



## **HSBC Capital Funding (Euro 2) L.P.**

*(Established in Jersey as a limited partnership under the Limited Partnerships (Jersey) Law 1994)*

**€1,400,000,000**

## **5.3687% Non-cumulative Step-up Perpetual Preferred Securities**

**having the benefit of a subordinated guarantee of**

## **HSBC Holdings plc**

*(incorporated with limited liability under the laws of England and Wales with registered number 617987)*

## **Issue Price: €1,000 per Preferred Security**

The €1,400,000,000 5.3687% Non-cumulative Step-up Perpetual Preferred Securities, (the "Preferred Securities") each issued for a capital contribution of €1,000 (referred to herein as the "nominal amount"), representing limited partnership interests in HSBC Capital Funding (Euro 2) L.P. (the "Issuer"), will be issued on 24 October 2003 (the "Issue Date"). The Preferred Securities will entitle investors, subject to certain conditions described herein, to receive non-cumulative cash distributions ("Distributions") annually in arrear on 24 March in each year until 24 March 2014 and thereafter quarterly in arrear on 24 March, 24 June, 24 September and 24 December in each year. Distributions shall accrue from (and including) the Issue Date to (but excluding) 24 March 2014 at a fixed rate per annum of 5.3687% and quarterly in arrear from (and including) 24 March 2014, at a floating rate per annum equal to the sum of 2.0% and the three month EURIBOR for the relevant Distribution Period (as defined herein). The first Distribution will, if payable, be paid on 24 March 2004, and will be calculated in respect of the period from (and including) 24 October 2003 to (but excluding) 24 March 2004, being €22.32 per €1,000 nominal amount (if payable in full). See "*Description of the Preferred Securities – Distributions*".

The Issuer is a Jersey limited partnership and is not a legal entity separate from its partners. All obligations of the Issuer to make payments in respect of the Preferred Securities are guaranteed on a subordinated basis pursuant to a guarantee dated 24 October 2003 (the "Guarantee") given by HSBC Holdings plc ("HSBC"). See "*Description of the Guarantee*".

The Preferred Securities are perpetual securities and not subject to any mandatory redemption provisions. The Preferred Securities may be redeemed, at the option of HSBC (General Partner) Limited, a wholly owned Jersey incorporated subsidiary of HSBC, as general partner of the Issuer (the "General Partner"), on 24 March 2014 or on each Distribution Date thereafter, in whole but not in part, at an amount equal to the Optional Redemption Price, subject to satisfaction of the Redemption Conditions (each as defined herein). The Preferred Securities are also redeemable, subject to satisfaction of certain conditions, in whole but not in part, at any time following the occurrence of a Tax Event or a Regulatory Event (each as defined herein). Under existing regulations, neither the Issuer nor HSBC nor any of its subsidiaries may redeem or purchase any Preferred Securities unless the Financial Services Authority, or any successor organisation thereto in the United Kingdom (the "FSA"), has given its prior written consent. See "*Description of the Preferred Securities – Redemption and Purchase*". These requirements and restrictions do not affect the ability of HSBC's subsidiaries to engage in market-making activities in relation to the Preferred Securities.

In the event of the dissolution or winding-up of the Issuer, holders of Preferred Securities will be entitled, subject to satisfaction of certain conditions, to receive a Liquidating Distribution (as defined herein). See "*Description of the Preferred Securities – Liquidating Distributions*". Upon the occurrence of a Substitution Event (as defined herein) or, subject to certain conditions, at the option of the General Partner following a Tax Event or Regulatory Event, the Preferred Securities may be substituted by the Substitute Preference Shares (as defined herein). See "*Description of the Preferred Securities – Substitution by Substitute Preference Shares*".

The Preferred Securities are expected to be assigned on issue a rating of A- by Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies Inc., A2 by Moody's Investors Service Limited and A+ by Fitch Ratings Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revisions, suspension or withdrawal at any time by the relevant rating organisation.

Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange (the "Luxembourg Stock Exchange").

**See "Investment Considerations" for a discussion of certain factors that should be considered by prospective investors.**

The Preferred Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") or any US state securities laws. The Preferred Securities are being offered outside the United States by the Managers (as defined in "*Subscription and Sale*" below) in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered or sold within the United States or to, or for the account or benefit of, US persons.

The Preferred Securities will be represented by a single global certificate in registered form (the "Global Certificate") registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank, S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme, Luxembourg ("Clearstream, Luxembourg"). Preferred Securities issued in definitive certificated form will only be available in certain limited circumstances. See "*Summary of Provisions relating to the Notes in Global Form*".

## **HSBC Bank plc**

*Global Co-ordinator, Lead Manager and Bookrunner*

**Caboto**

**HVB Corporates & Markets**

**Natexis Banques Populaires**

**Crédit Agricole Indosuez**

**KBC International Group**

*The General Partner, acting on behalf of the Issuer, accepts responsibility for the information contained in this document (other than the HSBC Group Information (as defined below). To the best of the knowledge and belief of the General Partner (which has taken all reasonable care to ensure that such is the case) the information contained in this document is true and accurate in all material respects and is not misleading, the opinions and intentions expressed in this document are honestly held and there are no other facts the omission of which makes this document as a whole or any such information or the expression of any such opinion or intention misleading. In addition, HSBC accepts responsibility for all information contained in this document set out under the sections entitled "Capitalisation of the Guarantor", "Description of the Guarantor", "Recent Developments of the Guarantor", "Description of the Guarantee", "Description of the Substitute Preference Shares", "Annex A – HSBC Holdings plc – 2003 Interim Results – Highlights" and "Annex B – HSBC Holdings plc – 2002 Final Results – Highlights" and the documents incorporated herein by reference (together, the "HSBC Group Information"). To the best of the knowledge and belief of HSBC (which has taken all reasonable care to ensure that such is the case), the HSBC Group Information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

*The term "HSBC Group" has the meaning given in "Description of the Preferred Securities". Any reference in this Offering Circular to an action taken by the Issuer shall be taken to mean an action taken by the General Partner on behalf of the Issuer.*

*Neither the Issuer nor HSBC has authorised the making or provision of any representation or information regarding the Issuer, HSBC or the Preferred Securities other than as contained in this Offering Circular or as approved for such purpose by the Issuer and HSBC. Any such representation or information should not be relied upon as having been authorised by the Issuer, the General Partner, HSBC or the Managers.*

*Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Preferred Securities shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or HSBC since the date of this Offering Circular.*

*Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for or of the acquisition, holding or disposal by them of Preferred Securities and any foreign exchange restrictions that might be relevant to them. This Offering Circular does not constitute an offer of or an invitation by or on behalf of the Issuer or any of its partners, or the Managers to subscribe for or purchase any of the Preferred Securities.*

*Investors should satisfy themselves that they understand all the risks associated with making investments in the Preferred Securities. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Preferred Securities, he should consult his professional advisers. This Offering Circular does not constitute investment advice or a recommendation to buy, subscribe for or underwrite any Preferred Securities by the Issuer or any of its partners, HSBC or the Managers.*

**EACH PURCHASER OF THE PREFERRED SECURITIES MUST COMPLY WITH ALL APPLICABLE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION IN WHICH IT PURCHASES, OFFERS OR SELLS THE PREFERRED SECURITIES OR POSSESSES OR DISTRIBUTES THIS OFFERING CIRCULAR AND MUST OBTAIN ANY CONSENT, APPROVAL OR PERMISSION REQUIRED BY IT FOR THE PURCHASE, OFFER OR SALE BY IT OF THE PREFERRED SECURITIES UNDER THE LAWS AND REGULATIONS IN FORCE IN ANY JURISDICTION TO WHICH IT IS SUBJECT OR IN WHICH IT MAKES SUCH PURCHASES, OFFERS OR SALES, AND NONE OF THE GENERAL PARTNER, THE ISSUER, HSBC OR THE MANAGERS SHALL HAVE ANY RESPONSIBILITY THEREFOR.**

*Investors in the Preferred Securities will be deemed to have represented that they do not own, directly or indirectly, 10% or more of the ordinary shares of HSBC. If at any time the General Partner becomes aware that an investor in the Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC, it will, on behalf of the Issuer, have the right to suspend payment of Distributions in respect of such Investor's Preferred Securities. Investors in the Preferred Securities are required to provide written notice to the General Partner on*

*behalf of the Issuer if at any time any such holder of Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC.*

*The distribution of this document and the offering of the Preferred Securities in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by the General Partner, the Issuer, HSBC and the Managers to inform themselves about, and to observe, any such restrictions. In particular, there are restrictions on the distribution of this Offering Circular and the offer and sale of the Preferred Securities, in the United States and the United Kingdom. See "Subscription and Sale".*

*No action has been taken to permit a public offering of the Preferred Securities in any jurisdiction where action would be required for such purpose. Accordingly, the Preferred Securities may not be offered or sold, directly or indirectly, and this Offering Circular may not be distributed in any jurisdiction, except in accordance with the legal requirements applicable in that jurisdiction. In particular, the Preferred Securities have not been, and will not be, registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, the Preferred Securities may not be offered, sold or delivered within the United States or to US persons. A further description of certain restrictions of the offering and sale of the Preferred Securities and on the distribution of this document is given under "Subscription and Sale".*

*The Jersey Financial Services Commission has given and has not withdrawn its consent under Article 8 of the Control of Borrowing (Jersey) Order 1958 to the creation by the Issuer of the Preferred Securities. The Jersey Financial Services Commission is protected by the Borrowing (Control) (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that Law.*

*Nothing in this Offering Circular or anything communicated to Holders of, or investors in, the Preferred Securities (or any such potential Holders or investors) by the General Partner is intended to constitute or should be construed as advice on the merits of the purchase of, or subscription for, the Preferred Securities or the exercise of any rights attached thereto for the purposes of the Financial Services (Jersey) Law 1998, as amended.*

*An investment in the Preferred Securities is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such an investment.*

*This document is for distribution only to persons who (i) are outside the United Kingdom, (ii) have professional experience in matters relating to investments, (iii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc.") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (as amended), or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Preferred Securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.*

*The Managers are acting for HSBC Capital Funding (Euro 2) L.P. in connection with the issue of the Preferred Securities and no-one else and will not be responsible to any person other than HSBC Capital Funding (Euro 2) L.P. for providing the protections afforded to clients of the Managers, nor for providing advice in relation to the issue of the Preferred Securities. HSBC Bank plc can be contacted at 4th Floor, 8 Canada Square, London E14 5HQ.*

## FORWARD-LOOKING STATEMENTS

This Offering Circular and the documents incorporated by reference herein contain various forward-looking statements regarding events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of HSBC or the HSBC Group to differ materially from the information presented herein or from the documents incorporated by reference herein. When used in this Offering Circular or in the documents incorporated by reference herein, the words “estimate”, “project”, “intend”, “anticipate”, “believe”, “expect”, “should” and similar expressions, as they are related to the HSBC Group and its management, are intended to identify such forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date hereof. The HSBC Group does not undertake any obligation to publicly release the result of any revisions to these forward-looking statements to reflect any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## PRESENTATION OF FINANCIAL INFORMATION

In this Offering Circular, references to “€” and “euro” are to the single currency introduced at the start of the Third Stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended, reference to “£”, “sterling” and “pounds sterling” are to the lawful currency of the United Kingdom and references to “US\$” and “US dollars” are to the lawful currency of the United States.

**IN CONNECTION WITH THE OFFERING, HSBC BANK PLC (THE “STABILISING MANAGER”) (OR ANY PERSON ACTING FOR IT) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON HSBC BANK PLC OR ANY AGENT OF IT TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD. SUCH STABILISING SHALL BE IN COMPLIANCE WITH ALL APPLICABLE LAWS, REGULATIONS AND RULES.**

## AVAILABLE INFORMATION

The following are incorporated herein by reference:

- (a) HSBC's interim report on Form 6-K for the six months ended June 30, 2003 (for further information please refer to "*Annex A – HSBC Holdings plc – 2003 Interim Results – Highlights*"); and
- (b) HSBC's annual report on Form 20-F for the year ended December 31, 2002 (for further information please refer to "*Annex B – HSBC Holdings plc – 2002 Final Results – Highlights*").

All documents filed by HSBC with the SEC pursuant to Sections 13(a), 13(c) or 15(d) of the US Securities Exchange Act of 1934, as amended (the "Exchange Act") and, to the extent expressly stated therein, certain Reports on Form 6-K furnished by HSBC after the date of this Offering Circular and prior to the termination of the offering of the Preferred Securities shall also be deemed to be incorporated by reference in this Offering Circular from the date of filing of such documents. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular and to be a part hereof from the date of filing of such document.

HSBC will provide without charge to each person to whom this Offering Circular is delivered, upon written or oral request of any such person, a copy of any or all of the documents incorporated herein by reference (other than exhibits, unless such exhibits are specifically incorporated by reference in such documents). Written requests should be directed to the attention of The Company Secretary at HSBC Holdings plc, 42nd Floor, 8 Canada Square, London E14 5HQ.

Copies of the documents referred to above will be available without charge at the offices of Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, L-2955 Luxembourg.

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## SUMMARY OF THE OFFERING

*The following is qualified in its entirety, including defined terms, by the more detailed information included elsewhere in this Offering Circular.*

Issuer . . . . . HSBC Capital Funding (Euro 2) L.P., a limited partnership established in Jersey and registered under the Limited Partnerships (Jersey) Law 1994. The Issuer will be consolidated in the group accounts of HSBC Holdings plc ("HSBC"). The general partner of the Issuer is HSBC (General Partner) Limited (the "General Partner"), a wholly owned Jersey incorporated subsidiary of HSBC.

Guarantor . . . . . HSBC Holdings plc.

Issue Details . . . . . €1,400,000,000 5.3687% Non-cumulative Step-up Perpetual Preferred Securities, each with a nominal amount of €1,000, constituting limited partnership interests in the Issuer (the "Preferred Securities").

HSBC will guarantee, on a subordinated basis, all payments in respect of the Preferred Securities.

The Preferred Securities, together with the Guarantee, are intended to provide investors with rights to income and capital distributions and distributions upon liquidation of HSBC that are equivalent to the rights they would have had if they had purchased non-cumulative perpetual preference shares of HSBC.

The total nominal amount of the Preferred Securities will be included in the Tier 1 capital of HSBC on a consolidated basis.

Neither the Issuer nor any member of the HSBC Group will make or procure any payment to investors if such a payment could not lawfully have been made had investors held shares ranking *pari passu* with Substitute Preference Shares of HSBC instead of the Preferred Securities.

Income Distributions . . . . . Non-cumulative distributions (the "Distributions") will accrue on the nominal amount of the Preferred Securities (i) from (and including) 24 October 2003 (the "Issue Date") to (but excluding) the First Optional Redemption Date (as defined below) at a fixed rate per annum of 5.3687% payable annually in arrear, and (ii) from and (including) the First Optional Redemption Date for each consecutive three month period thereafter at a floating rate per annum equal to the sum of 2.0% and three month EURIBOR (as defined below) for such period payable quarterly in arrear subject in each case to "Limitation on Payment" below.

See "Description of the Preferred Securities – Distributions".

Distribution Dates . . . . . Distributions will, if payable, be paid on 24 March in each year beginning on 24 March 2004 up to and including 24 March 2014 and thereafter on 24 March, 24 June, 24 September and 24 December in each year, the first such Distribution being calculated in respect of the period from (and including) 24 October 2003 to (but excluding) 24 March 2004, being €22.32 per €1,000

nominal amount (if payable in full). The date on which a Distribution will, if payable, be paid is referred to as a "Distribution Date". The period from (and including) the Issue Date to (but excluding) the first Distribution Date and each period from (and including) a Distribution Date to (but excluding) the next succeeding Distribution Date is referred to as a "Distribution Period".

Limitations on Payment. . . . . The Issuer will pay Distributions out of, and to the extent of, its legally available resources. Distributions will not be paid on the Preferred Securities in respect of any Distribution Period on the next following Distribution Date to the extent that (i) on the relevant Distribution Date HSBC (a) is prevented by applicable UK banking regulations or other requirements from making payment in full (A) of dividends or other distributions on its Parity Obligations (as defined below) or (B) under the Guarantee or (b) is unable to make such payment of dividends or other distributions on its Parity Obligations or under the Guarantee without causing a breach of the FSA's capital adequacy requirements from time to time applicable to the HSBC Group; or (ii) the amount of such Distribution (if paid in full), together with the sum of any dividends and other distributions on HSBC's Parity Obligations due and payable on that Distribution Date or under the Guarantee, would exceed the Adjusted Distributable Reserves (as defined below) of HSBC. No payment will be made by, or may be claimed from, HSBC in respect of a Distribution to the extent that it is not paid by reason of the limitations described above.

See "*Description of the Preferred Securities – Distributions*".

Dividend Stopper . . . . . HSBC has covenanted under the Guarantee that, if for any single Distribution Period ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods, Distributions have not been made in full by reason of the limitations on payment described above, it will not pay dividends or other distributions in respect of its ordinary shares or effect any repurchase or redemption in respect of its ordinary shares or any other HSBC securities or obligations ranking junior to the Guarantee or repurchase or redeem any Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full.

Maturity . . . . . The Preferred Securities are perpetual securities and have no maturity date. The Preferred Securities may be redeemed at the option of the General Partner in the circumstances described under "*Optional Redemption*", "*Tax Call*" and "*Regulatory Call*" below.

Optional Redemption. . . . . The Preferred Securities are redeemable, in whole but not in part and subject to paragraph 7.3 of "*Description of the Preferred Securities*", the Law and the limitations on redemption described below, at the option of the General Partner on 24 March 2014 (the "First Optional Redemption Date") or on each Distribution Date thereafter at the Optional Redemption Price.



The Optional Redemption Price of each of the Preferred Securities is an amount equal to its nominal amount.

See "*Description of the Preferred Securities – Redemption and Purchase*".

Tax Call. . . . . The Preferred Securities are redeemable, in whole but not in part and subject to paragraph 7.3 of "*Description of the Preferred Securities*", the Law and the limitations on redemption described below, at the option of the General Partner at any time that a Tax Event has occurred and is continuing, at the Tax Redemption Price.

Tax Redemption Price . . . . . The "Tax Redemption Price" of each of the Preferred Securities is an amount equal to its nominal amount together with any accrued but unpaid Distribution in respect of the Distribution Period (as defined above) in which the redemption date falls.

See "*Description of the Preferred Securities – Redemption and Purchase*".

