

2003 Results News Release

HSBC Holdings plc



HSBC 

The world's local bank

1 March 2004

HSBC HOLDINGS PLC
2003 FINAL RESULTS – HIGHLIGHTS

- Operating income up 54 per cent to US\$41,072 million (US\$26,595 million in 2002).

For the year (excluding goodwill amortisation):

- Operating profit before provisions up 72 per cent to US\$19,990 million (US\$11,641 million in 2002).
- Group pre-tax profit up 37 per cent to US\$14,401 million (US\$10,513 million in 2002).
- Attributable profit up 46 per cent to US\$10,359 million (US\$7,102 million in 2002).
- Return on average invested capital of 13.7 per cent (12.9 per cent in 2002).
- Earnings per share up 30 per cent to US\$0.99 (US\$0.76 in 2002).

For the year (as reported):

- Operating profit before provisions up 72 per cent to US\$18,540 million (US\$10,787 million in 2002).
- Group pre-tax profit up 33 per cent to US\$12,816 million (US\$9,650 million in 2002).
- Attributable profit up 41 per cent to US\$8,774 million (US\$6,239 million in 2002).
- Return on average shareholders' funds of 13.0 per cent (12.4 per cent in 2002).
- Basic earnings per share up 25 per cent to US\$0.84 (US\$0.67 in 2002).

Dividend and capital position:

- Third interim dividend (in lieu of final dividend) of US\$0.24 per share; total dividend for 2003 of US\$0.60 per share, an increase of 13 per cent over 2002.
- Tier 1 capital ratio of 8.9 per cent; total capital ratio of 12.0 per cent (2002: tier 1 capital ratio of 9.0 per cent and total capital ratio of 13.3 per cent).

The figures for 2002 have been restated in this document 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 on page 17.

HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US\$12,816 MILLION

HSBC made a profit on ordinary activities before tax of US\$12,816 million in 2003, an increase of US\$3,166 million, or 33 per cent, compared with 2002. Of this increase, over 70 per cent arose from two recent major acquisitions; Household contributed US\$1,827 million while HSBC Mexico contributed US\$441 million in its first full year.

The Directors have declared a third interim dividend for 2003 of US\$0.24 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US\$0.24 per ordinary share 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 (US\$0.53 per share in 2002), an increase of 13.2 per cent. The dividend will be payable on 5 May 2004.

Net interest income of US\$25,598 million in 2003 was US\$10,138 million, or 66 per cent, higher than 2002. Of this increase, Household contributed US\$8,305 million and HSBC Mexico US\$874 million. Excluding these acquisitions, and in terms of constant currency, net interest income was marginally higher.

Other operating income of US\$15,474 million was US\$4,339 million, or 39 per cent, higher than 2002. Of this increase, Household contributed US\$1,878 million and HSBC Mexico US\$599 million.

Operating expenses (excluding goodwill amortisation) rose US\$6,128 million, or 41 per cent, of which Household contributed US\$3,406 million and HSBC Mexico US\$881 million. HSBC's cost:income ratio, excluding goodwill amortisation, improved to 51.3 per cent compared with 56.2 per cent in 2002.

The charge for bad and doubtful debts was US\$6,093 million in 2003, US\$4,772 million higher than in 2002. This was essentially all attributable to acquisitions. Of the increase, Household accounted for US\$4,575 million and HSBC Mexico US\$110 million.

Gains on disposal of investments and tangible fixed assets of US\$414 million were US\$94 million lower than 2002 reflecting lower sales of investment debt securities in the US.

The tier 1 capital and total capital ratios for the Group remained strong at 8.9 per cent and 12.0 per cent, respectively, at 31 December 2003.

The Group's total assets at 31 December 2003 were US\$1,034 billion, an increase of US\$276 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 11.2 per cent.

Geographical distribution of results

<i>Figures in US\$m</i>	<i>Year ended 31 December 2003</i>		<i>Year ended 31 December 2002</i>	
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)
	<u>14,401</u>	<u>100.0</u>	<u>10,513</u>	<u>100.0</u>
Goodwill amortisation	<u>(1,585)</u>		<u>(863)</u>	
Group profit before tax	12,816		9,650	
Tax on profit on ordinary activities	<u>(3,120)</u>		<u>(2,534)</u>	
Profit on ordinary activities after tax	9,696		7,116	
Minority interests	<u>(922)</u>		<u>(877)</u>	
Profit attributable	<u>8,774</u>		<u>6,239</u>	
Profit attributable (excluding goodwill amortisation)	<u>10,359</u>		<u>7,102</u>	

Distribution of results by customer group

<i>Figures in US\$m</i>	<i>Year ended 31 December 2003</i>		<i>Year ended 31 December 2002[†]</i>	
Profit/(loss) before tax (excluding goodwill amortisation)		%		%
Personal Financial Services	4,008	27.8	3,391	32.3
Consumer Finance ^{††}	2,225	15.5	-	-
Total Personal Financial Services	<u>6,233</u>	<u>43.3</u>	<u>3,391</u>	<u>32.3</u>
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)	<u>14,401</u>	<u>100.0</u>	<u>10,513</u>	<u>100.0</u>
Goodwill amortisation	<u>(1,585)</u>		<u>(863)</u>	
Group profit before tax	<u>12,816</u>		<u>9,650</u>	

[†] 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.

^{††} Comprises Household since 28 March 2003, the date of acquisition.

Comment by Sir John Bond, Group Chairman

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 in 2003 rose 41 per cent to US\$8,774 million on revenues which were 54 per cent higher at US\$41,072 million. Profit attributable excluding the amortisation of goodwill, which is the measurement basis we believe best reveals our true performance, exceeded US\$10 billion for the first time rising 46 per cent to US\$10,359 million. On a per share basis earnings attributable to shareholders amounted to US\$0.84 or US\$0.99 before goodwill amortisation, increases of 25 and 30 per cent respectively. The Board has approved a third interim dividend of US\$0.24 per share taking the total dividend for the year to US\$0.60 per share, an increase of 13 per cent over 2002.

2003 was the final year of our five year strategic plan "Managing for Value". The results for the year contributed to meeting the target of doubling our total shareholder return over the five year period. We also significantly out-performed our benchmark peer group of nine banks.

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', Hong Kong was undergoing deflation. For much of our history Hong Kong was our single 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 remains undiminished and our new strategic plan specifically calls for continued investment in Hong Kong.

Integration of Recent Acquisitions

Two of our principal tasks during 2003 were integrating Household 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. The following are highlights of the Household integration:

- Technology integration and other synergies - We have made significant progress in integrating Household and HSBC technology teams and systems, including initiatives to consolidate data centres and to convert HSBC credit card portfolios onto the Household loan processing system. Based on the joint strengths of HSBC and Household, we have also renegotiated a wide range of supplier contracts, including telecommunications. Also, we have achieved efficiency savings in a number of other areas through the integration of various functions including purchasing, human resources and facilities.

