copy of the final proxy statement/prospectus and other related documents filed by either company at the SEC's website at www.sec.gov. The final proxy statement/prospectus and other documents may also be obtained from HSBC by contacting HSBC, Attention Patrick

25. Household acquisition (continued)

McGuinness, Investor Relations and/or Household by contacting Household, Attention Craig Stroom, Investor Relations.

HSBC and Household and their respective directors, executive officers and certain other members of management and employees may be soliciting proxies from Household shareholders in favour of the acquisition. Information concerning the participants is set forth in the final proxy statement/prospectus that has been filed with the Securities and Exchange Commission.

26. For further information contact:**London**

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