Tax Event . . . . . "Tax Event" means:

- (1) that, as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in Jersey or the United Kingdom or any action taken by any appropriate authority there is more than an insubstantial risk that (i) the Issuer or the General Partner would be subject to more than a *de minimis* amount of tax (except, in the case of the General Partner only, for any such tax that would arise as a result of (a) profits arising to it as a result of payments received by it from the Issuer or (b) activities (if any) carried on by it other than those permitted or contemplated in the Partnership Agreement (as defined under "HSBC Capital Funding (Euro 2 L.P.)") in Jersey or the United Kingdom, (ii) payments to holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation to account for any tax in Jersey or the United Kingdom, (iii) payments by HSBC in respect of the Subordinated Note (as defined below) would be subject to deduction or withholding for or on account of tax in the United Kingdom or (iv) HSBC would not obtain relief for the purposes of UK corporation tax for any payment of interest in respect of the Subordinated Note; or
- (2) that there is more than an insubstantial risk that any of the events described in paragraphs (i) to (iv) above may occur other than as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in Jersey or the United Kingdom or any action taken by any appropriate authority.

Regulatory Call . . . . .	<p>The Preferred Securities are redeemable, in whole but not in part and subject to paragraph 7.3 of “Description of the Preferred Securities”, the Law and the limitations on redemption described below, at the option of the General Partner at any time a Regulatory Event (as defined below) has occurred and is continuing, at the Regulatory Event Redemption Price.</p> <p>The “Regulatory Event Redemption Price” of each of the Preferred Securities is an amount equal to, in the case of a redemption on a date which is prior to the First Optional Redemption Date, the higher of (i) its nominal amount together with any accrued but unpaid Distribution in respect of the Distribution Period in which the redemption date falls and (ii) the Make Whole Amount (as defined below) and, in the case of a redemption on or after the First Optional Redemption Date, its nominal amount together with any accrued but unpaid Distribution in respect of the Distribution Period in which the relevant redemption date falls.</p> <p>See “Description of the Preferred Securities – Redemption and Purchase”.</p>
Regulatory Event . . . . .	<p>“Regulatory Event” means that for any reason, there is more than an insubstantial risk that for the purposes of the FSA’s capital adequacy requirements applicable to banks in the United Kingdom at that time the total nominal amount of the Preferred Securities may not be included in the Tier 1 capital of HSBC on a consolidated basis.</p>
Substitution after a Regulatory Event or a Tax Event . . . . .	<p>If a Regulatory Event or a Tax Event has occurred and is continuing, as an alternative to redemption and at the option of the General Partner, the Substitute Preference Shares (as defined below) may (subject to the limitations on redemption described below and provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC) be substituted for the Preferred Securities as if the Regulatory Event or the Tax Event constituted a Substitution Event.</p>
Limitations on Redemption . . . . .	<p>The Preferred Securities may only be redeemed if (i) the aggregate of HSBC’s Adjusted Distributable Reserves and the proceeds of any issue of Replacement Capital (as defined below) made for the purpose of funding such redemption is at least equal to the full amount payable on redemption, and (ii) the prior consent of the FSA, if required, has been obtained.</p>
Make Whole Amount. . . . .	<p>In respect of a Preferred Security, “Make Whole Amount” means at any time prior to the First Optional Redemption Date an amount equal to the sum of (i) the present value of its nominal amount; and (ii) the present value of each remaining scheduled Distribution to and including the First Optional Redemption Date, discounted from the First Optional Redemption Date or the relevant Distribution Date, respectively, in each case to the Early Redemption Date at a rate equal to the sum of (x) 0.5% and (y) the Bund Yield on an annual compounding basis (rounded to four decimal places).</p>

Substitution Event. . . . . A Substitution Event will occur if:

- (i) HSBC's consolidated total capital ratio, calculated in accordance with applicable UK bank capital adequacy regulations, falls below the then minimum ratio required by such regulations; or
- (ii) HSBC's board of directors in its sole discretion has notified the FSA and the Issuer that it has determined that (i) above is expected to occur in the near term.

Upon the occurrence of a Substitution Event and provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC, the Preferred Securities will, as soon as reasonably practicable thereafter, be substituted by the Substitute Preference Shares.

See "*Description of the Preferred Securities – Substitution by Substitute Preference Shares*".

Substitute Preference Shares. . . . . The Substitute Preference Shares will be fully-paid non cumulative redeemable perpetual preferred shares issued by HSBC having economic terms which are in all material respects equivalent to those of the Preferred Securities and the Guarantee taken together. HSBC will take all reasonable steps to procure that the Substitute Preference Shares will at the relevant time be admitted to listing on the Official List of the Financial Services Authority (in its capacity as competent authority for the purposes of Part IV of the Financial Services and Markets Act 2000 (the "FSMA")) (the "UK Listing Authority") and to trading on the London Stock Exchange plc (the "London Stock Exchange") or another Recognised Stock Exchange (as defined herein).

Rights upon Liquidation. . . . . In the event of the dissolution or winding up of the Issuer, each investor will, subject to certain limitations, be entitled to receive out of the assets of the Issuer available for distribution the Liquidating Distribution. The Liquidating Distribution will be made (i) before any distribution of assets is made to the General Partner or HSBC Finance (Netherlands) as holder of the Preferential Right and (ii) *pari passu* with equivalent claims under all outstanding Parity Obligations of the Issuer which in turn rank *pari passu* with the Liquidating Distribution but (iii) after the claims of all other creditors of the Issuer, and holders of obligations of the Issuer, whose claims are not *pari passu* with or subordinated to the Preferred Securities.

"Preferential Right" means the preferential limited partnership interest in the Issuer initially held by HSBC Finance (Netherlands) and entitling it to receive in preference to the rights of the General Partner all amounts received by the Issuer in excess of those required to make payments of any Distribution (and, if relevant, Additional Amounts) on any Distribution Date or any Liquidating Distribution or relevant portion thereof (and, if relevant, Additional Amount) to Holders.

See "*Description of the Preferred Securities – Liquidating Distributions*".

Withholding Tax and Gross Up . . . . .	Except in certain limited cases and subject to the limitations on payments described above, the Issuer or HSBC pursuant to the Guarantee, will pay such additional amounts ("Additional Amounts") as may be necessary in order that the net payments in respect of the Preferred Securities, after withholding for any taxes imposed by Jersey or the United Kingdom, as the case may be, on such payments will equal the amount which would have been received in the absence of any such withholding.
Certain Restrictions . . . . .	Other than the Issuer's ordinary expenses, which will be borne by HSBC and/or the General Partner, and except for fees and commissions payable in connection with the issue of the Preferred Securities, the General Partner has covenanted not to incur any indebtedness in the name of the Issuer or other obligations ranking, in respect of distributions or other payments, senior to the rights of holders.
Parity Obligations . . . . .	"Parity Obligations" means (i) in relation to HSBC, any preference shares or other obligations of HSBC that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to HSBC's obligations under the Guarantee and any other guarantee or support agreement given by HSBC in respect of any preference shares, or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any subsidiary undertaking of HSBC that constitutes Tier 1 capital of HSBC on a consolidated basis and does not rank in all material respects senior or junior to the Guarantee and (ii) in relation to the Issuer, any preferred securities (other than the Preferred Securities) issued by it or other obligations of it which are entitled to the benefit of the Guarantee or any guarantee of HSBC ranking <i>pari passu</i> with the Guarantee.
Guarantee . . . . .	<p>HSBC will guarantee, on a subordinated basis, all payments in respect of the Preferred Securities.</p> <p>The Guarantee constitutes unsecured obligations of HSBC which will, in the event of the winding up of HSBC, be subordinated in right of payment to the claims of all other creditors of HSBC (including certain subordinated creditors) other than creditors whose claims rank or are expressed to rank <i>pari passu</i> with or junior to the Guarantee or other obligations of HSBC ranking <i>pari passu</i> with or junior to the Guarantee.</p> <p>HSBC will not be obliged to make a payment under the Guarantee (i) unless it is able to make such payment and be Solvent (as defined in the Guarantee) immediately thereafter and (ii) if such payment would cause it to be in breach of applicable banking regulations or capital adequacy requirements.</p>

See "Description of the Guarantee".

Subordinated Note . . . . .	<p>Payments in respect of the Preferred Securities will initially be funded by payments received by the Issuer under the €1,400,000,000 5.3687% Fixed/Floating Rate Subordinated Note in bearer form issued by HSBC on the Issue Date (the "Subordinated Note"). The Subordinated Note will have economic terms which are in all material respects equivalent terms to those of the Preferred Securities, save that (i) the interest payable on the Subordinated Note will be cumulative and (ii) the Subordinated Note will be due on 24 December 2043.</p> <p>In the event that the Subordinated Note or any Replacement Debt becomes due or is redeemed while any Preferred Securities remain outstanding and are not subject to a notice of redemption, the General Partner has undertaken to invest the proceeds of redemption of the Subordinated Note or any Replacement Debt in debt securities of a member of the HSBC Group (if not HSBC, with the benefit of a guarantee from HSBC) which have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Note (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).</p> <p>Interests in the Subordinated Note will not be delivered or otherwise made available in any form to holders of the Preferred Securities, and the rights of such holders shall be represented solely by Preferred Securities in registered form.</p>
Voting Rights . . . . .	<p>Except as stated below and provided for in the Law, holders of Preferred Securities will not be entitled to receive notice of, attend or vote at any meeting of partners of the Issuer or participate in the management of the Issuer.</p> <p>If for any annual Distribution Period or any four consecutive quarterly Distribution Periods the Distributions have not been paid in full (and/or HSBC has not made the required payments under the Guarantee in respect of such Distributions), holders will be entitled by written notice to the Issuer given by the holders of a majority in nominal amount of the Preferred Securities or by a resolution passed at an appropriately constituted meeting to appoint a special representative to enforce their statutory rights, including provision of information on the affairs of the Issuer. Such special representative must vacate its office if, after its appointment, a full Distribution is made by the Issuer, or by HSBC under the Guarantee, for a full Distribution Period, or an amount equivalent to the Distribution to be paid in respect of a full Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to holders.</p>
Variation of Rights. . . . .	<p>Any variation of the rights of holders (except where such variation is solely of a formal, minor or technical nature in which case it may be approved by the General Partner without the consent of holders) will take effect only if</p>

approved in writing by at least one-third of holders or if approved by a resolution passed by three-quarters of those present in person or by proxy at a meeting of holders at which the quorum shall be one-third by nominal amount of the holders.

Form of the Securities . . . . . The Preferred Securities will be issued in registered form. The Preferred Securities will be sold to non-US persons outside the United States pursuant to Regulation S and will, on issue, be represented by a Global Certificate. The Global Certificate will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg. For so long as the Preferred Securities are deposited and registered as described above, book-entry interests in the Preferred Securities will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Preferred Securities will be issued in definitive certificated form only in limited circumstances.

See "*Description of the Preferred Securities – Transfers and Form*".

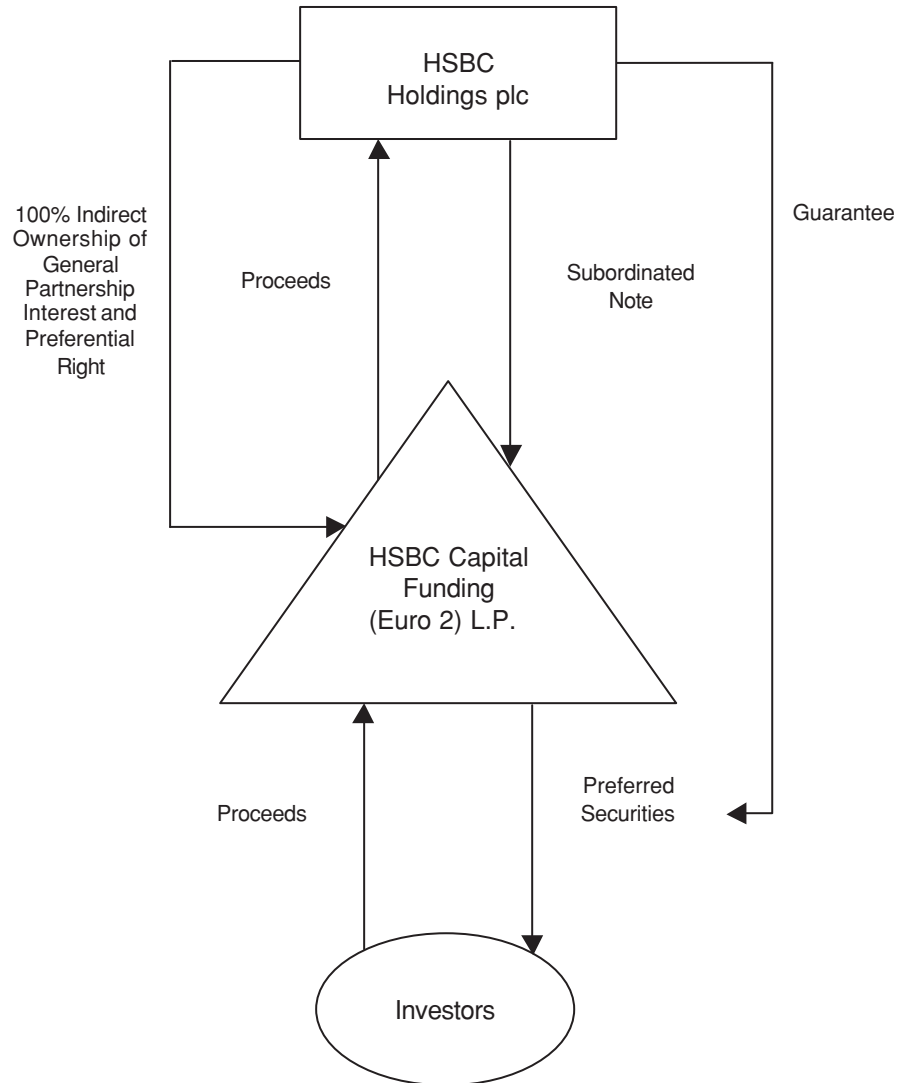
Rating . . . . . The Preferred Securities are expected to be assigned on issue a rating of A- by Standard & Poor's Ratings Services, a Division of The McGraw Hill Companies, Inc., A2 by Moody's Investors Service Limited and A+ by Fitch Ratings Limited. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

Governing Law . . . . . The Guarantee and the Subordinated Note will be governed by English law. The Partnership Agreement and the Preferred Securities will be governed by Jersey law.

Listing . . . . . Application has been made for the Preferred Securities to be listed on the Luxembourg Stock Exchange.

Global Certificate . . . . . ISIN: XS0178404793  
Common Code: 017840479

## Transaction Structure



## USE OF PROCEEDS

The proceeds from the issue of the Preferred Securities, which are expected to amount to €1,400,000,000 will be used by the Issuer to subscribe for the Subordinated Note. HSBC will use the proceeds from the issue of the Subordinated Note for general corporate purposes and for augmenting the capital base of the HSBC Group. The Managers will receive fees and commissions as set out under "*Subscription and Sale*".



## INVESTMENT CONSIDERATIONS

*Prospective investors should consider carefully the following information in conjunction with the other information contained in this Offering Circular before purchasing any Preferred Securities.*

### **Distributions on the Preferred Securities are not cumulative.**

Distributions on the Preferred Securities are not cumulative. As set out in “*Description of the Preferred Securities – Distributions*”, Distributions will be paid on each Distribution Date out of interest received by the Issuer under the Subordinated Note. Distributions may not be paid in full, or at all, if HSBC does not have sufficient distributable profits or if HSBC is limited in making payments on other obligations, including the Guarantee. If Distributions for any Distribution Period are not paid by reason of the above limitations, investors will not be entitled to receive such Distributions (or any Guaranteed Payment in respect of such Distributions) whether or not funds are or subsequently become available.

### **The Preferred Securities have no fixed redemption date and investors have no rights to call for redemption of the Preferred Securities.**

The Preferred Securities have no fixed final redemption date and holders have no rights to call for the redemption of the Preferred Securities. Although the Preferred Securities may be redeemed in certain circumstances (including at the option of the General Partner on 24 March 2014 or following the occurrence of a Tax Event or a Regulatory Event), there are limitations on redemption of the Preferred Securities, including satisfaction of the Redemption Conditions (as described herein) relating to FSA consent and the availability of sufficient funds to effect redemption.

### **Investors will only receive distributions on Preferred Securities if HSBC pays interest on the Subordinated Note.**

The ability of the Issuer to make payments on the Preferred Securities is dependent upon HSBC making the related payments on the Subordinated Note when due. If HSBC defaults on its obligations to make payments on the Subordinated Note, the Issuer will not have sufficient funds to make payments on the Preferred Securities. In those circumstances, investors will have to rely upon the Guarantee from HSBC for payment of these amounts.

### **HSBC’s obligations under the Guarantee are limited to the amounts of the payments due under the Preferred Securities.**

HSBC’s obligation to make payments under the Guarantee is limited to the extent of the amounts due under the Preferred Securities. Distributions will not be paid under the Preferred Securities if HSBC does not have available sufficient distributable profits to make payments in full on the Guarantee and all securities ranking equally to the Guarantee as to rights to dividends. Even if it has sufficient distributable profits, distributions will not be paid under the Preferred Securities if, on the date of such payment HSBC is prevented by applicable UK banking regulations or other requirements from making payment in full under the Guarantee or of any dividends or other distributions on its obligations that rank equally to the Guarantee or HSBC is unable to make such payment of dividends or other distributions without causing a breach of the capital adequacy requirements applicable to the HSBC Group.

Investors will have no right to seek payment of amounts under the Guarantee that would exceed the amount investors would have been able to receive had investors been investors in directly issued non-cumulative, non-voting preference shares of HSBC.

Under no circumstances does the Guarantee provide for acceleration of any payments on, or repayment of, the Preferred Securities.

### **HSBC is not required to pay investors under the Guarantee unless it first makes other required payments.**

HSBC’s obligations under the Guarantee will rank junior to all of its liabilities to creditors and claims of holders of senior ranking securities. In the event of the winding-up, liquidation or dissolution of HSBC, its assets would be available to pay obligations under the Guarantee only

after HSBC has made all payments on such liabilities and claims. None of the Preferred Securities, the Subordinated Note or the Guarantee limit the ability of HSBC and its affiliates (other than as described in "*Summary of the Offering – Certain Restrictions*") to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Guarantee.

**Non-payment of distributions may adversely affect the trading price of the Preferred Securities.**

If in the future, payments are limited on the Preferred Securities because HSBC has insufficient distributable profits, the Preferred Securities may trade at a lower price. If investors sell the Preferred Securities during such a period, investors may not receive the same price as someone else who does not sell its Preferred Securities until sufficient distributable profits are available to resume distribution payments. In addition, because HSBC's obligation to make payments under the Guarantee is limited to the extent of the underlying payment obligations on the Preferred Securities which may be limited due to insufficient distributable profits, the market price for the Preferred Securities may be more volatile than other securities that do not reflect these limitations.

**Investors should not rely on distributions from the Preferred Securities – they may be redeemed at any time if certain adverse consequences occur as a result of the application of UK or Jersey tax law or regulations or on the occurrence of a regulatory event in the UK and certain conditions are satisfied.**

If certain consequences occur, which are more fully described below in this Offering Circular, as a result of the application of UK or Jersey tax law or regulations or on the occurrence of a regulatory event in the UK and certain other conditions which are more fully described below are satisfied, the Preferred Securities could be redeemed by the Issuer.