Comment by Sir John Bond, Group Chairman *(continued)*

- Global processing opportunities - Processing costs have been reduced in Household's consumer lending and auto finance businesses by using HSBC's processing centres in India.
- Sharing best practices - We have made good progress in exporting and using Household's consumer credit business models and other practices in HSBC's operations both in the US and internationally. Shared practices include Household's credit risk management, card management, collections, retail services and customer focused technology.
- Expanding business opportunities - We are developing a number of initiatives including 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 has also developed near prime and prime products to provide customers with a "full spectrum" of options. As at 31 December 2003, 4,600 near prime loans totalling almost US\$600 million have been written by Household branches.
- Cross border payments - Globally, the largest bilateral remittance flow is that between the US and Mexico at around US\$10 billion a year. Working closely with HSBC Mexico, Household is developing a remittance capability between customers in the US 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.

In addition, all the commitments given to regulators in relation to improvements in business practices were fulfilled. Household aims to be a leader in best practice in the consumer finance industry.

Progress in Mexico has also been ahead of expectations:

- We have bedded down the new management structure, blending local and international expertise.
- We took full control of our insurance joint venture, buying out ING, and we purchased a pension management company to complement it.
- We are strengthening operational, credit, technology and audit controls to bring them to HSBC standards.
- We exceeded our financial targets. We achieved 18 per cent core deposit growth and more than 20 per cent growth in consumer lending. Non-performing loans declined by 52 per cent as we cleansed the loan portfolio. We achieved a cash return on cash invested of 20 per cent in the first year.

Our platform for further growth in Mexico is firmly in place.

Comment by Sir John Bond, Group Chairman *(continued)*

The Brand

One objective of “Managing for Value” was to establish HSBC and our hexagon symbol as a global consumer brand and to make it synonymous with integrity, trust and excellent customer service. Building our brand has been one of the most conspicuous successes of the plan. The careful management and further development of the brand is one of our most important responsibilities and we have consolidated our position by taking re-branding opportunities arising from recent acquisitions.

We re-branded our operations in Mexico as HSBC at the end of January this year to coincide with the visit of the HSBC Holdings plc Board to the country. We re-launched our private banking operations as HSBC Private Bank at the beginning of 2004, retiring the HSBC Republic brand which had been used since the acquisition of the Republic Bank of New York and Safra Republic Holdings in 1999. In the US, Household’s prime credit card business, its retail services business and its auto finance business will all be re-branded HSBC in the course of this year to build on the market position of HSBC amongst prime and business customers.

Customer Groups

All our major geographical businesses and customer groups performed well in 2003. Across all our businesses credit performances were sound. At the end of 2003, non-performing loans were US\$15,074 million. After excluding the acquisition of Household, non-performing loans fell US\$172 million to US\$10,368 million with the level of new provisions reflecting the improving economic outlook.

Personal Financial Services

Low interest rates and lower unemployment fuelled demand for mortgages and other lending products in many of our personal markets. Excluding Household we grew residential mortgages across the Group by 15 per cent over the year. We achieved particularly good growth in the UK, US, Canada, Korea and New Zealand, the last reflecting the acquisition of a retail banking business from AMP Bank. We achieved this in part by more targeted cross-selling to HSBC’s own current account customers. We grew non-mortgage personal lending by over 20 per cent with particularly good growth in the UK, US and France. Worldwide we achieved 20 per cent growth in credit cards in issue. The increase reflected stronger marketing in the UK, the contribution of businesses acquired in Turkey and in Mexico in 2002 and 15 per cent organic growth in Asia. Sales of repayment protection insurance reached record levels.

Continuing nervousness over the sustainability of growth in equity market valuations hit sales of traditional investment and investment-linked insurance products. However, those incorporating capital protection features were again successful in Asia, particularly in Hong Kong, where increased sales generated commission income of US\$130 million. With customers remaining cautious and preferring liquidity, we attracted record savings levels with deposits growing 13 per cent to US\$291 billion. Hong Kong, the UK, France and Canada led the way with particularly strong inflows while current account balances grew faster than the underlying rate of economic activity. Current account balances in the UK exceeded £10 billion for the first time at year-end 2003.

Comment by Sir John Bond, Group Chairman *(continued)*

We are beginning to see significant trends in customer channel preferences. Responding to those preferences has enabled us to achieve a 7 per cent increase in products in use by our customers. The number of customers registered for our e-banking services more than trebled in 2003 reflecting both the acquisition of Household and the value of our investments in the internet and telephone-based services. Registered users of personal internet banking increased by 200 per cent to 13.5 million. More than 60 per cent of them use the service regularly with over 325 million internet log-ons recorded during the year. The internet generated sales of more than 2.3 million products with some 87 million transactions migrating to this channel during 2003. As a result of this heightened online activity, calls to our call centres increased by the lowest rate in years. A third of all personal loans in the UK were arranged by telephone while in Hong Kong the internet accounted for 39 per cent of retail broking revenues which rose to US\$80 million. Online transactions now account for 74 per cent of all retail stock trades conducted by our operations in Hong Kong.

Consumer Finance

During 2003 Household achieved generally good organic loan growth which it supplemented with portfolio acquisitions. The strongest growth was in the real estate portfolio and particularly in the mortgage services business. With interest rates at their lowest level for 25 years, strong demand for refinancing as well as debt consolidation loans contributed to the solid increase in the real estate secured portfolio. Household also achieved growth in its branch based consumer lending business in the second half of the year with an expanded range of products a contributing factor.

In retail services new partners in the US included Suzuki, Saks Inc., and Gottshalks. Synergy benefits with HSBC included new opportunities in store cards and point of sale financing and were instrumental in the signing of the John Lewis Partnership in the UK as a new business partner.

Household's credit quality, specifically its delinquency and charge off levels improved in the second half of 2003. Early delinquency rates also showed improvement in the fourth quarter as a result of the recovery in the US economy and tighter underwriting in some products. There are grounds for optimism that these trends will continue during the first half of 2004.

Commercial Banking

The payment of interest on qualifying current accounts, imposed by the Competition Commission in the UK, came into effect in 2003. We absorbed the costs, taking the opportunity, at the same time, to stress to our customers the advantages of businesses banking with HSBC. This helped us increase our leading position in the UK business start-up market to 21 per cent and attract record levels of business current and deposit account balances. Business internet banking was launched in 13 more countries and territories, bringing the total to 20, and the number of registered users more than doubled to 540,000.

In Hong Kong, we launched a number of schemes to help customers worst affected by the outbreak of SARS in the first half of the year. However, the dramatic turnaround in both business activity and confidence in the second half, undoubtedly helped by the relaxing of restrictions on visitors from mainland China, meant that the economic impact on our customers was less than expected. Credit quality remained sound.

Comment by Sir John Bond, Group Chairman *(continued)*

With demand for credit remaining soft, we focused on increasing revenues from fees by capitalising on our position as 'The world's local bank' and by extending our range of products for commercial customers. As a result we saw growth in money transmission revenues, in trade finance fees and in wealth, savings and insurance products.

Corporate, Investment Banking and Markets

Our Global Markets business excelled as our CIBM activities achieved record results in 2003. In bond issuance, we increased our market shares in Europe and the US and maintained our market-leading position in Asia, excluding Japan. Continuing synergy benefits resulting from the Group's acquisition of CCF in 2000 and a greater focus on debt origination have resulted in HSBC building a top eight position in the international debt issuance league in 2003 compared to a 1999 ranking of 18th.

