31 May 2002

HSBC HOLDINGS PLC ANNUAL GENERAL MEETING

The following is a statement given by Sir John Bond, Group Chairman, HSBC Holdings plc, at the Annual General Meeting held at the Barbican Hall, London, on Friday, 31 May 2002.

2001 was a challenging year for the financial services industry. Given the harsh economic terrain we were crossing, HSBC performed well overall, the decrease in profits principally reflecting events in Argentina.

Elsewhere, the US economy slowed markedly with a corresponding impact on much of the rest of the world especially those countries, including many in Asia, which export to it.

The UK remained fundamentally strong but the effects of the foot and mouth epidemic and the downturn in the manufacturing sector were noticeable. In France, lower consumer and business confidence resulted in slower growth. Hong Kong's economy was more subdued than at any time in recent years. By contrast, mainland China remained buoyant and its remarkable economic progress and potential were recognised by the landmark event of its accession to the WTO.

In Latin America, the Brazilian economy remained stable and was relatively unaffected by the tragic economic collapse in Argentina. Given these conditions, our performance showed the benefits of both geographic and business diversification.

Allow me to remind you of the key numbers, quoting figures on a cash basis where appropriate. Operating profit before provisions was up 3% to US$11.3 billion. If we adjust for the impact of exchange rate movements the growth was 5.9%.

Pre-tax profit was down 14% to US$8,807 million.

And profit attributable to you, our shareholders, was down 13% to US$6,213 million.

Earnings per share were 67 cents compared to 81 cents in 2000.

And we have increased our total dividend for the year by 10% to 48 cents reflecting our core profitability.

Against an economic environment that deteriorated in many of our major markets during the year – indeed a year that saw the worst growth in OECD countries for more than a decade – we grew revenues by US$1.3 billion against cost growth of US$1 billion.

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Below the operating profit line, there were two events that had an impact.

First, Argentina has been a major disappointment this year. As a result of the economic and social upheaval, and the asymmetric devaluation of the peso by the government, we have taken exceptional charges of US$1.12 billion against our current exposure in Argentina.

A key component of our strategy is to balance our assets between OECD countries and emerging markets. HSBC invests for the long term and, in the course of its history, has experienced periods of extreme volatility in a number of emerging markets which, over time, have been profitable.

At the time we invested in Argentina, it was the IMF's flagship example of an emerging market that had done everything that was required to repair the damage of past excesses. Sadly, that was not sustained.

We have a very talented team in Argentina. We have a very well positioned bank and a great customer base. We have all the necessary elements for success in a stabilised economy to have a profitable business.

Nevertheless, the situation in Argentina remains both fluid and disturbing. It is deeply saddening to see the lives of so many of our customers and staff, and the Argentine people as a whole, so badly affected.

The second event to have an impact was the Princeton Note matter which we have now put substantially behind us. You may recall that the Princeton Note matter arose as a result of legal proceedings taken against a subsidiary of Republic New York Corporation, for actions taken prior to its acquisition by HSBC in December 1999.

In December last year, we reached agreement, subsequently confirmed by the US courts, with 51 out of 53 plaintiffs. Settlement was made in January 2002 and the net after-tax cost to HSBC fell within the US$450 million price reduction which we negotiated during the acquisition of Republic New York Corporation.

Following the major developments of 1999 and 2000, 2001 was a quieter year as we concentrated on integration and consolidation. Nevertheless, we made 38 acquisitions and investments and completed 17 disposals. We were particularly pleased to expand our interests in China through the purchase of an 8% stake in Bank of Shanghai in December.

Significant acquisitions included Banque Hervet in France, Demirbank in Turkey, NRMA Building Society in Australia and China Securities Investment Trust Corporation in Taiwan.

We also continue to make solid progress in our existing businesses.

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We place a very high importance on service for all our customers. You can read plenty in the UK papers about banks who get it wrong. But at HSBC, we work very hard to get it right. Of course sometimes we make mistakes – and one mistake is one too many – but we conduct the vast majority of our business efficiently for our customers.

We will handle something like 50 million phone calls from our customers in the UK this year. And in 2001 we sent out over 334 million statements here, as a result of which we received 115 complaints. That's one complaint for every 2.9 million statements; still too many, but I doubt there are many businesses with this level of accuracy.