**There can be no assurance as to the market prices for the Preferred Securities or the Substitute Preference Shares; therefore, investors may suffer a loss.**

HSBC cannot give investors any assurance as to the market prices for the Preferred Securities or, following a Substitution Event, Substitute Preference Shares that may be distributed in exchange for the Preferred Securities. Accordingly, the Preferred Securities and Substitute Preference Shares may trade at a discount to the price at which investors purchased the Preferred Securities. In addition, because HSBC's obligation to make payments under the Guarantee is limited to the extent of the underlying payment obligations on the Preferred Securities which may in turn be limited due to insufficient distributable profits, the market price for these securities may be more volatile than other securities that do not reflect these limitations.

## HSBC CAPITAL FUNDING (EURO 2) L.P.P.

### Introduction

HSBC Capital Funding (Euro 2) L.P. was registered in Jersey on 17 October 2003 under the Limited Partnerships (Jersey) Law, 1994 for an unlimited duration, with HSBC (General Partner) Limited as the general partner (the "General Partner"). The General Partner, HSBC Issuer Services Common Depositary Nominee (UK) Limited (the "Initial Partner"), HSBC Finance (Netherlands) (the "Preferential Limited Partner") and HSBC have entered into a partnership agreement dated the date hereof (the "Partnership Agreement") for the purpose of establishing the Issuer on 17 October 2003. The Issuer is not a legal entity separate from its partners. The Partnership Agreement is not intended to create a trust relationship between any of the partners. The Preferred Security limited partnership interests are held on the investors' behalf in the name of HSBC Issuer Services Common Depositary Nominee (UK) Limited.

### Control of the Issuer

The General Partner, a wholly owned subsidiary of, and controlled by, HSBC, is the sole general partner in the Issuer and, as such, controls the Issuer.

Provided that limited partners do not become involved with the management of the Issuer other than in the circumstances provided for in the Partnership Agreement (see "*Description of the Preferred Securities – Voting Rights*"), and in accordance with applicable law the liability of the limited partners to contribute to the debts or obligations of the Issuer will be limited to the amount which they have contributed or agreed to contribute to the partnership, being €1,000 per Preferred Security.

### Sole Activity

The Issuer was established for the sole purpose of raising finance for the HSBC Group. It has carried out no operations since its registration other than in relation to the creation of the Preferred Securities. The capital contributions to be made by the limited partners will be used by the Issuer to subscribe for the Subordinated Note and pay fees and commissions as disclosed in this Offering Circular.

### Management

The Issuer will be operated by the General Partner and its duly appointed delegates. The registered office of the Issuer and of the General Partner is 1 Grenville Street, St Helier, Jersey JE4 8UB. Except as provided for in the Law and as described in paragraph 8 of the section entitled "*Description of the Preferred Securities*", no Holder of a Preferred Security may participate in the management of the Issuer. HSBC has undertaken in the Guarantee to ensure that the General Partner will at all times be a directly or indirectly owned subsidiary of HSBC.

The General Partner has agreed in the Partnership Agreement to contribute capital from time to time to the extent necessary to pay all costs, expenses, debts, liabilities and obligations incurred in the proper maintenance and business of the Issuer (other than in respect of payments on the Preferred Securities or the Preferential Right). The General Partner has also agreed that it will at all times maintain sole ownership of its general partnership interest in the Issuer subject to the terms of the Partnership Agreement. The Partnership Agreement provides that all of the Issuer's operations will be conducted by the General Partner and the General Partner will have unlimited liability for the repayment, satisfaction and discharge of all debts and obligations of the Issuer to persons other than partners in accordance with the Limited Partnerships (Jersey) Law 1994. Neither the Issuer nor the General Partner shall be liable to make any payment to any limited partner in respect of the Preferred Securities or the Preferential Right other than out of partnership assets.

If the Issuer is dissolved or wound up, the Partnership Agreement provides that the General Partner will only be entitled to any assets of the Issuer remaining after (i) all debts and other liabilities of the Issuer have been satisfied in full and (ii) the full Liquidating Distribution to which the holders are entitled having regard to the limitations set out herein has been paid to or irrevocably set aside for the holders and any amount payable in respect of the Preferential Right has been paid.

The General Partner has undertaken that, if the Subordinated Note becomes due or is redeemed while the Preferred Securities remain outstanding and are not subject to a notice of redemption, it will invest the proceeds of the Subordinated Note or any Replacement Debt in debt securities issued by a member of the HSBC Group (where the issuer is not HSBC with the benefit of a guarantee from HSBC), which debt securities will have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Note (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).

### **Capital Contribution**

Save for capital contributions to be made by the General Partner from time to time to meet certain operating expenses of the partnership, the capital commitment of €1,000 which the General Partner may call from HSBC Finance (Netherlands) as the Preferential Limited Partner, and the capital contribution of €1,400,000,000 to be made by the limited partners in relation to the Preferred Securities, there are intended to be no other contributions to the Issuer.

### **Indebtedness**

Since the date of its registration, the Issuer has not had any loan capital outstanding, has not incurred any borrowings, has had no contingent liabilities except as disclosed herein, has not granted any guarantees and does not intend to have outstanding any such loan capital, incur any such borrowings, have any such contingent liabilities or grant any such guarantees. The General Partner has undertaken not to incur any indebtedness in the name of the Issuer other than the costs and expenses incidental to maintaining the Register, paying the fees and commissions for listing, registrar and paying agency charges in respect of the Preferred Securities, holding and exercising its rights under the Subordinated Note or any securities substituted therefor and the maintenance of a custodian thereof and the administration of the Issuer.

## DESCRIPTION OF THE GUARANTOR

The HSBC Group is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$128 billion at 30 June 2003. At 30 June 2003, the HSBC Group had total assets of US\$983 billion and shareholders' equity of US\$70 billion. For the half-year ended 30 June 2003, the HSBC Group's operating profit was US\$6 billion on revenues of US\$19 billion. The HSBC Group is a strongly capitalised banking group with a total capital ratio of 11.7% and a Tier 1 capital ratio of 8.5% as at 30 June 2003.

Headquartered in London, the HSBC Group operates through long-established businesses in five regions: Europe; Hong Kong; the rest of Asia-Pacific, including the Middle East and Africa; North America and South America. Within each of these geographical regions, the principal businesses operate essentially as domestic banks and typically have a large retail deposit base, together with strong liquidity and capital ratios, and provide services to personal, commercial and large corporate and institutional customers. By using the HSBC Group's extensive technological links, businesses are able to access its wide range of products and services and adapt them to local customer needs. In addition, in certain key locations – London, Hong Kong, New York, Geneva, Paris and Dusseldorf – the HSBC Group has significant investment and/or private banking operations which, together with its commercial banks, enable the HSBC Group to service the requirements of its high net worth personal, corporate and institutional customers.

Through its international network of over 9,500 offices in 79 countries and territories, the HSBC Group provides a comprehensive range of financial services to personal, commercial, corporate, institutional and investment, and private banking clients. The establishment of HSBC as uniform, international brand has ensured that the HSBC Group's corporate symbol has become an increasingly familiar sight across the world.

HSBC Holdings plc was originally incorporated on 1 January 1959 as a limited company under the Companies Act 1948 and called Vernat Trading Co. Limited. After a number of name changes, it was re-registered under the Companies Act 1985 as a public company named HSBC Holdings plc. Its registered number is 617987.

## **RECENT DEVELOPMENTS OF THE GUARANTOR**

On 14 August 2003, Group Financiero Bital, S.A. de C.V., a subsidiary of HSBC, reached an agreement in principle to acquire 100 per cent. of the shares of AFORE Allianz Dresdner, S.A. de C.V., a pension fund management company in Mexico, currently controlled by the Allianz Group, for US\$200 million. The acquisition is subject to regulatory approvals.

On 11 September 2003, the HSBC Group obtained the Polish Commission of Banking Supervision's decision to allow the HSBC Group to proceed with its proposed acquisition of Polski Kredyt Bank S.A., for approximately US\$7.8 million, and obtain a new banking licence. The acquisition is subject to a number of terms and conditions, including the completion of due diligence and regulatory approvals.

On 9 October 2003, the HSBC Group reached agreement to acquire substantially all of Lloyds TSB's onshore and offshore assets related to Brazil, including 100 per cent of the shares of Losango Promotora de Vendas Ltda, its consumer finance business, and of Banco Lloyds TSB S.A. – Banco Múltiplo for US\$451 million. In addition, HSBC Bank Brasil S.A. – Banco Múltiplo will assume substantially all the assets and liabilities (excluding equity) of Lloyds TSB's Brazilian branch for Brazilian Reais 410 million (equivalent to US\$114 million) representing the net difference between such assets and liabilities. HSBC Bank plc will also acquire certain Brazilian offshore loan assets held by Lloyds Bank Plc for an amount of US\$220 million, and is taking over certain intra-group funding currently provided by Lloyds TSB for its Brazilian businesses. Completion of the acquisition is subject to final regulatory approval by the Central Bank of Brazil.

## CAPITALISATION OF THE GUARANTOR

The following table shows the consolidated unaudited capitalisation and share capital position of HSBC Holdings plc and its subsidiary undertakings as at 30 June 2003:

		Authorised US\$m	Issued and fully paid US\$m
<b>Ordinary Share Capital:</b>			
Ordinary shares (of nominal value US\$0.50 each)		7,500	5,421
			Amount outstanding US\$m
<b>Consolidated Loan Capital</b>			
<b>Undated Subordinated Loan Capital of Subsidiary Undertakings</b>			
US\$	1,200 m	Primary capital subordinated undated floating rate notes .....	1,200
US\$	750 m	Undated floating rate primary capital notes .....	750
US\$	500 m	Undated floating rate primary capital notes .....	500
US\$	300 m	Undated floating rate primary capital notes (series 3) .....	300
£	150 m	9.25% step-up undated subordinated notes .....	248
£	150 m	8.625% step-up undated subordinated notes .....	248
Other undated subordinated liabilities less than US\$200m .....			313
			3,559
<b>Subordinated Loan Capital of HSBC Holdings plc</b>			
US\$	1,400 m	5.25% subordinated notes 2012 .....	1,394
€	1,000 m	5.375% subordinated notes 2012 .....	1,143
£	650 m	5.75% subordinated notes 2027 .....	1,068
US\$	1,000 m	7.5% subordinated notes 2009 .....	999
£	250 m	9.875% subordinated bonds 2018 .....	407
US\$	350 m	Subordinated step-up coupon floating rate notes 2010 .....	350
€	300 m	5.5% subordinated notes 2009 .....	344
US\$	250 m	Subordinated collared floating rate notes 2008 .....	250
			5,955
<b>Subordinated Loan Capital of Subsidiary Undertakings</b>			
€	600 m	4.25% subordinated notes 2016 .....	689
£	350 m	5.75% subordinated variable coupon notes 2017 .....	578
£	350 m	5.0% subordinated notes 2023 .....	578
US\$	500 m	7.625% subordinated notes 2006 .....	500
£	300 m	6½% subordinated notes 2023 .....	492
US\$	400 m	8½% subordinated notes 2004 .....	399
HK\$	3,000 m	Subordinated collared (7% to 9%) floating rate notes 2003 .....	385
US\$	375 m	Subordinated step-up coupon floating rate notes 2009 .....	374
£	225 m	6.25% subordinated notes 2041 .....	369
£	200 m	9% subordinated notes 2005 .....	331
US\$	300 m	6.95% subordinated notes 2011 .....	300
US\$	300 m	10% trust preferred securities .....	300
US\$	300 m	7.65% subordinated notes 2025 .....	299
US\$	300 m	7% fixed rate subordinated notes 2006 .....	299
US\$	250 m	5.875% subordinated notes 2008 .....	230
US\$	250 m	7.2% subordinated notes 2097 .....	215
¥	24,800 m	Fixed rate (5.0% to 5.5%) subordinated loans 2004 .....	207
US\$	200 m	7¼% trust preferred securities .....	200
US\$	200 m	8¼% trust preferred securities .....	200
US\$	200 m	7.50% trust preferred securities .....	200
US\$	200 m	7.808% capital securities 2026 .....	200
US\$	200 m	8.38% capital securities 2027 .....	200
US\$	200 m	6.625% subordinated notes 2009 .....	200
Other subordinated liabilities less than US\$200m .....			3,489
			11,234
<b>Non-equity Minority Interests</b>			
US\$	1,350 m	9.547% Non-Cumulative Step-up Perpetual Preferred Securities, Series 1 .....	1,335
US\$	1,250 m	4.61% Non-Cumulative Step-up Perpetual Preferred Securities .....	1,238
US\$	900 m	10.176% Non-Cumulative Step-up Perpetual Preferred Securities, Series 2 .....	889
£	500 m	8.208% Non-Cumulative Step-up Perpetual Preferred Securities .....	821
€	600 m	8.03% Non-Cumulative Step-up Perpetual Preferred Securities .....	681
Other preference shares issued by subsidiary undertakings .....			591
			5,555

**Notes:**

- (1) The authorised ordinary share capital of HSBC Holdings plc as at 30 June 2003 was US\$7,500 million divided into 15,000 million ordinary shares of US\$0.50 each, and £301,500 divided into 301,500 non-voting deferred shares of £1 each. At 30 June 2003, the authorised and unissued preference share capital of HSBC Holdings plc was 10 million non-cumulative preference shares of US\$0.01 each, 10 million non-cumulative preference shares of £0.01 each and 10 million non-cumulative preference shares of €0.01 each.
- (2) The Non-Cumulative Step-up Perpetual Preferred Securities listed above each have the benefit of a subordinated guarantee of HSBC Holdings plc. None of the other above Consolidated Loan Capital is secured or guaranteed. No account has been taken of liabilities or guarantees between undertakings within the group, comprising HSBC Holdings plc and its subsidiary undertakings.
- (3) HSBC Holdings plc has no convertible or exchangeable bonds in issue.
- (4) In addition to the issues included in the above consolidated capitalisation table Household International, Inc ("Household") has in issue 8.875% Adjustable Conversion-Rate Equity Security Units (the "Units") of US\$542 million. Each of the Units consists of an 8.875% senior note due 15 February 2008 and a purchase contract under which the purchaser agreed to purchase from Household, for US\$25 each, shares of common stock of Household on 15 February 2006, or earlier at the option of the purchaser. As a result of the acquisition, the purchase contracts entitle holders to acquire ordinary shares issued by HSBC Holdings plc.
- (5) On 22 August 2003, HSBC Bank plc issued £500 million 5.375% subordinated notes due 2033.
- (6) On 15 August 2003, US\$200 million 7¼% trust preferred securities and US\$75 million 8¼% trust preferred securities were redeemed by Household Capital Trust IV and Household Capital Trust I, respectively.
- (7) On 30 September 2003, HSBC Holdings plc gave notice of its intention to call its US\$250 million subordinated collared floating rate notes 2008. The notes will be called on the interest payment date in November 2003.
- (8) On 7 October 2003, HSBC Holdings plc paid its first interim dividend for 2003. Ordinary shares with a value of US\$979 million were issued to those existing shareholders who had elected to receive new shares at market value in lieu of cash. As the full amount of the dividend was accrued as payable at 30 June 2003, shareholders' funds increased by US\$979 million as a result of these elections.
- (9) Since 30 June 2003 24,602,808 ordinary shares of US\$0.50 each have been allotted and issued as a result of the exercise of employee share options and 7,965,414 ordinary shares of US\$0.50 each have been allotted and issued following the exercise of purchase contracts by holders of the Units.
- (10) As at 30 June 2003, HSBC Holdings plc and its subsidiary undertakings had other indebtedness of US\$883,903 million (including deposits by banks of US\$75,771 million, customer accounts of US\$547,547 million, debt securities in issue of US\$144,502 million and other liabilities of US\$116,083 million) and contingent liabilities of US\$55,588 million, comprising acceptances and endorsements of US\$5,321 million and guarantees, assets pledged as collateral security and other items of US\$50,267 million. In addition as at 30 June 2003, HSBC had pledged assets of US\$84,888 million as security for liabilities of US\$46,307 million.

Save as disclosed in the above notes, there has been no material change in the authorised and issued share capital of HSBC Holdings plc or the loan capital, other indebtedness, contingent liabilities or third party guarantees of HSBC Holdings plc and its subsidiary undertakings since 30 June 2003.

The following exchange rates as at 30 June 2003 have been used in the table above:  
US\$1.00 = Hong Kong dollars 7.79815; €1.00 = US\$1.14795; US\$1.00 = Japanese Yen 119.975;  
£1.00 = US\$1.65255.