Currency and interest rate volatility led to strong demand for risk management and structured products, justifying our decision to expand our capabilities in this area through increased investment in people and systems in 2002. Concerns about market concentration in the structuring and delivery of complex products and reputational damage from corporate scandals elsewhere in the market enabled HSBC to expand profitable relationships with an enlarged customer group.

We re-focused our Markets business in the US where profitability improved markedly as a result of the non-recurrence of bond losses suffered in 2002. We gained market share in foreign exchange, particularly in New York, and built up our currency options business, managed globally from London, and our credit derivatives business, managed from New York.

In Corporate Banking, debt restructuring and well-marketed equity raising helped to reduce the number of major companies in financial difficulties around the world and to keep corporate credit costs low. Demand for credit through bank facilities, however, remained muted and in line with the modest recovery in corporate investment activity. Instead, corporate borrowers focused their borrowing requirements on taking advantage of the low credit spreads available in bond markets. Attractive bank financing opportunities were few.

We restructured our Investment Banking operations in 2003 and focused the business more sharply. We concentrated our global advisory businesses on areas most relevant to our customers and where we have a competitive advantage. While staff numbers fell, selective recruitment enabled us to strengthen the team and revenues from our advisory businesses grew to US\$158 million in 2003. We were entrusted with a number of landmark deals during the year in areas related to capital structuring, corporate reorganisation and broad strategic advice. These deals spanned our global client footprint.

Pressure on brokerage commissions and the likelihood of major structural change to the shape of the industry prompted us to reorganise our equities business with a significant reduction in headcount. Our revised business strategy, which fully integrates equities as part of our overall markets proposition, concentrates on areas where we have a competitive advantage and we returned to modest profit in the fourth quarter as markets improved.

Comment by Sir John Bond, Group Chairman *(continued)*

Private Banking

Our Private Banking operations recorded strong results with pre-tax profits growing by 36 per cent. New business initiatives and a general improvement in investment markets led to increased client activity across a range of products. In particular, an increase in discretionary mandates together with strong demand for client-tailored structured products contributed to increased fee revenues and dealing income. We grew funds under management by 18 per cent reflecting both net inflows of client assets and improving market conditions. Results were strong across most geographies.

Strategy

In November 2003, we launched our new five year strategic plan, which we call “Managing for Growth”. Using the delivery platform which HSBC has constructed around the world and harnessing all our strengths it aims to accelerate our overall rate of revenue growth. At the same time, however, we shall not compromise our traditionally conservative risk profile which has served us well.

Our plan also calls for the strategic management of costs. This partly reflects the transforming effect of technology, including the internet, and the extent to which customers can now choose to conduct their business with us themselves. It also reflects the need to free up resources by reducing or eliminating our involvement in businesses limited in scope or potential in order to allocate additional resources to areas which demonstrate strong growth prospects.

In addition, our strategies always allow us to respond to opportunities to expand our geographical reach and product range through acquisitions, investments and joint ventures. Indeed, the last 12 months have already seen a number of such developments. Following the acquisition of Household International, we acquired in December Lloyds TSB’s business interests in Brazil including its market leading consumer finance subsidiary Losango with over 7 million customers. We also agreed to acquire an interest in UTI Bank in India. As we continued to develop our business in The People’s Republic of China, Hang Seng Bank agreed to take a 15.9 per cent stake in Industrial Bank and we announced a joint credit card venture with Bank of Shanghai.

In February this year we were delighted to complete our US\$1.3 billion acquisition of the Bank of Bermuda. In addition to providing HSBC with a strong position in the local banking market in Bermuda, where potential exists for further expansion, the acquisition adds significant scale and geographical spread to our existing international fund administration, private banking, trustee and payments and cash management businesses. We are now working on integration.

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.

Comment by Sir John Bond, Group Chairman *(continued)*

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 of change. China plays an increasingly important role, not only through its export growth, but also as the fastest growing market for commodity producing countries and for those 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 US 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 geographic and product diversification. We believe that China, India, Brazil and Mexico 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; in Corporate, Investment Banking and Markets; and Private Banking. 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 our 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.

2002 [†] US\$m	<i>Year ended 31 December</i>	2003 US\$m	£m	HK\$m
For the year (excluding goodwill amortisation)				
10,513	Profit before tax	14,401	8,813	112,141
7,102	Profit attributable	10,359	6,340	80,666
For the year (as reported)				
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	360,392	4,995,925
758,605	Total assets	1,034,216	579,161	8,028,618
430,551	Risk-weighted assets	618,662	346,451	4,802,673
<i>US\$</i>	Per share	<i>US\$</i>	£	<i>HK\$</i>
0.76	Earnings before 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
0.53	Dividends ^{††}	0.60	0.34	4.65
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\$105bn	Market capitalisation	US\$172bn		
£6.87	Closing market price per share	£8.78		
	Total shareholder return against peer index ^{†††}	HSBC	Benchmark	
	- over 1 year	136	132	
	- since 1 January 1999	211	126	

[†] The figures for 2002, excluding capital resources, 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 on page 17.

^{††} The third interim dividend of US\$0.24 per share is translated at the closing rate on 31 December 2003 (see Note 16 on page 33). Where required, this dividend will be converted into Sterling or Hong Kong dollars at the exchange rates on 26 April 2004 (see Note 2 on page 17).

^{†††} Total shareholder return (TSR) is as defined in the Annual Report and Accounts 2003. HSBC's governing objective for its five year strategic plan ended 31 December 2003 was to beat the TSR of its defined peer group benchmark. An additional target objective was set to achieve a doubling of TSR over the five years beginning on 1 January 1999.

2002 †	<i>Year ended 31 December</i>	2003
Performance ratios (%)		
Excluding goodwill amortisation		
12.9	Return on average invested capital ††	13.7
20.1	Return on average net tangible equity †††	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
On a reported basis		
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
Efficiency and revenue mix ratios		
56.2	Cost:income ratio (excluding goodwill amortisation)	51.3
As a percentage of total operating income:		
58.1	- net interest income	62.3
41.9	- other operating income	37.7
29.4	- net fees and commissions	25.3
4.9	- dealing profits	5.3
Capital ratios		
9.0	- tier 1 capital	8.9
13.3	- total capital	12.0

† The figures 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 on page 17.

†† 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.

††† Attributable profit excluding amortisation divided by average shareholders' funds after deduction of average purchased goodwill.