Our customers respond to this worldwide. In 2001, we doubled our online customer base to three million. During the year, we had more than 13 million credit cards in issue, a new record for us.

We launched Pay Direct – our partnership with Yahoo! – that enables person-to-person payments over the internet.

We now have some half-a-million Premier customers in 23 countries served by 140 dedicated Premier centres including our first one in mainland China, which opened in Shenzhen earlier this year. A second Mainland Premier centre will open in Shanghai later this year. Premier is our international service for our most valuable personal customers.

And while on the subject of international reach, we have customers in every one of the 32 countries taking part in the World Cup, which kicks off today, and offices in 20 of them. And on your board, eight countries are represented, so we may have some lively discussion in the coming month!

You can read more about what HSBC achieved during 2001 in the piece by our Chief Executive, Keith Whitson, in our Annual Review.

We measure our performance for shareholders by Total Shareholder Return, or TSR. Since we introduced our strategy of Managing for Value at the beginning of 1999 measured until the end of March, HSBC's TSR has been 180 compared to our competitor benchmark of 130. The one-year TSR at 31 March 2002 was 101 compared to 99 for our competitors.

So HSBC continues to provide competitive value for shareholders. This is in no small part due to the dedication and professionalism of my colleagues around the world.

It is very difficult for a Chairman to thank his colleagues without sounding formulaic – it is something that can appear to be done as a matter of form and by rote. That is not the case with HSBC. Our staff really are our best competitive advantage. Whenever I travel, at home and abroad, I am consistently impressed by the quality of my colleagues. Indeed when I meet our new recruits, I am certain that if I applied for a job with HSBC today I wouldn't get a look-in!

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I would particularly thank my colleagues in New York who, in the aftermath of the terrible events of 11 September, kept our operations running, served our customers and cared for members of the general public in an exemplary manner.

I would also like to thank my colleagues in Argentina who are coping magnificently in very difficult circumstances.

I would also like to thank your board for their hard work and wise counsel. Sadly, Minoru Murofushi, Carl Reichardt and Sir Adrian Swire retire today, having reached the age of 70. I thank them for their distinguished service on behalf of HSBC.

HSBC continues to take its social responsibilities seriously. Our first duty is to be successful, so that we can look after our shareholders, our customers and our staff. Only with success can we continue to make a contribution to the wider community.

I mentioned Investing in Nature and our work in education. Education and the environment remain our principal areas of support.

In 2001 we set up the HSBC Education Trust in the UK, where our work now touches 10,000 primary and secondary schools.

In addition to the work of the HSBC Education Trust in the UK, in February this year we announced an exciting new global sailing sponsorship with specific educational objectives.

We are sponsoring Graham Dalton, someone who shares our commitment to youth development and education, to sail around the world single-handed in the 2002 Around Alone yacht race, starting in September. His yacht is called “Hexagon”.

We are going to produce an exciting online education course for children to follow the progress of the race, and we also aim to help raise funds for education programmes in the race stopover countries.

And we continue to support hundreds of educational projects and thousands of children around the world. In the UK we now support nine language colleges, nine business and enterprise colleges, seven sports colleges, four arts colleges and three technology colleges. You can read about more of our work in the new edition of *HSBC in the Community* published today.

Investing in Nature is a partnership between HSBC, Earthwatch, Botanic Gardens Conservation International and WWF – it will be a major part of our programme on social responsibility over the next five years.

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We will help WWF to resuscitate some of the world's major rivers, including the Yangtse and the Amazon. With BGCI we will help create a living gene bank by conserving 20,000 species of plants in botanic gardens around the world, many of which would otherwise become extinct. And we will send 2,000 of my colleagues to conduct field research on Earthwatch projects around the world.

As well as providing support for initiatives like Investing in Nature, we look – as we have for many years – at the impacts we might have on the environment as a company. Environmental factors are rigorously assessed as part of our lending decisions and credit guidelines are reviewed and strengthened in response to changing social attitudes and regulations.