## DESCRIPTION OF THE PREFERRED SECURITIES

*The Preferred Securities are limited partnership interests in the Issuer. The following summary should be read in conjunction with, and is subject to the terms of, the Partnership Agreement, a copy of which is available as described under "General Information".*

### Description of the Preferred Securities

#### 1. Definitions

In this Description of the Preferred Securities, except to the extent that the context otherwise requires:

"Additional Amounts" has the meaning given to that term in paragraph 6;

"Adjusted Distributable Reserves" means at any time the lawful distributable reserves of HSBC at such time less the cumulative amount since the Issue Date of all redemptions of and payments on (a) any shares or other securities or obligations of HSBC that are accounted for under then generally accepted accounting principles in the United Kingdom as shareholders' funds in HSBC's accounts and (b) all shares, securities or other obligations of an undertaking which are accounted for under then generally accepted accounting principles in the United Kingdom as minority interest capital in HSBC's consolidated accounts, and with recourse (whether by way of guarantee, support agreement or otherwise) to HSBC that are similar in material respects to the Preferred Securities and the Guarantee, taken together, whether or not Parity Obligations, except in each case for such amounts as have been either charged to the lawful distributable reserves of HSBC or funded at that time by an issue of Replacement Capital made for the purpose of funding such redemption as described in item (ii)(b) of the definition of "Redemption Conditions";

"Bund" means government bonds issued by the German government or another government debt security that is the relevant benchmark security for pricing the amount payable to Holders in euros upon redemption of the Preferred Securities, as determined by the Calculation Agent in accordance with customary financial practice;

"Bund Yield" means the yield calculated by the Calculation Agent on the Calculation Date as (a) the yield (mid-market), under the heading which represents the average for the five trading days immediately prior to the relevant Calculation Date appearing on Reuters Page CDCDM 1 to 4 or its alternative or successor page for the Bund with the maturity corresponding to the First Optional Redemption Date (if no maturity is within three months before or after the First Optional Redemption Date, yields for the Bunds with the two published maturities most closely corresponding to the First Optional Redemption Date shall be determined and the Bund Yield shall be interpolated or extrapolated from such yields on a straight-line basis (rounding to the nearest month)) or (b) if such page (or any alternative or successor page) is not published during the five trading days preceding the Calculation Date or does not contain such yields, the annual yield to maturity of the Comparable Bund issue, calculated using a price for the Comparable Bund Issue (expressed as a percentage of its principal amount) equal to the Comparable Bund Price for the relevant Early Redemption Date, as the case may be;

"Business Day" means a day on which the TARGET System is open;

"Calculation Agent" means HSBC Bank plc or any successor calculation agent appointed under the Agency Agreement to be dated 24 October 2003 between, *inter alia*, HSBC, the General Partner and HSBC Bank plc;

"Calculation Date" means three Business Days prior to the Early Redemption Date;

"Clearstream, Luxembourg" means Clearstream Banking, société anonyme, Luxembourg;

"Comparable Bund Issue" means the Bund selected by the Calculation Agent as having a maturity comparable to the First Optional Redemption Date that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the First Optional

Redemption Date. If no Bund has a maturity which is within a period from three months before or after the First Optional Redemption Date, the two most closely corresponding Bunds shall be used as the Comparable Bund Issue, and the Bund Yield shall be interpolated or extrapolated from such yields on a straight-line basis (rounding to the nearest month);

"Comparable Bund Price" means (a) the average of five Reference Bund Dealer Quotations, after excluding the highest and lowest such Reference Bund Dealer Quotations, or (b) if the Calculation Agent obtains fewer than five such Reference Bund Dealer Quotations, the average of all such Reference Bund Dealer Quotations;

"Day Count Fraction" means, prior to the First Optional Redemption Date, the actual number of days in the relevant period divided by 365 (or, if any portion of the relevant period falls in a leap year, the sum of (a) the actual number of days in that portion of the relevant period falling in a leap year divided by 366 and (b) the actual number of days in that portion of the relevant period falling in a non-leap year divided by 365) and, on or after the First Optional Redemption Date, the actual number of days in the relevant period divided by 360;

"Distributions" means the non-cumulative cash distributions on the Preferred Securities as described in paragraph 2 and "Distribution" has a corresponding meaning;

"Distribution Date" means 24 March in each year commencing 24 March 2004 and ending on the First Optional Redemption Date and thereafter 24 March, 24 June, 24 September and 24 December in each year;

"Distribution Determination Date" means the day five Business Days prior to a Distribution Date;

"Distribution Period" means the period from (and including) the Issue Date to (but excluding) the first Distribution Date and each period thereafter from (and including) one Distribution Date to (but excluding) the next following Distribution Date;

"Distribution Rate" means in respect of the Preferred Securities, (i) for each Distribution Period until 24 March 2014, 5.3687% per annum and, (ii) for each Distribution Period thereafter, the sum of 2.0% and the three month EURIBOR for such Distribution Period;

"Early Redemption Date" means any date designated for redemption of the Preferred Securities for tax or regulatory reasons as described under paragraphs 4.3 and 4.4;

"euro" and "€" mean the single currency introduced at the start of the Third Stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended;

"Euroclear" means Euroclear Bank, S.A./N.V. as operator of the Euroclear System or its successor;

"First Optional Redemption Date" means 24 March 2014;

"FSA" means the Financial Services Authority in the United Kingdom and shall include any successor organisation responsible for the supervision of banks in the United Kingdom;

"General Partner" means HSBC (General Partner) Limited;

"Guarantee" means the subordinated guarantee in respect of the Preferred Securities to be executed by HSBC on 24 October 2003 as a deed poll;

"Guaranteed Payments" means collectively (i) all Distributions due on the Preferred Securities, (ii) any Distributions on the Preferred Securities which would have been due had the Issuer had sufficient legally available resources but only if, and to the extent that, the Issuer did not have such legally available resources solely due to a failure by HSBC to pay interest on the Subordinated Note or the Replacement Debt as and when due and payable under the terms thereof, (iii) any Liquidating Distribution to which the Holders of the Preferred Securities are entitled, (iv) any cash amounts to which the Holders are entitled in respect of redemption of the Preferred Securities and (v) any

Additional Amounts, payment of which is in each case guaranteed by HSBC under the Guarantee;

"Holder" means, in respect of each Preferred Security, each person registered on the Register as the limited partner holding such Preferred Security at the relevant time;

"HSBC" means HSBC Holdings plc;

"HSBC Group" means HSBC together with its Subsidiaries;

"Issue Date" means 24 October 2003;

"Issuer" means HSBC Capital Funding (Euro 2) L.P. acting by the General Partner;

"Jersey" means the Island of Jersey;

"Law" means the Limited Partnerships (Jersey) Law 1994, as amended or restated from time to time;

"Limited Partnerships Registrar" means the person appointed as Registrar of Limited Partnerships pursuant to the Law;

"Liquidating Distribution" in respect of any Preferred Security upon a dissolution or winding up of the Issuer, means the nominal amount together with any accrued but unpaid Distribution from and including the commencement of the Distribution Period in which the date of the dissolution or winding up falls (less any interim Liquidating Distribution that may have been paid);

"London Stock Exchange" means the London Stock Exchange plc;

"Make Whole Amount" in respect of a Preferred Security means, at any time prior to the First Optional Redemption Date, an amount equal to the sum of:

- (i) the present value of its nominal amount; and
- (ii) the present value of each remaining scheduled Distribution to and including the First Optional Redemption Date

discounted from (i) in relation to the nominal amount, the First Optional Redemption Date, and (ii) in relation to each such remaining scheduled Distribution, the relevant Distribution Date, in each case to the Early Redemption Date at a rate equal to the sum of (x) 0.5% and (y) the Bund Yield on an annual compounding basis (rounded to four decimal places);

"Margin" means 2.0%;

"Optional Redemption Date" means the First Optional Redemption Date and each Distribution Date thereafter;

"Optional Redemption Price" in respect of a Preferred Security means an amount equal to the nominal amount;

"Parity Obligations" means (i) in relation to HSBC, any preference shares or other obligations of HSBC that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to HSBC's obligations under the Guarantee and any other guarantee given or support agreement entered into by HSBC in respect of any preference shares, or other preferred securities (not constituting debt obligations) having in all material respects the same ranking as preference shares, issued by any Subsidiary, that constitute Tier 1 capital of HSBC on a consolidated basis and do not rank in all material respects senior or junior to the Guarantee and (ii) in relation to the Issuer, any preferred securities (other than the Preferred Securities) issued by it or other obligations of it which are entitled to the benefit of the Guarantee or any guarantee of HSBC ranking *pari passu* with the Guarantee;

"Partnership Agreement" means the limited partnership agreement dated 17 October 2003 between the General Partner, HSBC Issuer Services Common Depositary Nominee (UK) Limited as the Initial Partner, HSBC Finance (Netherlands) as the holder of the Preferential Right and HSBC pursuant to which the Issuer was established, as the same may be amended from time to time;

“Paying Agent” means each of HSBC Republic Bank (Jersey) Limited, HSBC Bank plc and Kredietbank S.A. Luxembourgise or such other entity as is appointed by the General Partner on behalf of the Issuer and notified to the Holders in the manner described in paragraph 10;

“Permitted Reorganisation” means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all business, undertaking and assets of HSBC are transferred to a successor entity which assumes all the obligations under the Guarantee;

“Preferential Right” means the preferential limited partnership interest in the Issuer initially held by HSBC Finance (Netherlands) and entitling it to receive in preference to the rights of the General Partner all amounts received by the Issuer in excess of those required to make payments of any Distribution (and, if relevant, Additional Amounts) on any Distribution Date or any Liquidating Distribution or relevant proportion thereof (and, if relevant, Additional Amounts) to Holders in accordance with paragraphs 2 or 3 below;

“Preferred Capital Contribution” means, in relation to the Preferred Securities, the aggregate contribution to the assets of the Issuer (being a whole multiple of €1,000) paid in cash to or to the order of the Issuer in respect of the Preferred Securities;

“Preferred Securities” means the €1,400,000,000 5.3687% Non-cumulative Step-up Perpetual Preferred Securities, ranking *pari passu* amongst themselves and representing the interest of a Holder in the Issuer attributable to the relevant proportion of the Preferred Capital Contribution (being a whole multiple of €1,000);

“Recognised Stock Exchange” has the meaning given to that term in section 841 of the Income and Corporation Taxes Act 1988 of the United Kingdom;

“Redemption Conditions” means (i) that the consent of the FSA to the redemption, if then required, has been obtained and (ii) that the aggregate of (a) the Adjusted Distributable Reserves of HSBC as at the date proposed for redemption and (b) the proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the redemption, is at least equal to the aggregate of the full amount payable on the redemption (including any Distribution payable on redemption);

“Redemption Date” means an Early Redemption Date or an Optional Redemption Date, as applicable;

“Reference Bund Dealer” means (a) the Calculation Agent, and (b) any other primary Bund dealer selected by the Calculation Agent after consultation with the Issuer;

“Reference Bund Dealer Quotations” means, with respect to each Reference Bund Dealer and any Make Whole Amount, the average as determined by the Calculation Agent, of the bid and offered prices for the Comparable Bund Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Bund Dealer at or about 5.00 p.m. (London time) on the Calculation Date;

“Register” means the register of Holders maintained outside the United Kingdom on behalf of the Issuer under the Law;

“Registrar” means, in relation to the Preferred Securities, HSBC Republic Bank (Jersey) Limited or such other entity appointed by the General Partner on behalf of the Issuer having its office outside the United Kingdom and notified to the Holders in the manner described in paragraph 10;

“Regulatory Event” means that for any reason there is more than an insubstantial risk that for the purposes of the FSA’s capital adequacy requirements applicable to banks in the United Kingdom at that time the Preferred Securities may not be included in the Tier 1 capital of HSBC on a consolidated basis;

“Regulatory Event Redemption Price” means, in relation to a redemption of a Preferred Security prior to the First Optional Redemption Date, an amount equal to the higher of (i) its nominal amount (together with any accrued but unpaid Distribution in respect of the Distribution Period in which the relevant redemption falls) and (ii) the Make Whole Amount and, in relation to any other redemption of a Preferred Security, means its

nominal amount (together with any accrued but unpaid Distribution in respect of the Distribution Period in which the relevant redemption falls);

"Relevant Proportion" means (a) in relation to any partial payment of a Distribution, the amount of Adjusted Distributable Reserves as of the Distribution Determination Date divided by the sum of (i) the total amount originally scheduled to be paid by way of Distribution on the Preferred Securities on the relevant Distribution Date and (ii) the sum of any dividends or other distributions or payments in respect of HSBC's Parity Obligations due and payable on that Distribution Date, converted where necessary into the same currency in which Adjusted Distributable Reserves are reported by HSBC; and (b) in relation to any partial payment of any Liquidating Distribution, the total amount available for any such payment and for making any Liquidating Distribution on any Parity Obligations divided by the sum of (i) the full Liquidating Distribution before any reduction or abatement hereunder and (ii) the amount (before any reduction or abatement hereunder) of the full liquidating distribution on any Parity Obligations of HSBC, converted where necessary into the same currency in which liquidation payments are made to creditors of HSBC;

"Replacement Capital" means shares, securities or other obligations as are mentioned in (a) or (b) in the definition of Adjusted Distributable Reserves;

"Replacement Debt" has the meaning given to that term in paragraph 9.2;

"Securities Act" means the US Securities Act of 1933, as amended;

"Special Representative" has the meaning given to that term in paragraph 8;

"Stock Exchange" means the Luxembourg Stock Exchange (or any successor organisation) or the London Stock Exchange or such other Recognised Stock Exchange approved by the General Partner on which the Preferred Securities (or any Substitute Preference Shares) may be listed from time to time;

"Subordinated Note" means the €1,400,000,000 5.3687% Fixed/Floating Rate Subordinated Note in bearer form due on 24 December 2043 to be issued by HSBC on the Issue Date and subscribed for by the Issuer using the proceeds of the issue of the Preferred Securities;

"Subsidiary" means any entity which is for the time being a subsidiary undertaking of HSBC (within the meaning given to this term in the United Kingdom Companies Act 1989) and "Subsidiaries" has a corresponding meaning;

"Substitute Preference Shares" has the meaning given to that term in paragraph 5.1;

"Substitution Event" means that either (i) HSBC's consolidated total capital ratio, calculated in accordance with applicable UK bank capital adequacy regulations, has fallen below the then applicable minimum ratio required by such regulations; or (ii) HSBC's board of directors in its sole discretion has notified the FSA and the Issuer that it has determined, in view of HSBC's deteriorating financial condition, that (i) above is expected to occur in the near term;

"TARGET System" means the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System;

"Tax Event" means (A) that, as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in the United Kingdom or Jersey or any action taken by any appropriate authority there is a more than insubstantial risk that (i) the Issuer or the General Partner would be subject to more than a *de minimis* amount of tax (except, in the case of the General Partner only, for any such tax that would arise as a result of (a) profits arising to it as a result of payments received by it from the Issuer or (b) activities (if any) carried on by it other than those permitted or contemplated in the Partnership Agreement) in Jersey or the United Kingdom, (ii) payments to Holders would be subject to deduction or withholding for or on account of tax or would give rise to any obligation to account for any tax in Jersey or the United Kingdom,

(iii) payments by HSBC in respect of the Subordinated Note would be subject to deduction or withholding for or on account of tax in the United Kingdom, or (iv) HSBC would not obtain relief for the purposes of United Kingdom corporation tax for any payment of interest in respect of the Subordinated Note, or (B) that there is more than an insubstantial risk that any of the events listed in (i) to (iv) may occur other than as a result of a change in any law or regulation of the United Kingdom or Jersey, or in any treaty to which the United Kingdom or Jersey is a party, or in the official interpretation or application of any law, regulation or treaty by any relevant body in the United Kingdom or Jersey or any action taken by any appropriate authority;

“Tax Redemption Price” means, in respect of a redemption of a Preferred Security, the Optional Redemption Price together with any accrued but unpaid Distribution in respect of the Distribution Period in which the Preferred Security is redeemed;

“three month EURIBOR”, in respect of any Distribution Period, means the three month rate for deposits in euros determined by the Calculation Agent which appears on page 248 of Telerate as of approximately 11.00 a.m. Brussels time, on the second Business Day prior to the first day of the relevant Distribution Period provided that, if at such time no such rate appears or the relevant Telerate page is unavailable, the Calculation Agent will request appropriate quotations and will determine the arithmetic mean of the rates at which deposits in euro are offered by three major banks (or, if fewer than three rates are so quoted, two major banks, or, if fewer than two rates are so quoted, one major bank) selected by the Calculation Agent, in such financial centre or centres within the European Union as the Calculation Agent may select, at approximately 11.00 a.m., London time, on the second Business Day prior to the first day of the relevant period to prime banks in the London interbank market for a period of three months and in an amount that is representative for a single transaction in the relevant market at the relevant time;

“UK” and the “United Kingdom” means the United Kingdom of Great Britain and Northern Ireland; and

“UK Listing Authority” means the Financial Services Authority in its capacity as a competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000.

## **2. Distributions**

2.1 Subject as provided by the Law and in paragraphs 2.3, 2.9 and 7.3, Distributions shall accrue from the Issue Date and shall be payable in arrear on each Distribution Date (or where any Distribution Date is not a Business Day, on the succeeding Business Day without interest in respect of such delay).

2.2 Subject to the Law, Distributions in respect of any Distribution Period will be payable at the applicable Distribution Rate on the nominal amount of the Preferred Security.

The Calculation Agent will at or as soon as practicable after each time at which the Distribution Rate is to be determined, determine the Distribution for the relevant Distribution Period. Each such determination will be notified to the Issuer, the Registrar, the Stock Exchange and the Holders before the commencement of the Distribution Period.

2.3 Distributions will be non-cumulative and will accrue on a day by day basis in accordance with the Day Count Fraction. Distributions will be payable out of the Issuer’s own legally available resources on the relevant Distribution Date. Notwithstanding receipt of any interest due under the Subordinated Note or any other resources legally available for distribution by the Issuer, neither the Issuer nor HSBC will, save to the extent provided in paragraph 2.4, pay a Distribution or make any payment in respect of a Distribution under the Preferred Securities or the Guarantee if, on the relevant Distribution Date:

2.3.1 HSBC is prevented by applicable UK banking regulations or other requirements from making payment in full (a) of dividends or other distributions on its Parity Obligations or (b) under the Guarantee; or

- 2.3.2 the amount of such Distribution (if paid in full), together with the sum of any dividends and other distributions on HSBC's Parity Obligations due and payable on that Distribution Date or under the Guarantee, would exceed the Adjusted Distributable Reserves of HSBC as of the Distribution Determination Date immediately preceding the relevant Distribution Date.
- 2.4 If, whether by reason of the provisions of paragraph 2.3 or any equivalent article or term of a Parity Obligation, on any Distribution Date Distributions are not paid in full on the Preferred Securities or dividends or other distributions are not paid in full on any Parity Obligations, but Adjusted Distributable Reserves are sufficient so as to allow payment of part of any Distribution, then each Holder will be entitled to receive the Relevant Proportion of any such Distribution. No Holder shall have any claim in respect of any Distribution or part thereof not payable as a result of the limitations set out in paragraph 2.3. Accordingly, such amount will not accumulate for the benefit of the Holders or entitle the Holders to any claim in respect thereof against the Issuer or HSBC under the Guarantee.
- 2.5 HSBC has covenanted in the Guarantee in favour of Holders that, in the event that for any single Distribution Period ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods the Distributions are not paid in full as a result of paragraph 2.3, it will not (a) declare or pay any dividends or other distributions in respect of its ordinary shares or (if permitted) effect any repurchase or redemption of its ordinary shares or any other security of HSBC ranking junior to the Guarantee (or contribute any moneys to a sinking fund for the redemption of any such shares or securities) until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) (if permitted) repurchase or redeem Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).
- 2.6 HSBC will determine whether as of each Distribution Determination Date sufficient Adjusted Distributable Reserves exist to allow a payment of some or all of the relevant Distribution. In the event that any Distribution cannot be paid in full, HSBC will notify or procure notification to the Stock Exchange, the General Partner, the Registrar and the Paying Agent, and to Holders in accordance with paragraph 10, of the fact and of the amount, if any, to be paid in respect of that Distribution.
- 2.7 Save as described above, Holders will have no right to participate in the profits of the Issuer or HSBC and, in particular, will have no rights to receive from the Issuer amounts paid under the Subordinated Note in excess of Distributions due and payable under the Preferred Securities. In the event that any amounts paid in respect of the Subordinated Note exceed the amount (if any) then due by way of Distribution under the Preferred Securities, the amount of such excess will be paid to the holder of the Preferential Right and Holders will have no rights in respect thereof.
- 2.8 The liability of a Holder to contribute to the debts or obligations of the Issuer (if any) shall not (subject to the Law) exceed the amount of that Holder's Preferred Capital Contribution.
- 2.9 If at any time the General Partner becomes aware that an investor in the Preferred Securities owns, directly or indirectly, 10% or more of the ordinary shares of HSBC, the General Partner on behalf of the Issuer will have the right to suspend payment of Distributions in respect of Preferred Securities held for such investor. Investors are required to provide written notice to the General Partner on behalf of the Issuer if at any time any such investor owns, directly or indirectly, 10% or more of the ordinary shares of HSBC. Any amounts so suspended will be forfeited and may not be subsequently claimed.