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

<i>31 December 2002</i>		<i>Year ended 31 December 2003</i>		
<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
28,595	Interest receivable	39,968	24,460	311,231
<u>(13,135)</u>	Interest payable	<u>(14,370)</u>	<u>(8,794)</u>	<u>(111,899)</u>
15,460	Net interest income	25,598	15,666	199,332
<u>11,135</u>	Other operating income	<u>15,474</u>	<u>9,470</u>	<u>120,496</u>
26,595	Operating income	41,072	25,136	319,828
(14,954)	Operating expenses excluding goodwill	(21,082)	(12,902)	(164,166)
<u>(854)</u>	Goodwill amortisation	<u>(1,450)</u>	<u>(887)</u>	<u>(11,291)</u>
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)	Loss from foreign currency redenomination in Argentina	(9)	(6)	(70)
<u>(324)</u>	Amounts written off fixed asset investments	<u>(106)</u>	<u>(65)</u>	<u>(825)</u>
9,035	Operating profit	12,297	7,526	95,757
(28)	Share of operating loss in joint ventures	(116)	(71)	(903)
135	Share of operating profit in associates	221	135	1,721
	Gains/(losses) on disposal of:			
532	- investments	451	276	3,512
<u>(24)</u>	- tangible fixed assets	<u>(37)</u>	<u>(23)</u>	<u>(288)</u>
9,650	Profit on ordinary activities before tax	12,816	7,843	99,799
<u>(2,534)</u>	Tax on profit on ordinary activities	<u>(3,120)</u>	<u>(1,909)</u>	<u>(24,295)</u>
7,116	Profit on ordinary activities after tax	9,696	5,934	75,504
	Minority interests:			
(505)	- equity	(487)	(298)	(3,792)
<u>(372)</u>	- non-equity	<u>(435)</u>	<u>(266)</u>	<u>(3,387)</u>
6,239	Profit attributable to shareholders	8,774	5,370	68,325
<u>(5,001)</u>	Dividends	<u>(6,532)</u>	<u>(3,998)</u>	<u>(50,865)</u>
<u>1,238</u>	Retained profit for the year	<u>2,242</u>	<u>1,372</u>	<u>17,460</u>

<i>At 31 December 2002</i> †		<i>At 31 December 2003</i>		
<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
ASSETS				
7,659	Cash and balances at central banks	7,661	4,290	59,472
	Items in the course of collection			
5,651	from other banks	6,628	3,712	51,453
18,141	Treasury bills and other eligible bills	20,391	11,419	158,295
	Hong Kong Government certificates			
9,445	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 associates	1,263	707	9,805
651	Other participating interests	690	386	5,356
17,192	Goodwill and intangible 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
<u>758,605</u>	Total assets	<u>1,034,216</u>	<u>579,161</u>	<u>8,028,618</u>
LIABILITIES				
	Hong Kong currency notes in			
9,445	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
	Items in the course of transmission to			
4,634	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
<u>758,605</u>	Total liabilities	<u>1,034,216</u>	<u>579,161</u>	<u>8,028,618</u>

† The figures 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 on page 17.

<i>Figures in US\$m</i>	<i>Year ended 31 December</i>	
	<i>2003</i>	<i>2002</i>
Net cash inflow from operating activities	22,675	16,426
Dividends received from associated undertakings	108	114
Returns on investments and servicing of finance:		
Interest paid on finance leases and similar hire purchase contracts	(37)	(29)
Interest paid on subordinated loan capital	(882)	(870)
Dividends paid to minority interests – equity	(514)	(480)
– non-equity	(392)	(357)
Net cash (outflow) from returns on investments and servicing of finance	(1,825)	(1,736)
Taxation paid	(2,631)	(1,371)
Capital expenditure and financial investments:		
Purchase of investment securities	(218,196)	(130,166)
Proceeds from sale and maturities of investment securities	206,099	122,495
Purchase of tangible fixed assets	(1,981)	(1,723)
Proceeds from sale of tangible fixed assets	346	328
Purchase of intangible assets	(87)	-
Net cash (outflow) from capital expenditure and financial investments	(13,819)	(9,066)
Acquisitions and disposals:		
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings	(2,137)	264
Net cash inflow from disposal of subsidiary undertakings	556	-
Purchase of interest in associated undertakings and other participating interests	(47)	(649)
Proceeds from disposal of associated undertakings and other participating interests	3	341
Net cash (outflow) from acquisitions and disposals	(1,625)	(44)
Equity dividends paid	(4,242)	(3,609)
Net cash inflow/(outflow) before financing	(1,359)	714
Financing:		
Issue of ordinary share capital	845	337
Net purchases of own shares acquired for market making purposes	(138)	-
Own shares acquired to meet share awards and share option awards	(301)	(5)
Cash received on exercise of share options	181	64
Increase in non-equity minority interests	4,104	-
Decrease in non-equity minority interests	(206)	(50)
Subordinated loan capital issued	2,358	4,105
Subordinated loan capital repaid	(1,464)	(1,923)
Net cash inflow/(outflow) from financing	5,379	2,528
Increase/(decrease) in cash	4,020	3,242

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

	<i>31 December</i>	
	<i>2003</i>	<i>2002</i>
	<i>US\$m</i>	<i>US\$m</i>
Profit for the financial year attributable to shareholders	8,774	6,239
Unrealised (deficit) on revaluation of investment properties:		
- subsidiaries	(28)	(22)
- associates	(10)	(1)
Unrealised (deficit) on revaluation of land and buildings (excluding investment properties):		
- subsidiaries	(292)	(297)
Exchange and other movements	5,318	3,781
Total recognised gains and losses for the year	<u>13,762</u>	<u>9,700</u>

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

	<i>31 December</i>	
	<i>2003</i>	<i>2002</i>
	<i>US\$m</i>	<i>US\$m</i> †
Profit for the financial year attributable to shareholders	8,774	6,239
Dividends	(6,532)	(5,001)
	2,242	1,238
Other recognised gains and losses relating to the year	4,988	3,461
New share capital subscribed, net of costs	862	337
Purchases of own shares acquired to meet share awards and share option awards	(301)	(5)
Own shares released on vesting of share awards and exercise of options	162	45
Amortisation of shares in restricted share plan	19	19
Net purchases and sales of own shares for market making purposes	(138)	-
Total net change in shareholders' funds arising from own shares adjustments	(258)	59
Reserve in respect of obligations under CCF share options	(41)	(41)
New share capital issued in connection with the acquisition of Household	13,405	-
Net reserve in respect of obligations under Household share options	84	-
Net reserve in respect of the equity component of Household 8.875 per cent Adjustable Conversion-Rate Equity Security Units	3	-
Amounts arising on shares issued in lieu of dividends	1,423	1,023
Net addition to shareholders' funds	22,708	6,077
Shareholders' funds at 1 January as reported	52,406	46,388
Prior period adjustment (as explained in Note 1)	(641)	(700)
Shareholders' funds at 1 January restated	51,765	45,688
Shareholders' funds at 31 December	<u>74,473</u>	<u>51,765</u>

† The figures 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 on page 17.

1. Accounting policies

The accounting policies adopted are consistent with those described in the *Annual Report and Accounts 2002* except as noted below.

The presentation of shares in HSBC Holdings held by HSBC changed in 2003 following the adoption of the Urgent Issues Task Force ('UITF') Abstracts 37 'Purchases and sales of own shares' and 38 'Accounting for ESOP Trusts'. HSBC Holdings shares held on HSBC's own account are now deducted from shareholders' funds; previously they were included in equity shares and other assets. No gains or losses are recognised 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 account 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

<i>Figures in US\$m</i>	<i>Other Assets</i>	<i>Equity Shares</i>	<i>Own shares held reserve</i>	<i>Profit and loss account</i>
At 31 December 2002				
Under previous policy	45,855 [‡]	8,213	-	33,335
Adoption of UITF Abstract 37 and 38	(92)	(549)	(646)	5
Under new policy	<u>45,763</u>	<u>7,664</u>	<u>(646)</u>	<u>33,340</u>

[‡] This excludes US\$29 million of intangible assets, which have now been combined with Goodwill on the face of the balance sheet.