We have also engaged KPMG to install an environmental management system in the UK to benchmark and report on the impact of our own operations on the environment. We intend to export the system to other HSBC operations around the world. We will continue to report on our performance and have published targets in our *HSBC in the Community* brochure.

Our progressive business practices led to our being included in the inaugural FTSE4Good indices of socially responsible companies. FTSE4Good measures company performance in the areas of environmental sustainability, stakeholder relations and support for human rights.

HSBC has also been awarded a place in the Dow Jones Sustainability Group Index, which tracks the performance of sustainability-driven companies worldwide. Our sustainability performance was rated by one research report as "one of the most outstanding in the industry".

And in February this year we were pleased to join the UK's Business in the Environment's Sixth Index of Corporate Environmental Engagement.

Turning to the future, by the time of next year's Annual General Meeting, our new global headquarters in Canary Wharf will be operational and some 8,000 of my colleagues will be working in what will be a first-class environment.

Looking at our business this year, economic conditions in the first quarter remained inconsistent, with resilient consumer spending, buoyed by strong real estate prices, supporting GDP growth. Corporate profitability improvement, where achieved, was driven principally by lower costs bringing with it rising unemployment and contraction in investment spending. Against this backdrop demand for corporate credit remained muted.

Net interest income in the first quarter of 2002 remained resilient and continued to benefit from the interest rate reductions in the second half of last year. Fee revenues from wealth management products, insurance and credit cards continued to show good growth whereas fee and commission revenues from credit and equity-related products remain subdued.

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In this environment, even more attention has been given to cost control measures with operating expenses remaining broadly at the same level as the comparable period a year ago. Credit quality has remained stable with our bad debt charge remaining in line with the rate of provisioning incurred last year, excluding the exceptional charge in respect of Argentina.

The position in Argentina remains critical and with further restrictions placed on the banking system there is clear evidence of further deterioration without any real progress in reaching a fiscal and monetary policy framework which would attract IMF or international support. It has not at this stage been necessary to revisit the provisions taken at the end of last year and we continue to monitor daily the implications of the current crisis and the options available to us to protect HSBC and its shareholders from further losses.

The Group's liquidity position and capital ratios remain strong.

Currently the economy of the Hong Kong SAR remains subdued. However, Hong Kong has long been one of the most resilient economies in the world. If the US economy is able to sustain its momentum, then we can also expect Hong Kong's economy to stage a more robust recovery.

HSBC believes that Hong Kong is in a unique and very advantageous position. It is an integral part of one of the fastest growing economies on the planet. As China's economy continues to open up under the WTO, the long-term prospects for Hong Kong are very exciting. As Asia's premier financial centre, Hong Kong is also well placed to benefit from any regional economic upswing.

Clearly Hong Kong remains of great strategic importance to HSBC. We plan to continue to work very hard to grow our business in Hong Kong.

Turning to the UK, shareholders may have seen in recent weeks a number of stories in the press about people leaving our investment bank. These departures have led some commentators to speculate that HSBC is not committed to its investment bank.

Nothing could be further from the truth. It is a fact of life that there is a certain amount of turnover at any investment bank. But HSBC's business with its corporate and institutional banking clients around the world is large and profitable and we are committed to it. In 2001, this business achieved a pre-tax profit of US$4 billion, making HSBC one of the three largest competitors in this field.

Since 1998, as part of our strategy, we have been aligning investment banking and corporate banking ever more closely. In order to strengthen this business still further, we have now established a newly-integrated business line called Corporate, Investment Banking and Markets. Our aim is not to position ourselves as a bulge bracket investment bank, but rather to have a substantial investment bank tailored to HSBC's needs which serves our formidable client base even more cohesively and provides a strong, stable and growing return to shareholders.

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In the UK generally, the economy remains relatively strong but I would like to highlight an area of concern to us. That area is regulation.

We have operations in 81 different countries and territories. You will see that our new strapline is “the world’s local bank”, for obvious reasons. As a result of our international reach, we conduct our business under many different political structures, in many different cultures and many different regulatory environments. Our longstanding policy is to comply with the letter and the spirit of the law wherever we do business.