### **3. Liquidating Distributions**

- 3.1 In the event of the commencement of any dissolution or winding up of the Issuer before any redemption of the Preferred Securities or any substitution of the Preferred Securities by Substitute Preference Shares under paragraph 5, the Holders at that time will be entitled to receive the Liquidating Distribution, in respect of each Preferred Security held, out of the assets of the Issuer available for distribution to such Holders under the Law. Such entitlement will arise (i) before any distribution of assets is made to the General Partner or to the holder of the Preferential Right and (ii) *pari passu* with the equivalent claims under all outstanding Parity Obligations of the Issuer but (iii) after the claims of all other creditors of the Issuer and holders of obligations of the Issuer which are not Parity Obligations nor subordinated to the Preferred Securities.

Notwithstanding the availability of sufficient assets of the Issuer to pay the Liquidating Distribution, if, at the time the Liquidating Distribution is to be paid, proceedings have been commenced for the winding-up of HSBC other than pursuant to a Permitted Reorganisation, the Liquidating Distribution paid to Holders shall not exceed the amount per security that would have been paid as a liquidation distribution out of the assets of HSBC had the Preferred Securities been directly issued preference shares issued by HSBC with equivalent rights of participation in the capital of HSBC (whether or not HSBC could in fact have issued such securities) and ranked (i) junior to depositors and all other creditors (including the holders of subordinated debt) of HSBC, (ii) *pari passu* with all Parity Obligations of HSBC and (iii) senior to the holders of HSBC's ordinary shares and any other securities or obligations of HSBC which are subordinated to the Guarantee.

- 3.2 If the Liquidating Distribution and any other such liquidation distributions cannot be made in full by reason of the limitation described in paragraph 3.1 or any equivalent article or term of a Parity Obligation, but there are funds available for payment so as to allow payment of part of the Liquidating Distribution then each Holder will be entitled to receive the Relevant Proportion of the Liquidating Distribution. After payment of the Liquidating Distribution, or the Relevant Proportion thereof, if applicable, Holders will have no right or claim to any of the remaining assets of the Issuer or against HSBC under the Guarantee and the holder of the Preferential Right shall be entitled to receive any remaining assets of the Issuer.
- 3.3 In the event that proceedings are commenced for the liquidation, dissolution or winding up of HSBC other than pursuant to a Permitted Reorganisation, the General Partner shall file a statement of dissolution of the Issuer with the Limited Partnerships Registrar and the amount to which Holders shall be entitled as a Liquidating Distribution will be as set out in paragraphs 3.1 and 3.2.
- 3.4 Subject to paragraph 3.3, unless (i) the FSA has given its consent, if then required, and (ii) the aggregate of (a) the Adjusted Distributable Reserves of HSBC as at the date of such winding up and (b) the proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the Liquidating Distribution is at least equal to the aggregate Liquidating Distribution, the General Partner will not permit, or take any action that would or might cause, the dissolution or winding up of the Issuer. Notwithstanding the foregoing restriction imposed on the General Partner, if for any other reason the Issuer is dissolved or wound up in circumstances where proceedings have not been commenced for the winding up of HSBC, the Liquidating Distribution shall only be payable up to an amount equal to the aggregate of (ii)(a) and (b) above. No Holder shall have any claim (whether against the Issuer or under the Guarantee) in respect of any Liquidating Distribution or part thereof not paid when it would, but for the operation of this paragraph 3.4, otherwise have become due.
- 3.5 Paragraph 3.4 will not apply in circumstances where a Substitution Event has occurred and the Substitute Preference Shares have been issued.

### **4. Redemption and Purchase**

- 4.1 The Preferred Securities have no fixed final redemption date and Holders have no rights at any time to call for the redemption of the Preferred Securities.



- 4.2 The Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to the satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, on any Optional Redemption Date upon not less than 30 nor more than 60 days' notice to the Holders specifying the Optional Redemption Date (which notice shall be irrevocable) at the Optional Redemption Price. Upon the expiry of such notice, the Preferred Securities shall be redeemed by payment of the Optional Redemption Price to the Holders.
- 4.3 If at any time a Tax Event has occurred and is continuing then either (i) the General Partner may (provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC) elect to substitute the Substitute Preference Shares for the Preferred Securities in the manner provided in paragraph 5 as if such event were a Substitution Event; or (ii) the Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to the satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Early Redemption Date (which notice shall be irrevocable), at the Tax Redemption Price. Where a notice of redemption has been given in accordance with the foregoing sentence, the General Partner shall also notify the Holders of the Tax Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the Early Redemption Date). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar a certificate signed by two Directors of HSBC stating that the Issuer is entitled to effect such redemption and an opinion of counsel to HSBC experienced in such matters to the effect that a Tax Event has occurred (and specifying which of paragraphs (i) to (iv) as set out in the definition of "Tax Event" is applicable). The delivery of such opinion shall constitute conclusive evidence of the occurrence of a "Tax Event" for all purposes of the Partnership Agreement and Preferred Securities. Upon the expiry of such notice, the Preferred Securities shall be redeemed by the payment of the Tax Redemption Price to the Holders.
- 4.4 If at any time a Regulatory Event has occurred and is continuing, either (i) the General Partner may (provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC) elect to substitute the Substitute Preference Shares for the Preferred Securities in the manner provided in paragraph 5 as if such event were a Substitution Event or (ii) the Preferred Securities may be redeemed, in whole but not in part, at the option of the General Partner, subject to satisfaction of the Redemption Conditions, paragraph 7.3 and to the Law, at any time upon not less than 30 nor more than 60 days' notice to the Holders specifying the Early Redemption Date (which notice shall be irrevocable), at the Regulatory Event Redemption Price. Where a notice of redemption has been given in accordance with the foregoing sentence, the General Partner shall also notify the Holders of the Regulatory Event Redemption Price as soon as reasonably practicable after it has been determined (and in any event not later than the second Business Day before the Early Redemption Date). Prior to the publication of any notice of redemption pursuant to the foregoing, the General Partner shall deliver to the Registrar a certificate signed by two Directors of HSBC stating that the Issuer is entitled to effect such redemption and an opinion of counsel to HSBC experienced in such matters to the effect that a Regulatory Event has occurred. Upon the expiry of such notice, the Preferred Securities shall be redeemed by the payment of the Regulatory Event Redemption Price to the Holders.
- 4.5 Under FSA requirements at the date hereof, the Issuer may not redeem, and neither the Issuer nor HSBC nor any of its Subsidiaries may purchase, any Preferred Securities unless the FSA gives its prior written consent, and the FSA may impose conditions on any such redemption or purchase. These requirements and restrictions do not affect the ability of HSBC's Subsidiaries to engage in market-making activities in relation to the Preferred Securities.
- 4.6 Once a notice to redeem the Preferred Securities has been given under any of paragraphs 4.2, 4.3 or 4.4, no similar notice may be given under either of the other paragraphs. If at any time the Preferred Securities may be redeemed under more than

one such paragraph, the General Partner may elect under which paragraph the notice of redemption is to be given.

## **5. Substitution by Substitute Preference Shares**

- 5.1 As soon as reasonably practicable following the occurrence of a Substitution Event (provided that proceedings have not been commenced for the liquidation, dissolution or winding up of HSBC), the Issuer shall take all reasonable steps to cause the substitution for the Preferred Securities of fully-paid non-cumulative redeemable perpetual preferred shares issued directly by HSBC having economic terms which are in all material respects equivalent (as more fully set out in the following paragraph) to those of the Preferred Securities and the Guarantee taken together (the "Substitute Preference Shares").

The Substitute Preference Shares shall, among other things, provide economic terms that are equivalent to those of the Preferred Securities in respect of the non-cumulative nature of the distributions thereon, the status of the securities and the rights attaching to the securities in respect of rights on a winding up of HSBC. The Substitute Preference Shares shall be redeemable or effectively redeemable and will contain provisions similar to those contained in paragraphs 2.2 and 4.2.

- 5.2 Prior to the issue of any Substitute Preference Shares, application will be made by HSBC for admission of such Substitute Preference Shares to be admitted to listing on the Official List of the UK Listing Authority and to trading on the London Stock Exchange or another Recognised Stock Exchange. As soon as practicable after the occurrence of a Substitution Event (provided that proceedings have not been commenced for the winding up of HSBC), HSBC will give written notice to the Holders enclosing a substitution confirmation which each Holder will be required to complete. To receive Substitute Preference Shares, each Holder must deliver to the Paying Agent the duly completed substitution confirmation together with the certificate representing its holding of Preferred Securities. Any such substitution shall be effected subject in each case to any applicable fiscal laws or other laws or regulations. Following such substitution, the allotted Substitute Preference Shares will rank, for any dividend from the Distribution Date, immediately preceding the allotment of the Substitute Preference Shares and the Holder will no longer be a limited partner and will have no entitlement to any accrued Distribution or any other payment on, or right in respect of, the Preferred Securities. On allotment in full of each Substitute Preference Share and the removal of such Holder (a "Former Holder") from the Register, all rights of the Former Holder to participate in the assets of the Issuer or to be returned any amount in respect of the Preferred Securities (including the Preferred Capital Contribution made by or on behalf of the Former Holder) will be extinguished and each Former Holder shall thereupon cease to be a limited partner of the Issuer. If (i) Substitute Preference Shares are issued upon a Substitution Event, HSBC will confer upon Holders the option (A) to receive such Substitute Preference Shares in certificated form or (B) subject to such Holders agreeing to pay any UK stamp duty or stamp duty reserve tax ("SDRT") which would arise on the issue of the Substitute Preference Shares and providing appropriate indemnities against any such stamp duty or SDRT, to require HSBC to issue such Substitute Preference Shares to a clearing system (or a nominee for such clearing system), or if (ii) Substitute Preference Shares are issued other than upon a Substitution Event, HSBC will (A) issue such Substitute Preference Shares to a clearing system (or a nominee for such clearing system) and (B) pay any UK stamp duty or SDRT payable on the issue of Substitute Preference Shares.
- 5.3 Certificates (if any) for Substitute Preference Shares issued on substitution will be dispatched by mail free of charge (but uninsured and at the risk of the person entitled thereto) within one month after receipt of a duly completed substitution confirmation. If Substitute Preference Shares are required to be issued, Holders will continue to be entitled to receive Distributions and/or a Liquidating Distribution in respect of the Preferred Securities until such time as notice is given by HSBC in accordance with paragraph 10 that Substitute Preference Shares are available for issue upon substitution and that the Former Holder has been registered as a holder of the Substitute Preference

Shares. Thereafter the Former Holders will have no further rights, title or interest in or to their Preferred Securities. Upon an involuntary dissolution of the Issuer occurring after the occurrence of a Substitution Event but prior to the substitution being effected, Holders will have no further rights, title or interest in or to Preferred Securities except the right to have their respective Preferred Securities substituted in the manner described above.

## **6. Additional Amounts**

All payments in respect of the Preferred Securities by the Issuer will be made without withholding or deduction for, or on account of, any tax imposed by the United Kingdom or Jersey, unless the withholding or deduction of such tax is required by law. In the event of such withholding or deduction, each Holder will, if permitted by the FSA, be entitled to receive, as a further Distribution, such additional amounts ("Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable in respect of the Preferred Securities in the absence of such withholding or deduction; except that no such Additional Amounts will be payable to a Holder (or to a third party on his or her behalf) with respect to any Preferred Security:

- 6.1 where the Holder is liable to such tax, duty or charge by reason of such Holder having some connection with the jurisdiction by which such tax, duty or charge has been imposed other than the mere holding of such Preferred Security; or
  - 6.2 if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom or Jersey, provided that the Issuer or its agent has provided the Holder with at least 60 days' prior written notice of the opportunity to make such declaration or claim unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
  - 6.3 if the Holder (or the third party to whom payment is made on behalf of the Holder) is a partnership or is not the sole beneficial owner of the Preferred Security, or holds the Preferred Security in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
  - 6.4 presented for payment in the United Kingdom, where presentation is required; or
  - 6.5 presented for payment more than 30 days after the relevant Distribution Date, except to the extent that the Holder thereof would have been entitled to such Additional Amounts if it had presented the same for payment on the last day of such period of 30 days; or
  - 6.6 if such withholding or deduction may be avoided by presenting the relevant Preferred Security to another Paying Agent; or
  - 6.7 if such withholding or deduction is imposed on or in respect of a payment to an individual Holder and is required to be made pursuant to Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments or any European Union Directive otherwise implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing, or complying with, or introduced in order to conform to, any such Directive,
- provided that the Issuer's obligation to make any such payments is subject to the Law and to the limitations provided in paragraphs 2.3, 3.1 and 3.4.

## **7. Payments**

- 7.1 Distributions will be payable subject to the Law on the relevant Distribution Date (or, where any Distribution Date is not a Business Day, on the next Business Day immediately following the Distribution Date, without interest in respect of such delay) to the Holders five Business Days prior to the relevant Distribution Date (the "Relevant Record Date"). If the General Partner gives a notice of redemption pursuant to

paragraph 4.2, 4.3 or 4.4 in respect of the Preferred Securities, then, on the Redemption Date, the General Partner shall procure that the Optional Redemption Price, the Tax Redemption Price or the Regulatory Event Redemption Price, as the case may be, will be paid by the Registrar or by the Paying Agents on behalf of the Issuer to the Holders. Upon such payment, all rights of Holders to participate in the assets of the Issuer or to be returned any amount in respect of the Preferred Securities (including the Preferred Capital Contribution made by or on behalf of the Holders) will be extinguished and each Holder shall thereupon cease to be a limited partner of the Issuer provided its holding of Preferred Securities is redeemed in accordance with the foregoing and the Preferred Capital Contribution will, on payment of the Optional Redemption Price, the Tax Redemption Price or the Regulatory Event Redemption Price, as the case may be, be deemed repaid.

7.2 Subject to all applicable fiscal or other laws and regulations:

7.2.1 each payment in respect of Distributions will be made by cheque and mailed on the relevant Distribution Date to the Holder of record at such Holder's address as it appears on the Register on the Relevant Record Date for the Preferred Securities; and

7.2.2 any payment of amounts in respect of the Optional Redemption Price, the Tax Redemption Price, the Regulatory Event Redemption Price or the Liquidating Distribution (or relevant proportion thereof) in respect of any Preferred Security will be made by euro cheque drawn on a bank in a city in which banks have access to the TARGET System against presentation and surrender of the relevant certificate of entitlement at the office of the Registrar or any Paying Agent,

provided, however, that a Holder may receive such payment by direct transfer to a euro account maintained by the Holder with a bank in a city in which banks have access to the TARGET System arranged by a Paying Agent if appropriate direct transfer instructions have been received by the Registrar in sufficient time prior to the relevant date of payment. Holders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Holder is late in surrendering certificates (if required to do so) or if a cheque mailed in accordance with this paragraph arrives after the due date for payment.

In the event that payment of the Optional Redemption Price, the Tax Redemption Price or the Regulatory Event Redemption Price is improperly withheld or refused and not paid by the Issuer, Distributions on such Preferred Security, subject as described in paragraph 2.3 and 2.9, will continue to accrue, on a day by day basis compounding annually, from the Redemption Date to the date of actual payment of the Optional Redemption Price, the Tax Redemption Price or the Regulatory Event Redemption Price, as the case may be.

7.3 The Issuer will not, and HSBC has undertaken in the Guarantee that it will not and it will procure that no member of the HSBC Group will, make or procure any payment to Holders, if such a payment could not lawfully have been made had Holders held shares ranking *pari passu* with Substitute Preference Shares instead of the Preferred Securities.

7.4 The Issuer will, and HSBC has undertaken in the Guarantee that it will procure that the Issuer will, maintain at all times whilst the Preferred Securities are in issue (a) a Paying Agent outside the European Union and Jersey or in a Member State of the European Union that will not be obliged to withhold or deduct for or on account of tax pursuant to Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments or any European Union Directive otherwise implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, any such Directive, (b) for so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, a Paying Agent in Luxembourg, and (c) a Registrar having its office outside the United Kingdom.

## **8. Voting Rights**

8.1 Except as described below and provided for in the Law, Holders will not be entitled to receive notice of or attend or vote at any meeting of partners of the Issuer or participate in the management of the Issuer.

8.2 If for any single Distribution Period ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods:

8.2.1 Distributions have not been paid in full on the Preferred Securities by the Issuer; and/or

8.2.2 HSBC has not made the required payments under the Guarantee in respect of such Distributions,

then the Holders together with the holders of any other preferred securities of the Issuer having the right to vote for the election of a special representative (the "Special Representative") in such event, acting as a single class without regard to class, will be entitled to appoint a Special Representative, by written notice to the Issuer given by the holders of a majority by outstanding nominal amount of such Preferred Securities and any other preferred securities having the said right or by resolution passed by the holders of a majority by outstanding nominal amount of such Preferred Securities and any other such preferred securities present in person or by proxy at a separate general meeting of such holders convened for the purpose. The Special Representative shall be authorised to represent the Holders to enforce their statutory rights as limited partners including the provision of information on the affairs of the Issuer; however, it has no rights in addition to those held by Holders. The Special Representative shall not, by virtue only of acting in such capacity, be admitted or authorised to act as a general partner in relation to the Issuer or be admitted as a Holder or otherwise be deemed to be a general partner or a Holder in the Issuer and shall have no liability for the debts, obligations or liabilities of the Issuer or for any unpaid contribution of a partner in its capacity as Special Representative.

Not later than 30 days after such entitlement arises, if the written notice of the Holders of outstanding Preferred Securities and the holders of any other preferred securities of the Issuer having the right to vote for the election of a Special Representative in the circumstances described in the preceding paragraph has not been given as provided for in the preceding paragraph, the General Partner will convene a separate general meeting for the purpose. If the General Partner fails to convene such meeting within such 30-day period, the Holders of 10% by outstanding nominal amount of the Preferred Securities and such other preferred securities will be entitled to convene such a meeting for the purpose. The Partnership Agreement contains provisions concerning the convening and conduct of meetings of Holders. Any Special Representative so appointed shall, subject to the terms of such other preferred securities, vacate office if, after its appointment a full Distribution is made by the Issuer or by HSBC under the Guarantee for one Distribution Period or an amount equivalent to the Distributions to be paid in respect of one Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders.