2. Dividend

The Directors have declared a third interim dividend for 2003 of US\$0.24 per ordinary share. The dividend will be payable on 5 May 2004 to shareholders on the Register at the close of business on 19 March 2004. 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 26 April 2004, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 30 March 2004, and elections will be required to be made by 22 April 2004.

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 26 April 2004 and paid on 5 May 2004 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 or as a scrip dividend of new ADSs on 5 May 2004, or will be invested in additional ADSs for participants in the dividend reinvestment plan operated by the depository.

The Company's shares will be quoted ex-dividend in London, Hong Kong and Bermuda on 17 March 2004 and in Paris on 22 March 2004. The ADSs will be quoted ex-dividend in New York on 17 March 2004.

3. Earnings and dividends per share

<i>Figures in US\$</i>	<i>Year ended 31 December</i>	
	<u>2003</u>	<u>2002</u>
Earnings per share (excluding goodwill amortisation)	0.99	0.76
Basic earnings per share	0.84	0.67
Diluted earnings per share	0.83	0.66
Dividends per share	0.60	0.53
Dividend pay out ratio [‡]	61 %	70%

[‡] *Dividends per share expressed as a percentage of earnings per share (excluding goodwill amortisation).*

Basic earnings per ordinary share was calculated by dividing the earnings of US\$8,774 million by the weighted average number of ordinary shares, excluding own shares held, outstanding in 2003, of 10,421 million shares (2002 earnings of US\$6,239 million and 9,339 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 ordinary conversion of dilutive potential ordinary shares (being share options outstanding not yet exercised) in 2003 of 10,539 million shares (2002: 9,436 million shares).

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>Figures in US\$m</i>	<i>Year ended</i>	<i>Year ended</i>
	<u>31 December</u>	<u>31 December</u>
	<u>2003</u>	<u>2002</u>
UK corporation tax charge	547	684
Overseas taxation	2,590	1,217
Joint ventures	1	(6)
Associates	19	17
Current taxation	3,157	1,912
Deferred taxation	(37)	622
Total charge for taxation	<u>3,120</u>	<u>2,534</u>
Effective tax rate	24.3 %	26.3 %

4. Taxation (continued)

The Company and its subsidiary undertakings in the UK provided for UK corporation tax at 30 per cent, the rate for the calendar year 2003 (2002: 30 per cent). Overseas tax included Hong Kong profits tax of US\$483 million (2002: US\$408 million) provided at the 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.

At 31 December 2003, there were potential future tax benefits of US\$963 million (31 December 2002: US\$885 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>Figures in US\$m</i>	<i>Year ended 31 December 2003</i>	<i>Year ended 31 December 2002</i>
Taxation at UK corporate tax rate of 30.0%	3,845	2,895
Impact of differently taxed overseas profits in principal locations	(366)	(472)
Tax free gains	(17)	(19)
Argentine losses	(25)	87
Goodwill amortisation	476	261
Acquisition accounting adjustments	(331)	-
Prior period adjustments	(230)	(90)
Other items	(232)	(128)
Timing differences impact on deferred tax	37	(622)
Current tax charge	3,157	1,912
Accelerated capital allowances	1	(23)
Timing differences on lease income	187	90
Provisions for general bad debts	(356)	29
Relief for losses	(52)	125
Other short term timing differences	183	401
Deferred tax charge	(37)	622
Overall tax charge	3,120	2,534

5. Subordinated liabilities

<i>Figures in US\$m</i>	<i>At 31 December 2003</i>	<i>At 31 December 2002</i>
Dated subordinated loan capital which is repayable:		
- within 1 year	858	956
- between 1 and 2 years	718	862
- between 2 and 5 years	1,863	1,957
- over 5 years	14,141	11,056
	17,580	14,831

6. Assets charged as security for liabilities

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

<i>Figures in US\$m</i>	<i>Amount of liability secured</i>	
	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 December</i>
	<u>2003</u>	<u>2002</u>
Deposits by banks	1,487	1,661
Customer accounts	3,709	4,204
Debt securities in issue	33,584	1,437
Other liabilities	3,122	2,884
	<u>41,902</u>	<u>10,186</u>

The amount of assets pledged to secure these amounts is US\$111,448 million (31 December 2002: US\$44,457 million). This is mainly made up of items included in 'Debt securities' and 'Loans and advances to customers' of US\$109,131 million (31 December 2002: US\$41,640 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>2003</u>	<u>2002</u>
Capital ratios (%)		
Total capital ratio	12.0	13.3
Tier 1 capital ratio	8.9	9.0
Composition of capital		
<i>Figures in US\$m</i>		
Tier 1:		
Shareholders' funds	74,473	52,406
Minority interests	3,711	3,306
Innovative tier 1 securities	8,094	3,647
Less: property revaluation reserves	(1,615)	(1,954)
: goodwill capitalised and intangible assets	(29,920)	(17,855)
: own shares held [‡]	120	(601)
Total qualifying tier 1 capital	<u>54,863</u>	<u>38,949</u>
Tier 2:		
Property revaluation reserves	1,615	1,954
General provisions	2,868	2,348
Perpetual subordinated debt	3,608	3,542
Term subordinated debt	15,795	12,875
Minority and other interests in tier 2 capital	523	775
Total qualifying tier 2 capital	<u>24,409</u>	<u>21,494</u>
Unconsolidated investments	(4,101)	(2,231)
Investments in other banks	(911)	(638)
Other deductions	(218)	(144)
Total capital	<u>74,042</u>	<u>57,430</u>
Total risk-weighted assets	<u>618,662</u>	<u>430,551</u>

[‡] *The treatment of own shares held for regulatory capital purposes has not changed consequent on the changes to shareholders' funds introduced by 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 on page 17. The comparative figures have not therefore been restated. The addition in 2003 relates primarily to own shares held within long-term assurance policyholders' funds. This reverses their recognition in the own shares held reserve, as insurance companies are treated as unconsolidated investments in regulatory capital calculations.*

The above figures were computed in accordance with the EU Banking Consolidation Directive.

8. Foreign exchange exposure

The Group's foreign exchange exposure comprises trading exposures and structural foreign currency translation exposure. Foreign exchange trading exposures comprise 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 Management Board.