We believe that a well-regulated financial sector is vital to the wellbeing of any economy. We absolutely believe in regulation that promotes fairness, transparency, competition and stability. Particularly in the post-Enron environment, it is clear that appropriate regulation is vital in a market economy.

But we are concerned that the cumulative effect of the various regulatory measures we are seeing in the UK is not actually in the best interests of our shareholders, our customers, the financial services industry, or perhaps, the public at large.

In the last few years, the government has undertaken a whole raft of reviews and commissions in the area of financial services including the Cruickshank Review of the banking sector, the launch of the universal bank, PAYCOM, the DeAnne Julius review of banking consumer codes, the Sandler review of long-term saving and life assurance, the DTI Debt Taskforce, the OFT inquiry into Mastercard services to merchants, reviews of ATM charges and CAT standards, the list goes on.

Much of this work was necessary and we supported it. But some of it was not. From 1999 to the present the cost of administration and implementation to HSBC of the reviews and regulations implemented has been over a hundred million pounds of your money, and occupied much time of senior executives.

The most recent example is the Competition Commission’s investigation into banking for small and medium-sized enterprises. We take issue with the Commission on two main counts. First, the issue of competitiveness and second, the remedies. We find that the UK market is as competitive as any we operate in around the world. Indeed the return on equity for the banking sector over the last three years puts it only eleventh out of the 31 industry sectors that make up the FTSE-100 share index.

The Commission itself found that, and I quote, “analysis of the services provided on business current accounts showed HSBC as the top ranked bank”.

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The UK 200 Group, the largest national grouping of UK accountancy firms, found in its latest economic survey that HSBC was the favourite bank of its small business clients, for the second time in a row. And our own research shows that 93.4% of business customers are very or fairly satisfied with our services. Room for improvement, certainly. We always want to do better. Which is why we continue to invest in our 1600-plus branches in the UK, in our telephone banking services and our internet services. We invested £375 million in improving services for business customers last year.

The result? Since 1992 our share of the small business market has grown by 40%. To quote the Commission again, “HSBC has also been successful in gradually increasing market share which would be consistent with a higher quality of service”.

Nevertheless the Commission decided to impose a number of remedies on four banks in this market. One of these remedies is effectively price regulation, by way of interest on accounts or money transmission concessions.

We do not believe that price regulation is consistent with a competitive market and, rather, may serve to restrict choice and innovation for UK business. We worry about the economic effects of government drawing conclusions based on debatable assumptions. And we doubt that regulation of this kind will make the market more competitive; indeed we fear the opposite result may obtain as barriers to entry are raised, innovation is stifled and financial institutions find that it may be impossible to make an acceptable return on your hard-earned capital.

The effect of these remedies on HSBC is not straightforward to calculate but may be as much as an additional £40 million this year, when the remedies are in effect for only six months.

And, of course, we will continue to abide by all regulations. But the costs have to be paid by someone; in this case our shareholders, the 190,000 direct shareholders around the world, the vast majority of whom own shares in HSBC as a secure place for their hard-earned savings. And the costs will also be paid by the more than 17 million people in Britain who we believe may have an interest in the performance of HSBC through their pensions or savings.

Britain is a very competitive place for financial services. It is seen in most quarters, outside Britain, to have a successful and competitive financial services industry. And we should remember that large parts of the banking industry in many other countries are state-controlled and so have no obligation to make a return for shareholders.

Earlier this month, the Department of Trade and Industry published its league table of wealth-creating companies noting that, and I quote, “value added is important because it represents the wealth created by a company to pay salaries, wages and pensions to employees, dividends to shareholders, interest to lenders of capital, taxes to governments and to fund investment to grow and develop the business”.

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The Trade and Industry Secretary urged more UK companies to learn from the business plans and investment habits of Britain's and Europe's most successful businesses. In the DTI league table which ranked all European companies, HSBC was the third most successful company in Britain and ninth in Europe. We are delighted that the DTI recognises our contribution.

It is our sincere hope that further changes in the regulatory environment will not reduce the competitiveness of the industry. However, yours is a diversified Group and most of the profit attributable to shareholders is earned overseas.

Notwithstanding the challenges we face, HSBC is in good heart and in a strong position to capitalise on any opportunities that may come our way.

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