8.3 The consent in writing of the Holders of at least one-third of the outstanding Preferred Securities or the sanction of a resolution, passed by a majority of at least three-quarters of those present in person or by proxy at a separate meeting of the Holders at which the quorum shall be one or more Holders holding at least one-third in nominal amount of the issued Preferred Securities, shall be required in order to give effect to any variation or abrogation of the rights, preferences and privileges of the Preferred Securities by way of amendment of the Partnership Agreement or otherwise (including, without limitation, the authorisation or creation of any securities or ownership interests of the Issuer ranking, as to participation in the profits or assets of the Issuer, senior to the Preferred Securities) (unless otherwise required by applicable law). No such sanction shall be required if the change is solely of a formal, minor or technical nature or is to correct an error or cure an ambiguity, provided that the change does not reduce the amounts payable to Holders, impose any obligation on the Holders or adversely affect their voting rights.

- 8.4 Notwithstanding the foregoing, no vote of the Holders will be required for the redemption, cancellation or substitution of the Preferred Securities in accordance with the Partnership Agreement.
- 8.5 Subject to the Law, the Issuer may not be dissolved by the General Partner whilst any Preferred Security is in issue, unless all the Holders and the General Partner have approved such action. Such approval shall not be required if the dissolution of the Issuer is proposed or initiated because of the liquidation, dissolution or winding-up, as the case may be, of the General Partner or HSBC.
- 8.6 Any Preferred Security, and any preferred security of a type referred to in paragraph 8.2, that is at any time owned by HSBC, or any entity of which HSBC, either directly or indirectly, owns 20% or more of the voting shares or similar ownership interests, shall not carry a right to vote in a meeting of Holders or at any meeting called to vote for the election of a Special Representative pursuant to paragraph 8.2 and shall, for voting purposes, be treated as if it were not in issue other than in the case of the approval required by paragraph 8.5.
- 8.7 The General Partner will cause a notice of any meeting at which Holders are entitled to vote and any voting forms to be mailed to each Holder. Each such notice will include a statement setting forth (a) the date, time and place of such meeting, (b) a description of any resolution to be proposed for adoption at such meeting on which such Holders are entitled to vote and (c) instructions for the delivery of proxies.

## **9. Covenant of the General Partner**

- 9.1 The General Partner has undertaken not to incur any indebtedness in the name of the Issuer other than costs and expenses incidental to creating the Preferred Securities (which may include fees and commissions payable in respect of the issue, subscription and sale of the Preferred Securities) and the Issuer, performing its obligations in respect of the Partnership Agreement, maintaining the listing of the Preferred Securities, the Register, the Registrar and Paying Agents in respect of the Preferred Securities, its holding of the Subordinated Note or any securities substituted therefor and the maintenance of a custodian thereof, the exercise of the Issuer's rights in respect of the Subordinated Note or any securities substituted therefor and the administration of the Issuer.
- 9.2 The General Partner has undertaken that if the Subordinated Note becomes due or is redeemed while the Preferred Securities remain outstanding and are not subject to a notice of redemption, it will invest the proceeds of the Subordinated Note or any Replacement Debt in debt securities issued by a member of the HSBC Group (where the issuer is not HSBC, with a guarantee from HSBC) (the "Replacement Debt"), which debt securities will have a term of at least 40 years and otherwise have economic terms essentially equivalent to the Subordinated Note (including that the interest rate will reflect the then current Distribution Rate provisions of the Preferred Securities).

## **10. Notices**

All notices to the Holders will be mailed to the Holders of record at their respective addresses in the Register and shall be deemed to have been given on the weekday (being a day other than a Saturday or a Sunday) after the date of mailing *provided however, that*, so long as the Preferred Securities are listed on the Stock Exchange (and the rules of that exchange so require), notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be *Luxemburger Wort*). Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

## **11. Transfers and Form**

- 11.1 The Preferred Securities will be issued in registered form.
- 11.2 The Preferred Securities will be represented by a permanent global certificate in fully registered form (the "Global Certificate") and will be registered in the name of a nominee of, and deposited with a common depositary for, Clearstream, Luxembourg and Euroclear.
- 11.3 Except in the limited circumstances described below, owners of interests in the Preferred Securities represented by a Global Certificate will not be entitled to receive physical delivery of definitive certificates. The Preferred Securities and certificates are not issuable in bearer form.
- 11.4 If (i) either of Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days or more (other than for purposes of a public holiday) or announces an intention permanently to cease business or does in fact do so, or (ii) as a result of a change in law, transfer duties or similar taxes become payable on transfers of the Preferred Securities in Euroclear and/or Clearstream, Luxembourg, the Issuer will issue individual definitive certificates in respect of Preferred Securities in registered form in exchange for the Global Certificate. Upon receipt of such notice from Euroclear and/or Clearstream, Luxembourg, the Issuer will use its best efforts to make arrangements with Euroclear and Clearstream, Luxembourg for the exchange of the Global Certificate for individual definitive certificates and cause the requested individual definitive certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to holders of Preferred Securities. Persons exchanging interests in the Global Certificate for individual definitive certificates will be required to provide the Registrar with written instructions and other information required by the Issuer and the Registrar to complete, execute and deliver such individual definitive certificates and to make appropriate entries in the Register in respect of the Preferred Securities. In all cases, definitive certificates delivered in exchange for a Global Certificate or an interest in the Preferred Securities represented thereby will be registered in the names, and issued in any approved denominations, requested by Euroclear and Clearstream, Luxembourg.
- 11.5 If definitive certificates are made available in respect of Preferred Securities they will be available from the Registrar and from the Paying Agent at its specified offices, and will be posted to the relevant Holders at the address shown in the Register or, as applicable, in the relevant instrument of transfer within three Business Days of issue, by uninsured post at the risk of such Holders. Transfers of Preferred Securities if represented by definitive certificates may be effected by presentation of the relevant certificate (with the transfer certificate relating thereto duly completed on behalf of the transferor and the transferee) at the specified office of the Registrar or the Paying Agent. Where a Holder transfers only some of the Preferred Securities represented by any such certificate he shall be entitled to a certificate for the balance without charge. Holders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **12. Replacement Certificates**

If a certificate is damaged or defaced or alleged to have been lost, stolen or destroyed, a new certificate representing the same Preferred Securities may be issued on payment of such fee and on such terms (if any) as to evidence and indemnity and the payment of out-of-pocket expenses as the General Partner may think fit and on payment of the costs of the General Partner incidental to its investigation of the evidence and, if damaged or defaced, on surrendering the old certificate at the specified office of the Paying Agent.

**13. Prescription**

Unclaimed Distributions, Optional Redemption Price, Tax Redemption Price, Regulatory Event Redemption Price and Liquidating Distribution will be prescribed after ten years in accordance with Jersey law.

**14. Governing Law**

The Preferred Securities and the Partnership Agreement shall be governed by, and construed in accordance with, Jersey law. Determinations in respect of amounts of Adjusted Distributable Reserves shall, however, be made in accordance with English law.



## **SUMMARY OF PROVISIONS RELATING TO THE PREFERRED SECURITIES IN GLOBAL FORM**

### **Initial Issue of Preferred Securities**

The Preferred Securities will be issued in registered form and will be initially represented by interests in a Global Certificate which will be registered in the name of a nominee of, and deposited with a common depositary for, Euroclear and Clearstream, Luxembourg on the Issue Date. Upon the registration of Preferred Securities in the name of a nominee of Euroclear and Clearstream, Luxembourg and delivery of the Global Certificate to the common depositary for Euroclear and Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg will credit each subscriber with such number of Preferred Securities as is equal to the number thereof for which it has subscribed and paid.

### **Accountholders**

So long as the Preferred Securities are registered in the name of a nominee for Euroclear and Clearstream, Luxembourg, the nominee for Euroclear and Clearstream, Luxembourg will be the sole registered owner or holder of the Preferred Securities represented by the Global Certificate for all purposes under the Partnership Agreement. Except as set forth under *"Description of Preferred Securities – Transfers and Form"* and under *"– Transfers of Interests"*, the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an *"Alternative Clearing System"*) as the holders of the Preferred Security evidenced by the Global Certificate (each an *"Accountholder"*) will not be entitled to have Preferred Securities registered in their names, will not receive or be entitled to receive physical delivery of definitive certificates evidencing interests in the Preferred Securities and will not be considered registered owners or holders thereof under the Partnership Agreement. Accordingly, each Accountholder must rely on the rules and procedures of Euroclear and Clearstream, Luxembourg, as the case may be, to exercise any rights and obligations of a holder of Preferred Securities under the Partnership Agreement.

### **Payments**

Each Accountholder must look solely to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System, as the case may be, for its share of each payment made by the Issuer to the registered holder of the Preferred Securities and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System, as the case may be. Such persons shall have no claim directly against the Issuer in respect of payments due on the Preferred Securities for so long as the Preferred Securities are represented by such Global Certificate and such obligations of the Issuer will be discharged by payment to the registered holder of the Preferred Securities in respect of each amount so paid.

### **Transfers of Interests**

Accountholders will only be able to transfer their beneficial interests in the Preferred Securities in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System, as the case may be.

### **Settlement**

Initial settlement for the Preferred Securities and settlement of any secondary market trades in the Preferred Securities will be made in same-day funds.

## DESCRIPTION OF THE GUARANTEE

The following is the form of the Guarantee to be executed by HSBC:

THIS DEED OF GUARANTEE (the "Guarantee"), dated 24 October 2003, is executed and delivered by HSBC Holdings plc ("HSBC") for the benefit of the Holders (as defined below).

WHEREAS:

- (a) HSBC desires to issue this Guarantee for the benefit of the Holders, as provided herein; and
- (b) this Guarantee is intended to provide the Holders, on a dissolution or winding up of the Issuer (as defined below) or on a default by the Issuer in discharging its obligations in respect of the Preferred Securities (as defined below), with rights against HSBC in respect of the Guaranteed Payments (as defined below) which are as nearly as possible equivalent to those which they would have had if the Preferred Securities had been directly issued non-voting, non-cumulative, preference shares of HSBC (whether or not HSBC could in fact have issued such shares).

NOW, THEREFORE, HSBC executes and delivers this Guarantee as a deed poll for the benefit of the Holders.

### 1. Definitions

As used in this Guarantee, capitalised terms not defined herein shall have the meanings ascribed to them in the Partnership Agreement and otherwise the following terms shall, unless the context otherwise requires, have the following meanings:

"Guaranteed Payments" means collectively (i) all Distributions due on the Preferred Securities, (ii) any Distributions on the Preferred Securities which would have been due had the Issuer had sufficient legally available resources but only if, and to the extent that, the Issuer did not have such legally available resources solely due to a failure by HSBC to pay interest on the Subordinated Note or the Replacement Debt as and when due and payable under the terms thereof, (iii) any Liquidating Distribution, (iv) any amounts to which the Holders are entitled in respect of redemption of the Preferred Securities and (v) any Additional Amounts;

"Holder" means, in respect of each Preferred Security, the person registered on the Register as the limited partner holding such Preferred Security at the relevant time;

"Issuer" means HSBC Capital Funding (Euro 2) L.P.;

"Partnership Agreement" means the Limited Partnership Agreement dated 17 October 2003 between, HSBC, HSBC (General Partner) Limited (the "General Partner"), HSBC Issuer Services Common Depositary Nominee (UK) Limited (the "Initial Partner") and HSBC Finance (Netherlands) (the "Preferential Limited Partner") establishing the Issuer;

"Preferred Securities" means collectively the €1,400,000,000 5.3687% Non-cumulative Step-up Perpetual Preferred Securities of the Issuer, whether or not in issue on the date of this Guarantee, the Holders of which are entitled to the benefits of this Guarantee as evidenced by the execution of this Guarantee;

"Solvent" means, in relation to HSBC, that its Assets exceed its Liabilities (in each case, as defined below) excluding its Liabilities to persons in respect of Subordinated Indebtedness whose claims rank or are expressed to rank *pari passu* with, or junior to, the Guarantee or any other of its obligations which rank *pari passu* with, or junior to, the Guarantee; and "Insolvent" shall be construed accordingly, and for the purposes hereof, "Assets" means the unconsolidated gross assets (including contingencies) of HSBC and "Liabilities" means the unconsolidated gross liabilities (including contingencies) of HSBC, all as shown in the latest published balance sheet having the benefit of an unqualified auditors' report but with such adjustments as the auditors of HSBC or, if HSBC is in winding up, the liquidator shall determine in any report of such auditor issued on the request of HSBC or of such liquidator prepared in connection with the liquidation of HSBC and in either case relating to the solvency of HSBC; and

“Subordinated Indebtedness” means any liability of HSBC howsoever arising for the payment of money the right to payment of which by HSBC by the terms thereof is, or is expressed to be, subordinated in the event of a winding up of HSBC to the claims of all or any of the creditors of HSBC; provided that the term “Subordinated Indebtedness” shall include, without limitation, any liability of HSBC to any creditor of HSBC:

- (i) whose right to payment ranks or is expressed to rank postponed or subordinated to that of unsubordinated creditors (such unsubordinated creditors not being creditors whose right to payment is preferred by operation of law); or
- (ii) whose right to payment is made subject to a condition or is restricted (whether by operation of law or otherwise) or is expressed to be restricted in each case such that the amount which may be claimed for his own retention by such creditor in the event that HSBC is not Solvent is less than in the event that HSBC is Solvent.

## **2. Guarantee**

- 2.1 Subject to the exceptions and limitations contained in the following provisions of this Clause 2, HSBC irrevocably guarantees to the Holders the payment in full of the Guaranteed Payments, as and when due, to the extent that such payments shall not have been paid when due and payable by the Issuer regardless of any defence, right of set-off or counterclaim which the Issuer may have or assert. This Guarantee is continuing, irrevocable and absolute. The rights of the Holders against HSBC under this Guarantee will, in the event of the winding up of HSBC, be subordinated in right of payment to the claims of all other creditors of HSBC other than creditors in respect of Subordinated Indebtedness whose claims rank or are expressed to rank *pari passu* with or junior to the Guarantee or any other of HSBC’s obligations which rank *pari passu* with or junior to the Guarantee.
- 2.2 Notwithstanding Clause 2.1, HSBC’s obligation to make any Guaranteed Payment is conditional upon it being able to make such payment and be Solvent immediately thereafter and, furthermore, HSBC will not, save to the extent provided in Clause 2.5, be obliged to make payment under the Guarantee of any Guaranteed Payment if HSBC is prevented by applicable UK banking regulations or other requirements from making such payment in full under this Guarantee. In addition, notwithstanding Clause 2.1, HSBC will not, save to the extent provided in Clause 2.5, be obliged to make payment under the Guarantee of any Guaranteed Payment in respect of Distributions on any Preferred Securities if, on the relevant Distribution Date:
  - (a) HSBC is prevented by applicable UK banking regulations or other requirements from making payment in full of dividends or other distributions due and payable on its Parity Obligations or is unable to make such payment of dividends or other distributions on its Parity Obligations without causing a breach of the FSA’s capital adequacy requirements from time to time applicable to the HSBC Group; or
  - (b) the amount of the Distribution to which such Guaranteed Payment relates (if paid in full), together with the sum of any dividends and other distributions on HSBC’s Parity Obligations due and payable on the Distribution Date in respect of such Distribution, would exceed the Adjusted Distributable Reserves of HSBC determined as of the Distribution Determination Date immediately preceding the relevant Distribution Date.
- 2.3 HSBC will determine whether as of the Distribution Determination Date sufficient Adjusted Distributable Reserves exist to allow a payment of some or all of the relevant Distribution. In the event that any Distribution cannot be paid in full, HSBC will notify or procure notification to the Stock Exchange, the General Partner, the Registrar and the Paying Agent, and to Holders in accordance with the Partnership Agreement, of the fact and of the amount, if any, to be paid in respect of that Distribution.
- 2.4 All payments under the Guarantee will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges

of whatever nature imposed or levied by or on behalf of the United Kingdom or any political sub-division thereof or by any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, HSBC will, subject to permission (if required) being granted by the FSA, pay such additional amounts ("Guarantor Additional Amounts") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction shall equal the amounts which would have been receivable under this Guarantee in the absence of such withholding or deduction; except that no such Guarantor Additional Amounts will be payable to a Holder (or a third party on his behalf) in respect of any Preferred Security:

- (a) where the Holder is liable to such tax, duty or charge by reason of such Holder having some connection with the jurisdiction by which such tax, duty or charge has been imposed other than the mere holding of the relevant Preferred Security; or
- (b) if such withholding or deduction may be avoided by complying with any statutory requirement or by making a declaration of non-residence or other similar claim for exemption to any authority of or in the United Kingdom, provided that the Issuer or its agent has provided the Holder with at least 60 days' prior written notice of the opportunity to make such declaration or claim, unless such Holder proves that he is not entitled so to comply or to make such declaration or claim; or
- (c) if the Holder (or the third party to whom payment is made on behalf of the Holder) is a partnership or is not the sole beneficial owner of the Preferred Security or holds the Preferred Security in a fiduciary capacity, to the extent that any of the members of the partnership, the beneficial owner or the settlor or beneficiary with respect to the fiduciary would not have been entitled to the payment of an additional amount had each of the members of the partnership, the beneficial owner, settlor or beneficiary (as the case may be) received directly his beneficial or distributive share of the payment; or
- (d) presented for payment in the United Kingdom, where presentation is required; or
- (e) presented for payment more than 30 days after the relevant Distribution Date, except to the extent that the Holder thereof would have been entitled to such additional amounts if it had presented the same for payment on the last day of such period of 30 days; or
- (f) if such withholding or deduction may be avoided by presenting the relevant Preferred Security to another Paying Agent; or
- (g) if such withholding or deduction is imposed on or in respect of a payment to an individual Holder and is required to be made pursuant to Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments or any European Union Directive otherwise implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing, or complying with, or introduced in order to conform to, any such Directive,

provided that HSBC's obligation to pay any Guarantor Additional Amounts is subject to the conditions relating to payments under the Guarantee set out in Clauses 2.2 and 2.3.

- 2.5 In the event that the amounts described in Clauses 2.1 and 2.4 cannot be paid in full by reason of the condition referred to in Clause 2.2, such amount as is to be paid will be payable *pro rata* in the Relevant Proportion and the obligations of HSBC in respect of any such unpaid amount shall lapse.
- 2.6 The obligations, covenants, agreements and duties of HSBC under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:
  - (a) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer of any express or implied agreement, covenant, term or

condition relating to the Preferred Securities to be performed or observed by or on behalf of the Issuer; or

- (b) the extension of time for the payment by or on behalf of the Issuer of all or any portion of any Distribution, the Optional Redemption Price, the Tax Redemption Price, the Regulatory Event Redemption Price, the Liquidating Distribution or any other sums payable under the terms of the Preferred Securities or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Preferred Securities; or
- (c) any failure, omission, delay or lack of diligence on the part of Holders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Holders pursuant to the terms of the Preferred Securities, or any action on the part of the Issuer granting indulgence or extension of any kind; or
- (d) the voluntary or involuntary winding up, dissolution, amalgamation, reconstruction, sale of any collateral, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganisation, arrangement, composition or readjustment of debt of, or other similar proceedings affecting, the Issuer or any of the assets of the Issuer; or
- (e) any invalidity of, or defect or deficiency in, the Preferred Securities; or
- (f) the settlement or compromise of any obligation guaranteed hereby or hereby incurred.