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 2003, were US\$488,644 million (31 December 2002: US\$276,884 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 2003</i>	<i>Year ended 31 December 2002</i>
Operating profit	12,297	9,035
Change in prepayments and accrued income	(6,825)	355
Change in accruals and deferred income	6,015	190
Interest on finance leases and similar hire purchase contracts	38	36
Interest on subordinated loan capital	958	862
Depreciation and amortisation	2,847	2,044
Amortisation of discounts and premiums	338	(8)
Provisions for bad and doubtful debts	6,093	1,321
Loans written off net of recoveries	(6,846)	(1,931)
Provisions for liabilities and charges	759	879
Provisions utilised	(781)	(1,331)
Amounts written off fixed asset investments	66	324
Net cash inflow from trading activities	14,959	11,776
Change in items in the course of collection from other banks	(135)	124
Change in treasury bills and other eligible bills	650	715
Change in loans and advances to banks	(14,537)	16,550
Change in loans and advances to customers	(77,614)	(35,332)
Change in other securities	(10,518)	2,543
Change in other assets	(4,302)	(7,055)
Change in deposits by banks	14,628	(3,505)
Change in customer accounts	76,085	31,161
Change in items in the course of transmission to other banks	(251)	716
Change in debt securities in issue	13,976	2,935
Change in other liabilities	14,443	(1,580)
Elimination of exchange differences [†]	(4,709)	(2,622)
Net cash inflow from operating activities	22,675	16,426

[†] *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>2003 Half-year ended</i>			<i>2002 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2003</i>	<i>30 June</i>	<i>31 December</i>	<i>2002</i>
By category:						
Bad and doubtful debt charge						
- specific charge:						
new provisions	3,089	4,688	7,777	1,340	1,338	2,678
releases and recoveries	(640)	(923)	(1,563)	(502)	(504)	(1,006)
	2,449	3,765	6,214	838	834	1,672
- net general release	(75)	(46)	(121)	(123)	(228)	(351)
Total bad and doubtful debt charge	<u>2,374</u>	<u>3,719</u>	<u>6,093</u>	<u>715</u>	<u>606</u>	<u>1,321</u>
Customers	2,373	3,723	6,096	715	606	1,321
Banks	1	(4)	(3)	-	-	-
Total	<u>2,374</u>	<u>3,719</u>	<u>6,093</u>	<u>715</u>	<u>606</u>	<u>1,321</u>

12. Analysis of fees and commissions receivable and payable

<i>Figures in US\$m</i>	<i>2003 Half-year ended</i>			<i>2002 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2003</i>	<i>30 June</i>	<i>31 December</i>	<i>2002</i>
Account services	1,089	1,228	2,317	802	913	1,715
Credit facilities	465	501	966	366	386	752
Remittances	138	150	288	127	141	268
Cards	1,119	1,857	2,976	577	665	1,242
Imports/Exports	285	324	609	263	293	556
Underwriting	99	76	175	96	77	173
Insurance	455	506	961	379	396	775
Mortgage servicing rights	36	39	75	38	39	77
Trust income	72	73	145	62	63	125
Broking income	379	494	873	402	371	773
Global custody	151	187	338	146	150	296
Maintenance income on operating leases	84	87	171	78	82	160
Funds under management	523	573	1,096	536	490	1,026
Unit trusts	206	152	358	164	120	284
Corporate finance	81	108	189	57	65	122
Other	452	571	1,023	449	452	901
Total fees and commissions receivable	5,634	6,926	12,560	4,542	4,703	9,245
Less: fees payable	(984)	(1,182)	(2,166)	(685)	(736)	(1,421)
Net fees and commissions	4,650	5,744	10,394	3,857	3,967	7,824

13. Geographical distribution of results

HSBC European Operations

<i>Figures in US\$m</i>	<i>2003 Half-year ended</i>			<i>2002 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2003</i>	<i>30 June</i>	<i>31 December</i>	<i>2002</i>
Net interest income	3,508	4,032	7,540	3,056	3,287	6,343
Dividend income	106	44	150	118	93	211
Net fees and commissions	2,446	2,746	5,192	2,216	2,312	4,528
Dealing profits	531	429	960	245	263	508
Other income	570	683	1,253	516	509	1,025
Other operating income	3,653	3,902	7,555	3,095	3,177	6,272
Operating income	7,161	7,934	15,095	6,151	6,464	12,615
Staff costs	(2,632)	(2,944)	(5,576)	(2,141)	(2,284)	(4,425)
Premises and equipment	(506)	(552)	(1,058)	(435)	(531)	(966)
Other	(950)	(1,118)	(2,068)	(812)	(951)	(1,763)
Depreciation and amortisation (excluding goodwill)	(396)	(431)	(827)	(309)	(415)	(724)
Goodwill amortisation	(376)	(382)	(758)	(307)	(344)	(651)
Operating expenses	(4,860)	(5,427)	(10,287)	(4,004)	(4,525)	(8,529)
Operating profit before provisions	2,301	2,507	4,808	2,147	1,939	4,086
Customers:						
- new specific provisions	(551)	(934)	(1,485)	(448)	(515)	(963)
- releases and recoveries	207	286	493	167	162	329
- net general release	1	117	118	1	64	65
Total bad and doubtful debt charge	(343)	(531)	(874)	(280)	(289)	(569)
Provisions for contingent liabilities and commitments	(17)	(16)	(33)	(20)	5	(15)
Amounts written off fixed asset investments	(46)	(18)	(64)	(128)	(139)	(267)
Operating profit	1,895	1,942	3,837	1,719	1,516	3,235
Share of operating (loss) in joint ventures	(132)	5	(127)	(20)	(6)	(26)
Share of operating profits in associates	18	29	47	6	(3)	3
Investment and fixed asset disposal gains	88	124	212	162	126	288
Profit before tax	1,869	2,100	3,969	1,867	1,633	3,500

HSBC Hong Kong Operations

<i>Figures in US\$m</i>	<i>2003 Half-year ended</i>		<i>2003</i>	<i>2002 Half-year ended</i>		<i>2002</i>
	<i>30 June</i>	<i>31 December</i>		<i>30 June</i>	<i>31 December</i>	
Net interest income	1,991	1,910	3,901	2,065	2,068	4,133
Dividend income	15	16	31	10	15	25
Net fees and commissions	647	736	1,383	612	652	1,264
Dealing profits	186	135	321	59	74	133
Other income	274	322	596	234	261	495
Other operating income	1,122	1,209	2,331	915	1,002	1,917
Operating income	3,113	3,119	6,232	2,980	3,070	6,050
Staff costs	(611)	(665)	(1,276)	(596)	(653)	(1,249)
Premises and equipment	(109)	(131)	(240)	(107)	(126)	(233)
Other	(214)	(288)	(502)	(207)	(252)	(459)
Depreciation and amortisation (excluding goodwill)	(98)	(96)	(194)	(99)	(99)	(198)
Goodwill amortisation	(3)	-	(3)	-	-	-
Operating expenses	(1,035)	(1,180)	(2,215)	(1,009)	(1,130)	(2,139)
Operating profit before provisions	2,078	1,939	4,017	1,971	1,940	3,911
Customers:						
- new specific provisions	(389)	(266)	(655)	(226)	(302)	(528)
- releases and recoveries	107	117	224	104	81	185
	(282)	(149)	(431)	(122)	(221)	(343)
- net general release/(charge)	(21)	52	31	1	96	97
Total bad and doubtful debt charge	(303)	(97)	(400)	(121)	(125)	(246)
Provisions for contingent liabilities and commitments	(3)	(3)	(6)	4	(18)	(14)
Amounts written off fixed asset investments	5	26	31	(7)	(3)	(10)
Operating profit	1,777	1,865	3,642	1,847	1,794	3,641
Share of operating profit in associates	6	12	18	8	3	11
Investments and fixed asset disposal gains	57	11	68	45	13	58
Profit before tax	1,840	1,888	3,728	1,900	1,810	3,710

HSBC Rest of Asia-Pacific Operations

Figures in US\$m	2003 Half-year ended			2002 Half-year ended		
	30 June	31 December	2003	30 June	31 December	2002
Net interest income	840	900	1,740	784	823	1,607
Dividend income	3	1	4	1	2	3
Net fees and commissions	363	442	805	358	366	724
Dealing profits	231	190	421	186	178	364
Other income	56	64	120	33	50	83
Other operating income	653	697	1,350	578	596	1,174
Operating income	1,493	1,597	3,090	1,362	1,419	2,781
Staff costs	(427)	(525)	(952)	(400)	(426)	(826)
Premises and equipment	(80)	(84)	(164)	(72)	(84)	(156)
Other	(235)	(292)	(527)	(198)	(256)	(454)
Depreciation and amortisation (excluding goodwill)	(47)	(51)	(98)	(44)	(48)	(92)
Goodwill amortisation	(19)	(16)	(35)	(17)	(16)	(33)
Operating expenses	(808)	(968)	(1,776)	(731)	(830)	(1,561)
Operating profit before provisions	685	629	1,314	631	589	1,220
Customers:						
- new specific provisions	(181)	(231)	(412)	(187)	(213)	(400)
- releases and recoveries	151	192	343	146	174	320
- net general release/(charge)	(30)	(39)	(69)	(41)	(39)	(80)
Total bad and doubtful debt (charge)/release	4	(20)	(16)	(7)	(2)	(9)
Provisions for contingent liabilities and commitments	(26)	(59)	(85)	(48)	(41)	(89)
Provisions for contingent liabilities and commitments	(4)	3	(1)	14	4	18
Amounts written off fixed asset investments	-	(2)	(2)	(1)	(1)	(2)
Operating profit	655	571	1,226	596	551	1,147
Share of operating profit/ (loss) in joint ventures	-	-	-	(1)	1	-
Share of operating profit in associates	65	84	149	55	58	113
Investments and fixed asset disposal gains/(losses)	14	2	16	3	(3)	-
Profit before tax	734	657	1,391	653	607	1,260

HSBC North American Operations

<i>Figures in US\$m</i>	<i>2003 Half-year ended</i>			<i>2002 Half-year ended</i>		
	<i>30 June</i>	<i>31 December</i>	<i>2003</i>	<i>30 June</i>	<i>31 December</i>	<i>2002</i>
Net interest income	4,630	7,147	11,777	1,292	1,440	2,732
Dividend income	22	12	34	12	12	24
Net fees and commissions	1,044	1,632	2,676	492	492	984
Dealing profits	238	102	340	75	86	161
Other income	424	508	932	123	210	333
Other operating income	1,728	2,254	3,982	702	800	1,502
Operating income	6,358	9,401	15,759	1,994	2,240	4,234
Staff costs	(1,593)	(2,130)	(3,723)	(765)	(772)	(1,537)
Premises and equipment	(319)	(426)	(745)	(166)	(190)	(356)
Other	(936)	(1,305)	(2,241)	(296)	(355)	(651)
Depreciation and amortisation (excluding goodwill)	(106)	(132)	(238)	(64)	(67)	(131)
Goodwill amortisation	(231)	(412)	(643)	(67)	(79)	(146)
Operating expenses	(3,185)	(4,405)	(7,590)	(1,358)	(1,463)	(2,821)
Operating profit before provisions	3,173	4,996	8,169	636	777	1,413
Customers:						
- new specific provisions	(1,835)	(3,127)	(4,962)	(243)	(156)	(399)
- releases and recoveries	143	279	422	64	50	114
	(1,692)	(2,848)	(4,540)	(179)	(106)	(285)
- net general (charge)/release	22	(158)	(136)	(3)	(12)	(15)
Total bad and doubtful debt charge	(1,670)	(3,006)	(4,676)	(182)	(118)	(300)
Provisions for contingent liabilities and commitments	2	1	3	(1)	4	3
Amounts written off fixed asset investments	(4)	(5)	(9)	(1)	(8)	(9)
Operating profit	1,501	1,986	3,487	452	655	1,107
Share of operating (loss) in joint ventures	8	3	11	(2)	-	(2)
Share of operating profit in associates	3	3	6	2	6	8
Investments and fixed assets disposal gains	90	19	109	105	20	125
Profit before tax	1,602	2,011	3,613	557	681	1,238

HSBC South American Operations

Figures in US\$m	2003 Half-year ended		2003	2002 Half-year ended		2002
	30 June	31 December		30 June	31 December	
Net interest income	252	388	640	396	249	645
Dividend income	1	2	3	15	-	15
Net fees and commissions	150	188	338	179	145	324
Dealing profits	72	64	136	80	67	147
Other income	107	94	201	88	22	110
Other operating income	330	348	678	362	234	596
Operating income	582	736	1,318	758	483	1,241
Staff costs	(230)	(354)	(584)	(301)	(271)	(572)
Premises and equipment	(55)	(69)	(124)	(63)	(50)	(113)
Other	(127)	(200)	(327)	(184)	(146)	(330)
Depreciation and amortisation (excluding goodwill)	(19)	(21)	(40)	(29)	(16)	(45)
Goodwill amortisation	(3)	(8)	(11)	(5)	(19)	(24)
Operating expenses	(434)	(652)	(1,086)	(582)	(502)	(1,084)
Operating profit/(loss) before provisions	148	84	232	176	(19)	157
Customers:						
- new specific provisions	(133)	(130)	(263)	(236)	(152)	(388)
- releases and recoveries	32	49	81	21	37	58
Argentina general	(101)	(81)	(182)	(215)	(115)	(330)
- net general release/(charge)	61	61	122	114	82	196
Total bad and doubtful debt charge	8	(6)	2	17	-	17
Provisions for contingent liabilities	(32)	(26)	(58)	(84)	(33)	(117)
Loss on foreign currency redenomination in Argentina	-	2	2	-	(31)	(31)
Amounts written off fixed asset investments	(34)	25	(9)	(45)	(23)	(68)
Operating profit/(loss)	(15)	(47)	(62)	(2)	(34)	(36)
Share of operating profit in associates	67	38	105	45	(140)	(95)
Investments and fixed assets disposal (losses)/gains	-	1	1	-	-	-
Profit/(loss) before tax	-	9	9	35	2	37
	67	48	115	80	(138)	(58)