There shall be no obligation on the Holders to give notice to, or obtain consent of, HSBC with respect to the happening of any of the foregoing.

- 2.7 This Guarantee shall be deposited with and held by the Registrar until all the obligations of HSBC have been discharged in full. HSBC hereby acknowledges the right of every Holder to the production of, and the right of every Holder to obtain a copy of, this Guarantee from the Registrar.
- 2.8 Subject to Clause 2.12, a Holder may enforce this Guarantee directly against HSBC, and HSBC waives any right or remedy to require that any action be brought against the Issuer or any other person or entity before proceeding against HSBC. Subject to Clause 2.12, all waivers contained in this Guarantee shall be without prejudice to the right to proceed against the assets of the Issuer and the General Partner as permitted by the terms of the Preferred Securities. HSBC agrees that this Guarantee shall not be discharged except by complete performance of all obligations of HSBC under this Guarantee.
- 2.9 HSBC shall be subrogated to any and all rights of the Holders against the assets of the Issuer in respect of any amounts paid to the Holders by HSBC under this Guarantee. HSBC shall not (except to the extent required by mandatory provisions of law) exercise any rights which it may acquire by way of subrogation or any indemnity, reimbursement or other agreement, in all cases as a result of a payment under this Guarantee if, at the time of any such payment, any amounts are due and unpaid under this Guarantee. If HSBC shall receive or be paid any amount with respect to the Preferred Securities in violation of the preceding sentence, HSBC agrees to pay the amount to the Holders.
- 2.10 HSBC acknowledges that its obligations hereunder are several and independent of the obligations of the Issuer with respect to the Preferred Securities and that HSBC shall be liable as principal and sole obligor hereunder to make the payments undertaken to be made by it pursuant to the terms of this Guarantee, notwithstanding the occurrence of any event referred to in Clause 2.6.
- 2.11 Following a failure by HSBC to make a payment under this Guarantee on the due date therefor, which failure continues for more than seven days, a Holder may petition for the winding up of HSBC in England and claim in the liquidation of HSBC but no other remedy shall be available to the Holder.

- 2.12 No Holder shall following any breach by HSBC of any of its obligations under this Guarantee be entitled to exercise any right of set-off or counterclaim which may be available to it against amounts owing by HSBC to such Holder. Notwithstanding the provisions of the foregoing sentence, if any of the said rights and claims of any Holder against HSBC is discharged by set-off, such Holder will immediately pay an amount equal to the amount of such discharge to HSBC or, in the event of its winding-up, the trustee or liquidator of HSBC and until such time as payment is made will hold a sum equal to such amount in trust for HSBC, or the trustee or liquidator of HSBC and accordingly any such discharge will be deemed not to have taken place.

### **3. Undertakings**

- 3.1 HSBC undertakes that if for any single Distribution Period ending on or before the First Optional Redemption Date or thereafter for any four consecutive Distribution Periods the Distribution is not paid in full to Holders by reason of the limitations set out in the terms of the Preferred Securities and in the Partnership Agreement, HSBC will not (a) declare or pay any dividends or other distributions in respect of its ordinary shares or (if permitted) effect any repurchase of its ordinary shares or any other securities or obligations of HSBC ranking junior to the Guarantee (or contribute any moneys to a sinking fund for the redemption of any such shares or securities) until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders) or (b) (if permitted) repurchase or redeem Parity Obligations which are securities until after the next following Distribution Date on which a Distribution in respect of the Preferred Securities is paid in full (or an amount equivalent to the Distribution to be paid in respect of the next Distribution Period has been paid or irrevocably set aside in a separately designated trust account for payment to the Holders).
- 3.2 HSBC undertakes that, so long as any of the Preferred Securities are outstanding (a) unless HSBC is itself being wound up, it will not permit, or take any action that would or might cause, the liquidation, dissolution or winding up of the General Partner or the Issuer otherwise than (i) with the prior approval of the FSA (if then required) and (ii) if either (A) HSBC has sufficient Adjusted Distributable Reserves or (B) HSBC has proceeds available from an issue of Replacement Capital that has been made for the purpose of funding the Liquidating Distribution (in either of cases (ii)(A) or (B) in an amount at least equal to the aggregate Liquidating Distribution) and (b) the General Partner will at all times be a directly or indirectly wholly owned subsidiary of HSBC, unless in the case of (a) or (b), otherwise approved by all Holders.
- 3.3 HSBC undertakes (a) to take all reasonable steps to ensure that it will at all times have a sufficient amount of authorised but unissued Substitute Preference Shares to permit the substitution thereof for all outstanding Preferred Securities and (b) to take all reasonable steps to ensure that all corporate authorisations will have been taken for the allotment and issue of the same free from pre-emptive rights, and that following the occurrence of a Substitution Event and subject to the terms of the Partnership Agreement and the necessary authorisations being in place, it will allot, issue and deliver Substitute Preference Shares in satisfaction of the rights of the Holders in the circumstances described in the Partnership Agreement, such Substitute Preference Shares having the rights and being subject to the conditions set out in the Partnership Agreement. HSBC further undertakes that (a) it will take all reasonable steps to procure that such Substitute Preference Shares will at the relevant time be listed on a Recognised Stock Exchange and (b) if (i) Substitute Preference Shares are issued upon a Substitution Event, HSBC will confer upon Holders the option (A) to receive such Substitute Preference Shares in certificated form or (B) subject to such Holders agreeing to pay any UK stamp duty or stamp duty reserve tax ("SDRT") which would arise on the issue of the Substitute Preference Shares and providing appropriate indemnities against any such stamp duty or SDRT, to require HSBC to issue such Substitute Preference Shares to a clearing system (or a nominee for such clearing system); or if (ii) Substitute Preference Shares are issued other than upon a Substitution Event, HSBC will (A) issue

such Substitute Preference Shares to a clearing system (or a nominee for such clearing system) and (B) pay any UK stamp duty or SDRT payable on the issue of Substitute Preference Shares.

- 3.4 HSBC undertakes that neither it nor any other member of the HSBC Group will make or procure any payment to Holders if such a payment could not lawfully have been made had Holders held shares of HSBC ranking *pari passu* with the Substitute Preference Shares instead of the Preferred Securities.
- 3.5 HSBC undertakes that it will procure that the Issuer will maintain at all times whilst the Preferred Securities are in issue (a) a Paying Agent outside the European Union and Jersey or in a Member State of the European Union that will not be obliged to withhold or deduct for or on account of tax pursuant to Council Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments or any European Union Directive otherwise implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 or any law implementing or complying with, or introduced in order to conform to, any such Directive, (b) for so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, a Paying Agent in Luxembourg, and (c) a Registrar having its office outside the United Kingdom.
- 3.6 HSBC undertakes that it will not redeem the Subordinated Note pursuant to the Terms and Conditions of the Subordinated Note other than in circumstances where the corresponding Preferred Securities are also being redeemed.

#### **4. Termination**

With respect to the Preferred Securities, this Guarantee shall terminate and be of no further force and effect upon (i) payment of the Optional Redemption Price, the Tax Redemption Price, or the Regulatory Event Redemption Price, as the case may be, on all Preferred Securities, (ii) purchase and cancellation of all Preferred Securities, (iii) payment of the Liquidating Distribution, or the Relevant Proportion thereof, or (iv) issue and allotment in full of Substitute Preference Shares, as the case may be, and dissolution of the Issuer, provided however that this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time payment of any sums paid in respect of the Preferred Securities or under this Guarantee must be restored by a Holder for any reason whatsoever.

#### **5. Transfer; Amendment; Notices**

- 5.1 Subject to operation of law, all guarantees and agreements contained in this Guarantee shall bind the successors, assignees, receivers, trustees and representatives of HSBC and shall inure to the benefit of the Holders. HSBC shall not transfer its obligations hereunder without the prior approval of the Holders of not less than one-third by nominal amount of the Preferred Securities (excluding any Preferred Securities held by HSBC or any entity of which HSBC, either directly or indirectly, owns 20 per cent. or more of the voting shares or similar ownership interests), which approval shall be obtained in accordance with the procedures contained in the Partnership Agreement and the Law.
- 5.2 Except for those changes (a) required to correct any manifest errors or ambiguities; or (b) which do not materially adversely affect the rights of the Holders (in each of which cases no consent will be required), this Guarantee shall be changed only by HSBC with the consent in writing of the Holders of at least one-third of the outstanding Preferred Securities, or the sanction of a resolution of the Holders of the outstanding Preferred Securities, passed by a majority of at least three-quarters of those present in person or by proxy at a separate meeting of the Holders at which the quorum shall be one or more Holders holding at least one-third in nominal amount of the outstanding Preferred Securities, subject in each case to consent or sanction being obtained in accordance with the procedures contained in the Partnership Agreement and the Law.
- 5.3 Any notice, request or other communication required or permitted to be given hereunder to HSBC shall be given in writing by delivering the same against receipt therefor or by pre-paid post addressed to HSBC at:

HSBC Holdings plc  
8 Canada Square  
London E14 5HQ

The address of HSBC may be changed at any time and from time to time and shall be the most recent such address furnished in writing by HSBC to the Registrar and notified to the Holders.

Any notice, request or other communication required or permitted to be given hereunder to the Holders shall be given by HSBC in the same manner as notices sent on behalf of the Issuer to Holders.

- 5.4 This Guarantee is solely for the benefit of the Holders and is not separately transferable from their interests in respect of the Preferred Securities.
- 5.5 HSBC will furnish any Holder, upon request of such Holder, with a copy of its annual report and any interim reports made generally available by HSBC to holders of the ordinary shares of HSBC.

**6. Governing Law**

This Guarantee shall be governed by, and construed in accordance with, English law.

IN WITNESS WHEREOF this Guarantee has been executed as a deed poll on behalf of HSBC Holdings plc.



## DESCRIPTION OF THE SUBSTITUTE PREFERENCE SHARES

It is intended that the Preference Shares to be issued upon substitution of the Substitute Preferred Securities (the "Preference Shares") will have the principal share rights described below.

The rights attaching to the Preference Shares are contained in HSBC's Articles of Association (the "Articles") and in the resolutions to be passed by the Board of Directors of HSBC or a duly constituted committee thereof at or before the time of issue of the Preference Shares. In addition, a detailed description of the rights attaching to the Preference Shares is included in the Partnership Agreement.

### Denomination

The par value of each Preference Share will be €0.01 which together with the premium on issue will aggregate to €1,000 or such lesser amount as is equal to the nominal amount of one Preferred Security (the "Principal Amount"). The premium applicable to each Preference Share will be determined by the Board of Directors of HSBC or a duly constituted committee thereof at or before the issue of the Preference Shares. The Preference Shares will be issued credited as fully paid.

### Dividends

- (a) Subject to sub-paragraphs (e) and (f) below, each Preference Share will entitle the holder thereof to receive a non-cumulative preferential dividend on the Principal Amount thereon calculated on the bases set out in sub-paragraphs (b) and (c) below. The dividend will be payable annually in arrear on 24 March in each year up to and including the relevant Dividend Re-set Date and thereafter quarterly in arrear on 24 March, 24 June, 24 September and 24 December in each year (each a "Dividend Payment Date") when, as and if declared by the Board of Directors, provided that the first dividend will be paid on a *pro rata* basis in respect of the period from, and including, the date of the Distribution Date (as defined in the Partnership Agreement) immediately preceding the date on which the Preference Shares are substituted for the Preferred Securities (the "Substitution Date") to, but excluding, the first such Dividend Payment Date after issue. If any Dividend Payment Date after the Dividend Re-set Date (as defined below) would otherwise fall on a day which is not a Business Day payment of the Dividend otherwise payable on such date will be postponed to the next day which is a Business Day.

"Dividend Re-set Date" means 24 March 2014.

Such dividends will only be payable to the extent that payment of the same can be made out of profits available for distribution (the "Distributable Profits") under the provisions of the United Kingdom Companies Act as at each Dividend Payment Date.

The Preference Shares will rank as regards participation in profits *pari passu inter se* and *pari passu* with any other shares to the extent that they are expressed to rank *pari passu* therewith and in priority to HSBC's ordinary shares and to any other class of shares of HSBC issued after the date of issue of the Preference Shares.

For the purposes of this Description of the Preference Shares, "Dividend Period" means the period from the date of the Distribution Date immediately preceding the Substitution Date to the first Dividend Payment Date and each successive period from, and including, a Dividend Payment Date to, but excluding, the next succeeding Dividend Payment Date and "Business Day" means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System (the "TARGET System") is open.

- (b) Each Preference Share in issue prior to the Dividend Re-set Date will entitle the holder thereof to receive on each Dividend Payment Date falling on or prior to the Dividend Re-set Date dividends payable in euro at a fixed rate per annum of 5.3687% in respect of the Preference Shares of the Principal Amount thereof calculated on the basis of the actual number of days in the relevant period divided by 365 (or, if any portion of the relevant period falls in a leap year, the sum of (a) the actual number of days in that portion of the relevant period falling in a leap year divided by 366 and (b) the actual

number of days in that portion of the relevant period falling in a non-leap year divided by 365).

- (c) Each Preference Share in issue on or after the Dividend Re-set Date will entitle the holder thereof to receive dividends payable in euro at the rate equal to the Reference Rate in effect during the relevant Dividend Period plus the Margin, applied to the Principal Amount thereof calculated on the basis of the actual number of days in the relevant period divided by 360.

The Reference Rate from time to time in respect of each Preference Shares will be determined in the manner and on the same basis as the Distribution Rate applicable to the Preferred Securities for such period provided, however, that all calculations relating to the Reference Rate will be made by HSBC.

- (d) Any decision regarding the declaration or payment of any dividend on the Preference Shares will be at the sole discretion of the Directors and nothing herein contained will impose on the Directors any requirement or duty to resolve to distribute in respect of any financial year or period the whole or any part of the profits of HSBC available for distribution.
- (e) Without prejudice to paragraph (d) above, if, in the opinion of the Directors, the distributable profits of HSBC are insufficient to cover both the payment in full of dividends payable on the Preference Shares on any Dividend Payment Date and on all other dividends stated to be payable on such date on any other shares expressed to rank *pari passu* with the Preference Shares as regards participation in profits, then, subject to paragraph (f) below, dividends may be declared by the Directors pro rata on such Preference Shares and on such other shares to the extent of the available distributable profits (if any) to the extent that the amount of dividend declared per share on each such Preference Share and on each such other share will bear to each other the same ratio as the dividends payable on each such Preference Share and on each such other share bear to each other.
- (f) If, in the opinion of the Directors, the declaration or payment of any dividend on any Preference Shares would breach or cause a breach of the FSA's capital adequacy requirements from time to time applicable to HSBC and/or any of its subsidiary undertakings, then no such dividend will be declared or paid.
- (g) Payments of preferential dividends shall be made to holders on the register at any date selected by the directors up to 42 days prior to the relevant Dividend Payment Date. The Preference Shares will carry no further right as regards participation in the profits of HSBC.
- (h) If for any single Dividend Period ending on or before the Dividend Re-set Date, or for any four consecutive Dividend Periods thereafter the dividend is not paid in full HSBC will not (a) declare or pay any dividends or other distributions in respect of its ordinary stock or any other security of HSBC ranking junior to the Preference Shares or (if permitted) effect any repurchase or redemption of its ordinary stock or any other preference shares of HSBC ranking junior to the Preference Shares (or contribute any moneys to a sinking fund for the redemption of such stock or preference shares) until after the next following Dividend Payment Date on which a dividend in respect of the Preference Shares is paid in full (or an amount equivalent to the dividend to be paid in respect of the next Dividend Payment Period has been paid or set aside for payment to the holders of the Preference Shares) or (b) (if permitted) repurchase or redeem any other preference shares which rank *pari passu* with the Preference Shares until after the next following Dividend Payment Date on which a dividend in respect of the Preference Shares is paid in full (or an amount equivalent to the dividend to be paid in respect of the next Dividend Period has been paid or set aside for payment to the holders).
- (i) Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend will be forfeited and revert to HSBC. No dividends or other moneys payable on or in respect of a Preference Share shall bear interest against HSBC.

## Return of Capital

- (a) On a return of capital in a winding up (but not on a redemption, reduction of capital or purchase of any shares by HSBC) the Preference Shares will rank, *pari passu inter se* and *pari passu* with any other shares of HSBC that are expressed to rank *pari passu* therewith as regards participation in the capital, and otherwise in priority to its ordinary shares and any other class of shares of HSBC ranking junior to the Preference Shares. On such a return of capital, each Preference Share will be entitled to receive in euro an amount equal to the Principal Amount together with, subject to the restrictions in paragraphs (e) and (f) under “Dividends” above, the amount of (i) any unpaid dividend for any Dividend Period ending on or before the date of commencement of the winding up or other return of capital (the “relevant date”) and (ii) a pro rated dividend (calculated on the basis mentioned in (c) under “Dividends” above) in respect of the period, if any, from and including the last Dividend Payment Date prior to the relevant date down to but excluding the relevant date.
- (b) If, upon any such return of capital, the amounts available for payment are insufficient to cover the amounts payable in full on the Preference Shares and on any other shares expressed to rank *pari passu* therewith as regards participation in assets, then the holders of the Preference Shares and such other shares will share rateably and proportionately in such return of capital.
- (c) No Preference Share will confer any further right to participate on a return of capital of HSBC.

## Redemption

- (a) Subject to paragraph (f) below, HSBC may, at its option, redeem all, but not merely some, of the Preference Shares for the time being issued and outstanding on the Dividend Re-set Date, and, on each Dividend Payment Date thereafter (each a “Redemption Date”) provided that if either of the restrictions mentioned in paragraphs (e) and (f) under “Dividends” above applies to the dividend on the selected Redemption Date, HSBC may not redeem any of the Preference Shares on that Redemption Date.
- (b) Any redemption of the Preference Shares will be for cash.
- (c) If Preference Shares are to be redeemed, a notice of redemption (a “Redemption Notice”) will be mailed to each holder of Preference Shares to be redeemed, not less than 30 Business Days nor more than 60 Business Days prior to the relevant Redemption Date. Each Redemption Notice will specify, *inter alia*, (i) the Redemption Date, (ii) the particular Preference Shares to be redeemed on the Redemption Date, (iii) the Redemption Price and (iv) the place or places where holders may surrender share certificates (if applicable) in respect of such Preference Shares and obtain payment of the Redemption Price. No defect in the Redemption Notice or in its mailing will affect the validity of the redemption proceedings.

The cash amount payable on Redemption (the “Redemption Price”) will equal the Principal Amount of such Preference Share. Any such Redemption will not prejudice the rights of the holder of any Preference Share to be so redeemed to receive any accrued but unpaid dividend on that Preference Share payable on the Redemption Date.