14. Profit and loss account impact from Household
Half-year to 30 June 2003

	<i>30 June 2003 Total US\$m</i>	<i>30 June 2003 Household US\$m</i>	<i>30 June 2003 Rest of HSBC US\$m</i>	<i>30 June 2002 US\$m</i>
Interest receivable	18,206	3,492	14,714	14,229
Interest payable	(6,985)	(702)	(6,283)	(6,636)
Net interest income	11,221	2,790	8,431	7,593
Other operating income	7,286	612	6,674	5,510
Operating income	18,507	3,402	15,105	13,103
Operating expenses excluding goodwill	(9,490)	(1,214)	(8,276)	(7,146)
Goodwill amortisation	(632)	(115)	(517)	(396)
Operating profit before provisions	8,385	2,073	6,312	5,561
Provisions for bad and doubtful debts	(2,374)	(1,539)	(835)	(715)
Provisions for contingent liabilities and commitments	(22)	-	(22)	(3)
Loss from foreign currency redenomination in Argentina	(34)	-	(34)	(45)
Amounts written off fixed asset investments	(60)	-	(60)	(139)
Operating profit	5,895	534	5,361	4,659
Share of operating loss in joint ventures	(124)	-	(124)	(23)
Share of operating profit in associates	92	-	92	71
Gains/(losses) on disposal of:				
- investments	264	2	262	351
- tangible fixed assets	(15)	-	(15)	(1)
Profit on ordinary activities before tax	6,112	536	5,576	5,057
Tax on profit on ordinary activities	(1,554)	(133)	(1,421)	(1,315)
Profit on ordinary activities after tax	4,558	403	4,155	3,742
Minority interests:				
- equity	(261)	-	(261)	(278)
- non-equity	(191)	-	(191)	(184)
Profit attributable to shareholders	4,106	403	3,703	3,280

14. Profit and loss account impact from Household (continued)

Half-year to 31 December 2003

	<i>31 December 2003 Total US\$m</i>	<i>31 December 2003 Household US\$m</i>	<i>31 December 2003 Rest of HSBC US\$m</i>	<i>31 December 2002 US\$m</i>
Interest receivable	21,762	6,894	14,868	14,366
Interest payable	(7,385)	(1,379)	(6,006)	(6,499)
Net interest income	14,377	5,515	8,862	7,867
Other operating income	8,188	1,266	6,922	5,625
Operating income	22,565	6,781	15,784	13,492
Operating expenses excluding goodwill	(11,592)	(2,192)	(9,400)	(7,808)
Goodwill amortisation	(818)	(266)	(552)	(458)
Operating profit before provisions	10,155	4,323	5,832	5,226
Provisions for bad and doubtful debts	(3,719)	(3,036)	(683)	(606)
Provisions for contingent liabilities and commitments	(13)	-	(13)	(36)
Loss from foreign currency redenomination in Argentina	25	-	25	(23)
Amounts written off fixed asset investments	(46)	-	(46)	(185)
Operating profit	6,402	1,287	5,115	4,376
Share of operating loss in joint ventures	8	-	8	(5)
Share of operating profit in associates	129	-	129	64
Gains/(losses) on disposal of:				
- investments	187	4	183	181
- tangible fixed assets	(22)	-	(22)	(23)
Profit on ordinary activities before tax	6,704	1,291	5,413	4,593
Tax on profit on ordinary activities	(1,566)	(330)	(1,236)	(1,219)
Profit on ordinary activities after tax	5,138	961	4,177	3,374
Minority interests:				
- equity	(226)	-	(226)	(227)
- non-equity	(244)	-	(244)	(188)
Profit attributable to shareholders	4,668	961	3,707	2,959

15. Registers of shareholders

The Overseas Branch Register of shareholders in Hong Kong will be closed for one day, on Friday 19 March 2004. Any person who has acquired shares registered on the Hong Kong Branch Register but who has not lodged the share transfer with the Hong Kong Branch Registrar should do so before 4.00 pm on Thursday 18 March 2004 in order to receive the third interim dividend for 2003.

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 19 March 2004 in order to receive the dividend.

Any person who has acquired shares registered on the Overseas Branch Register of shareholders in Bermuda but who has not lodged the share transfer with the Bermuda Branch Registrar should do so before 4.00 pm on Friday 19 March 2004 in order to receive the dividend.

Transfers between the Principal Register or the Bermuda Branch Register and the Hong Kong Branch Register may not be made while the Hong Kong Branch Register is closed.

Transfers of American Depositary Shares should be lodged with the depositary by 12 noon on Friday 19 March 2004 in order to receive the dividend.

16. 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</i> <u>2003</u>	<i>31 December</i> <u>2002</u>
Closing : HK\$/US\$	7.763	7.798
£/US\$	0.560	0.620
Average : HK\$/US\$	7.787	7.799
£/US\$	0.612	0.666

17. 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.

18. Dealings in HSBC Holdings shares

On 8 May 2003 HSBC Life (International) Limited sold 20,902 HSBC Holdings ordinary shares of US\$0.50 each on the London Stock Exchange at 708.26 pence per share.

Save for this and dealings by HSBC Bank plc and HSBC CCF Financial Products (France) SNC, which are members of a European Economic Area exchange, neither the Company nor any subsidiary undertaking has bought, sold or redeemed any securities of the Company during the year ended 31 December 2003.

19. 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 2003 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act. 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.

20. 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'.

21. Corporate governance

HSBC is committed to high standards of corporate governance. Throughout 2003, HSBC Holdings has complied with the best practice provisions of the Combined Code on corporate governance appended to the Listing Rules of the Financial Services Authority and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

22. Remuneration

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:

22. Remuneration (continued)

- 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.

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

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 targets. 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 being disclosed in Note 11 of the 'Notes on the Financial Statements' in the Annual Report and Accounts. The effect on basic earnings per share of exercising all outstanding share options would be to dilute it by 0.40 per cent.

There were 222,719 full-time equivalent employees at 31 December 2003 (2002: 184,405). During 2003, over 56,000 employees in more than 50 countries and territories applied for savings-related share options.

23. Annual Review and Annual Report and Accounts

The *Annual Review 2003* and/or *Annual Report and Accounts 2003* will be mailed to shareholders on or about 30 March 2004. 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, 109 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 Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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

A French translation of the *Annual Review* may be obtained on request from CCF, Direction de la Communication, 109 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.

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 8 March 2004.

24. Annual General Meeting

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

Notice of the meeting will be mailed to shareholders on or about 30 March 2004.

25. Interim results for 2004

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

26. Proposed 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:

First interim dividend for 2004

Announcement	4 May 2004
Shares quoted ex-dividend in London, Hong Kong and Bermuda; American Depositary Shares quoted ex-dividend in New York	19 May 2004
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	21 May 2004
Shares quoted ex-dividend in Paris	24 May 2004
Payment date	7 July 2004

26. Proposed dividends for 2004 (continued)**Second interim dividend for 2004**

Announcement	2 August 2004
Shares quoted ex-dividend in London, Hong Kong and Bermuda; American Depositary Shares quoted ex-dividend in New York	18 August 2004
Record date and closure of Hong Kong Overseas Branch Register of shareholders for one day	20 August 2004
Shares quoted ex-dividend in Paris	23 August 2004
Payment date	6 October 2004

Third interim dividend for 2004

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

Fourth interim dividend for 2004

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

27. 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, 109 avenue des Champs-Élysées, 75419 Paris Cedex 08, France. The news release will also be available on the HSBC Group website – www.hsbc.com.

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