- (d) Payments in respect of the amount due on redemption of a Preference Share will be made by cheque or upon the written request of the holder or all joint holders not later than the date specified for the purpose in the Redemption Notice by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System or such other method as the directors may specify in the Redemption Notice. Payment will be made against presentation and surrender of the relative share certificate (if any) at the place or one of the places specified in the Redemption Notice.
- (e) A receipt given by the holder for the time being of any Preference Share (or in the case of joint holders by the first-named joint holder) in respect of the amount payable on redemption of such Preference Share will constitute an absolute discharge to HSBC.

- (f) Any redemption of the Preference Shares will be made in compliance with the provisions of the United Kingdom Companies Act, the Uncertificated Securities Regulations and every other statute for the time being in force concerning bodies corporate and affecting HSBC (the "Statutes") and the Articles. No redemption of any Preference Shares may be made by HSBC without the prior consent of the FSA (for so long as HSBC is required to obtain such consent) and subject to such conditions as the FSA may impose at the time of any consent.

### **Voting**

Except as provided below, holders of Preference Shares will not be entitled to attend and vote at general meetings of HSBC. Holders will be entitled to attend and vote at a class meeting of holders of Preference Shares. Every holder of Preference Shares who is present in person at a class meeting of holders of Preference Shares will have one vote on a show of hands and on a poll every holder of Preference Shares who is present in person or by proxy will have one vote for every Preference Share of which he is the holder.

If prior to any general meeting of shareholders of HSBC, dividends in respect of any single Dividend Period prior to the Dividend Re-Set Date or for four consecutive Dividend Periods thereafter have not been paid in full, then the holders of the Preference Shares shall have the right to receive notice of, attend, speak and vote at such general meeting on all matters and such right shall continue until after the next following Dividend Payment Date on which a dividend in respect of the Preference Shares is paid in full (or an amount equivalent to the dividend to be paid in respect of the next Dividend Payment Period has been paid or set aside for payment to the holders of the Preference Shares).

### **Purchases**

HSBC may at any time and from time to time exercise any powers conferred by the Statutes in purchasing the Preference Shares. No repurchase of any Preference Shares will be made without the prior consent of the FSA (for so long as HSBC is required to obtain such consent).

### **Variations of Rights and Further Issues**

Subject to the provisions of the Statutes, the special rights attached to any class of shares may be varied or abrogated with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of shares of that class. At any such separate meeting, the provisions of the Articles relating to general meetings will apply, but the necessary quorum at any such meeting will be two persons at least holding or representing by proxy at least one-third in nominal value of the issued shares of that class (but so that at any adjourned meeting any holders of shares of the class present in person or by proxy shall be a quorum) and any such person may demand a poll.

The special rights or privileges attached to the Preference Shares will not be deemed to be varied, modified or abrogated by the creation or issue of further shares ranking *pari passu* therewith, or by the purchase or redemption by HSBC of its own shares.

### **Transfer of Shares**

An instrument of transfer of a share which is in certificated form must be in writing in any usual form or other form approved by the directors of HSBC and must be executed by or on behalf of the transferor and (except in the case of fully-paid shares) by or on behalf of the transferee. The transferor will remain the holder of the shares transferred until the name of the transferee is entered in the register of members of HSBC in respect thereof.

The directors of HSBC may in the case of shares in certificated form, in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of a share (not being a fully paid share) provided that, where any such shares are traded on the London Stock Exchange, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis, and any transfer of a share on which HSBC has a lien. The directors of HSBC may also decline to register a transfer unless (i) the instrument of transfer is duly stamped (if so required), (ii) the transfer is in

respect of only one class of shares and (iii) the transfer is in favour of not more than four persons as the transferee.

HSBC shares are in registered form. The registration of share transfers may be suspended at such times and for such periods as the directors may determine not exceeding 30 days in any year.

#### **Notices or Other Documents**

- (a) Any notice or other document may be served by HSBC upon any holder of the Preference Shares, *inter alia*, personally, by sending it through the post in a prepaid envelope to such holder at its registered address, by leaving it at that address in accordance with Articles or by advertisement in one leading daily newspaper published in the United Kingdom and one leading English language daily newspaper and one leading Chinese language daily newspaper printed and circulated in Hong Kong. Holders who (having no registered address within the United Kingdom or Hong Kong) have not supplied to HSBC an address within the United Kingdom or Hong Kong for the service of notices shall not be entitled to receive notices from HSBC.
- (b) Holders of the Preference Shares with a registered address or address for correspondence within the United Kingdom will have the right to have sent to them (at the same time as the same are sent to the holders of Ordinary Shares) all notices of general meetings of HSBC and a copy of every circular or other like document sent out by HSBC to the holders of Ordinary Shares.

## **TAXATION**

### **General**

Prospective investors should inform themselves as to the tax consequences within the countries of their residence and domicile of the acquisition, holding or disposal of Preferred Securities. The comments below are of a general nature based on law and published practice as at the date hereof in each jurisdiction referred to and do not constitute tax or legal advice and should be treated with appropriate caution. They relate only to the position of persons who are the absolute beneficial owners of their Preferred Securities and hold their Preferred Securities as an investment (unless otherwise specified). Any investors who are in doubt as to their personal tax position should consult their professional advisers. In assessing their tax position, investors should note that the Issuer is a Jersey limited partnership and not a legal entity separate from its partners.

### **Jersey Taxation**

Investors in Preferred Securities (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, exchange, sale or other disposal of the Preferred Securities. Distribution payments may be made by the Issuer without withholding or deduction for, or on account of, and without, any payment of Jersey income tax.

No stamp duties are payable in Jersey on the acquisition, ownership, exchange, sale or other disposal of Preferred Securities. Probate or letters of administration may be required to be obtained in Jersey on the death of a holder of a Preferred Security with an estate in Jersey, including Preferred Securities. Stamp duty is payable in Jersey on the registration of such probate or such letters of administration on the value of the deceased's estate in Jersey.

As a limited partnership, the Issuer is not itself a subject for assessment to Jersey income tax since it is not a legal entity separate from its partners.

On 3 June 2003, the European Union ("EU") Council of Economic and Finance Ministers adopted a directive on the taxation of savings income in the form of interest payments (Council Directive 2003/48/EC) (the "EU Savings Tax Directive"). It is proposed that, subject to a number of important conditions being met, each EU Member State will, from 1 January 2005, be required to provide to the tax authorities of another EU Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other EU Member State; however, Austria, Belgium and Luxembourg will instead apply a withholding tax system for a transitional period in relation to such payments.

Jersey is not a member of the European Union and therefore is not required to implement the EU Savings Tax Directive. However, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, Jersey, in line with steps proposed by other relevant third countries, proposes to introduce a withholding tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent situate in Jersey (the terms "beneficial owner" and "paying agent" for this purpose are as defined in the EU Savings Tax Directive). The withholding tax system would apply for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The States of Jersey has not yet adopted measures to implement these proposals but is expected to adopt such measures on the same timetable as EU Member States and other relevant third countries.

### **United Kingdom Taxation**

In this section, the term "UK Investors" means persons who are resident (or in the case of individuals, ordinarily resident) in the United Kingdom for taxation purposes.

(a) Position of UK Investors

*Classification of the Issuer*

HSBC has been advised that the Issuer should be classified as a partnership for UK tax purposes. Accordingly, UK Investors in Preferred Securities should be subject to UK tax in respect of their investment in the Preferred Securities. UK Investors should be taxed on the basis that they are partners in the Issuer, and that the limited partnership interests are held on their behalf by the common depositary for Euroclear and Clearstream, Luxembourg as bare trustee. This treatment should, broadly, result in UK Investors being taxed as if they hold their proportionate share of the Issuer's assets. It is possible, however, that the Inland Revenue may seek to treat UK Investors in the Issuer as holding interests in a "unit trust scheme" and/or apply the "offshore fund" rules. This may have disadvantages for certain UK Investors. UK Investors who are in any doubt as to their tax position in respect of the Preferred Securities (or on exchange of Preferred Securities for Substitute Preference Shares) are strongly recommended to take independent professional advice.

(b) UK Withholding Tax on Distributions on the Preferred Securities

Payments of Distributions on the Preferred Securities may be made without withholding or deduction for or on account of UK tax.

(c) UK Withholding Tax on Interest on the Subordinated Note

The Subordinated Note issued by HSBC will constitute a "quoted Eurobond" provided it is and continues to be listed on a recognised stock exchange. The London Stock Exchange is a recognised stock exchange for these purposes. Accordingly, while the Subordinated Note is and continues to be a quoted Eurobond payments of interest on the Subordinated Note may be made without withholding or deduction for or on account of United Kingdom income tax.

(d) Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

Although a liability to UK stamp duty would arise on an agreement to transfer, or a transfer of, Preferred Securities which is executed in the United Kingdom or which relates, wherever executed, to any property situate in, or to any matter or thing done or to be done in, the United Kingdom, it is not likely that any such duty will need to be paid in practice.

No liability to SDRT will arise in respect of agreements to transfer the Preferred Securities provided that the General Partner or any person acting in the capacity of trustee of property held subject to the Partnership Agreement is not resident in the UK and the Preferred Securities are not registered in a register kept within the UK.

No liability to UK stamp duty or SDRT will arise on issue of the Substitute Preference Shares unless they are issued either:

- (i) to a clearing system (or to a nominee for a clearing system) and the clearing system has not made an election under section 97A of the Finance Act 1986; or
- (ii) to a depositary (or to a nominee or agent for a depositary) who has issued or is to issue depositary receipts for the Substitute Preference Shares.

In either case, on issue of the Substitute Preference Shares, there will be an SDRT entry charge at the rate of 1.5% of the value of the Substitute Preference Shares.

If the Substitute Preference Shares are issued to a clearing system (or to its nominee) which has not made an election under section 97A of the Finance Act 1986, there will be no SDRT on any subsequent agreement to transfer the Substitute Preference Shares and no stamp duty on any subsequent transfer of the Substitute Preference Shares so long as they are held in the clearing system and provided that any instrument of transfer or written agreement to transfer the Substitute Preference Shares is executed outside the UK and remains at all times outside the UK.

If the Substitute Preference Shares are issued to a clearing system which has made an election under section 97A of the Finance Act 1986, there will be no stamp duty or SDRT entry charge on the issue to the clearing system, but there will be a SDRT charge at the rate of 0.5% of the amount or value of the consideration on any subsequent agreement to transfer the Substitute Preference Shares so long as they are held in the clearing system. If the Substitute Preference Shares are held by a clearing system which has made a section 97A election and that election is subsequently terminated (whether at the instigation of the clearing system or the Inland Revenue or otherwise) an SDRT charge of 1.5% will arise as if, immediately after such termination, the Substitute Preference Shares had been transferred to a clearing system that had not made a section 97A election.

If the Substitute Preference Shares are issued to a depositary (or to its nominee or agent), there will be no SDRT on any subsequent agreement to transfer the depositary receipts representing interests in the Substitute Preference Shares and no stamp duty on any subsequent transfer of the depositary receipts provided that any instrument of transfer or written agreement to transfer the depositary receipts is executed outside the UK and remains at all times outside the UK.



## SUBSCRIPTION AND SALE

Under a Subscription Agreement (the "Subscription Agreement") dated 17 October 2003 HSBC Bank plc, Bayerische Hypo- und Vereinsbank AG, Caboto SIM S.p.A., Crédit Agricole Indosuez, KBC Bank NV and Natexis Banques Populaires (the "Managers") have agreed to subscribe for the Preferred Securities at a price of €1,000 per Preferred Security. The Managers will receive a combined selling, management and underwriting commission of €10 per Preferred Security and will be indemnified against certain liabilities by HSBC. The Managers are entitled to terminate the Subscription Agreement in certain circumstances before the issue of the Preferred Securities. The offering price and other selling terms may be changed at any time without notice.

### United States of America

The Preferred Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Preferred Securities, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Preferred Securities, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Preferred Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Preferred Securities within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Preferred Securities within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has further represented, warranted and agreed that:

- (a) *No offer to public:* It has not offered or sold and will not offer or sell any Preferred Securities to persons in the United Kingdom prior to the expiry of a period of six months from the issue date of such Preferred Securities except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (b) *Financial Promotion:* It has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or HSBC; and
- (c) *General compliance:* It has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Preferred Securities in, from or otherwise involving the United Kingdom.

### Singapore

Each Manager has represented, warranted and agreed that it has not offered or sold, nor has any document or other material in connection with the Preferred Securities been issued, circulated or distributed, either directly or indirectly, to persons in Singapore other than (i) under circumstances in which such offer or sale does not constitute an offer or sale of the Preferred Securities to the public in Singapore or (ii) to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent.

## **The Netherlands**

Each Manager has represented, warranted and agreed that, in order to comply with The Netherlands Securities Market Supervision Act 1995 (*Wet toezicht effectenverkeer 1995*), it will only directly or indirectly offer, sell or transfer Preferred Securities in The Netherlands to individuals or legal entities situated in The Netherlands who or which trade in securities in the conduct of a business or profession (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, collective investment institutions, central governments, large international and supranational organisations, other institutional investors and other parties, including treasury departments of commercial enterprises, which as an ancillary activity regularly invest in securities).

## **France**

Each Manager has represented, warranted and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, the Preferred Securities to the public in France and that offers and sales of the Preferred Securities in France will be made only to qualified investors (*investisseurs qualifiés*) as defined in Article L.411-2 of the French Code *monétaire et financier* and decree no. 98-880 dated 1 October 1998.

In addition, each Manager has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France this Offering Circular or any other offering material relating to the Preferred Securities other than to investors to whom offers and sales of the Preferred Securities in France may be made as described above.

## **Germany**

Each Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the “Act”) of the Federal Republic of Germany has been or will be published with respect to the Preferred Securities and that it will comply with the Act. In particular, each of the Managers has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Act with respect to any Preferred Securities otherwise than in accordance with the Act and all other applicable legal and regulatory requirements.

## **Italy**

The offering of the Preferred Securities has not been registered pursuant to the Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Preferred Securities in the Republic of Italy in a solicitation to the public, and that sales of the Preferred Securities in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations. In any case, the Preferred Securities cannot be offered or sold to any individuals in the Republic of Italy either in the primary market or the secondary market.

Each of the Managers has represented and agreed that it will not offer, sell or deliver any Preferred Securities or distribute copies of this Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy except:

- (1) to “Professional Investors”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 2 July 1998 as amended (“Regulation No. 11522”), pursuant to Article 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998 as amended (“Decree No. 58”), or in any other circumstances where an expressed exemption to comply with the solicitation restrictions provided by Decree No. 58 or Regulation No. 11971 of 14 May 1999 as amended applies, provided, however, that any such offer, sale or delivery of the Preferred Securities or distribution of copies of the Offering Circular or any other document relating to the Preferred Securities in the Republic of Italy must be:
  - (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended (“Decree No. 385”), Decree No. 58, CONSOB Regulation No. 11522 and any other applicable laws and regulations;

- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy, pursuant to which the issue, trading or placement of securities in Italy is subject to a prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the aggregate amount and the characteristics of the Preferred Securities issued or offered in the Republic of Italy, applies; and
  - (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy; or
- (2) if Italian residents submit unsolicited offers to any of the Managers to purchase the Preferred Securities.

### **Spain**

Each Manager has represented, warranted and agreed that the Preferred Securities will not be offered or sold in Spain except in accordance with the requirements of the Spanish Securities Market Law (*Ley 24/1988 de 28 de julio, del mercado de valores*, as amended and restated) and Royal Decree 291/1992, of 27 March, on Issues and Public Offerings of Securities (*Real Decreto 291/1992, de 27 de marzo, sobre emisiones y ofertas públicas de venta de valores*, as amended and restated, the "R.D. 291/92"). No prospectus has been or will be verified or registered in the administrative registers of the Spanish *Comisión Nacional del Mercado de Valores*, and therefore the Preferred Securities will not be promoted, sold or otherwise distributed in Spain save in circumstances which do not constitute a "public offer" of securities within the meaning of the Spanish securities laws.

### **General**

No action has been or will be taken in any jurisdiction by the Issuer, the General Partner, HSBC or any Manager that would, or is intended to, permit a public offering of the Preferred Securities, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, HSBC and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Preferred Securities or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Preferred Securities, in all cases at their own expense.

## GENERAL INFORMATION

- (1) Application has been made to list the Preferred Securities on the Luxembourg Stock Exchange. In connection therewith, a legal notice relating to the issue of the Preferred Securities and the Partnership Agreement will be filed with the Register of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*), where the document may be examined and copies thereof may be obtained. The quotation on the Luxembourg Stock Exchange of the Preferred Securities will be expressed in euro as a percentage of the nominal amount per Preferred Security. For listing purposes, the Preferred Securities will be considered as debt securities. At the date hereof it is not intended to list the Preferred Securities on any other stock exchange.
- (2) The General Partner has obtained all necessary consents, approvals and authorisations in the United Kingdom and Jersey in connection with the issue of the Preferred Securities. The creation of the Preferred Securities was authorised by a resolution of the board of directors of the General Partner (acting in its capacity as general partner of, and on behalf of, the Issuer) on 16 October 2003. The issue of the Guarantee was authorised by resolutions of the Board of Directors of HSBC passed on 26 September 2003.
- (3) There has been no significant change in the financial or trading position of HSBC Capital Funding (Euro 2) L.P. and no material adverse change in the financial position or prospects of HSBC Capital Funding (Euro 2) L.P. since its establishment.
- (4) HSBC Capital Funding (Euro 2) L.P. is not, nor has been, involved in any legal or arbitration proceedings that may have, or have had since its establishment, a significant effect on the financial position of HSBC Capital Funding (Euro 2) L.P. nor is the General Partner aware that any such proceedings are pending or threatened.
- (5) Save as disclosed in this document, there has been no significant change in the financial or trading position of HSBC or the HSBC Group since 30 June 2003 and no material adverse change in the financial position or prospects of HSBC or the HSBC Group since 30 June 2003.
- (6) The Preferred Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The following security codes have been assigned:  

ISIN:	XS0178404793
Common Code:	017840479
- (7) Copies of the following documents will be available for inspection at (and, in the case of 7(c), 7(d) and 7(g) for collection (free of charge) from) the offices of the listing Agent, Kredietbank S.A. Luxembourgeoise, and at the registered offices of HSBC, the Issuer and of the Paying Agents whose addresses are shown elsewhere in this Offering Circular during normal business hours for so long as the Preferred Securities are outstanding:
  - (a) the Partnership Agreement (which includes the form of the Global Certificate);
  - (b) the memorandum and articles of association of HSBC;
  - (c) the audited financial statements of HSBC for the years ended 31 December 2000, 31 December 2001 and 31 December 2002 and the documents referred to under "Available Information";
  - (d) the consents and authorisations referred to in paragraph 2 above;
  - (e) the Guarantee;
  - (f) the Subscription Agreement; and
  - (g) a copy of this Offering Circular together with any supplemental offering circular.

For so long as the Preferred Securities are listed on the Luxembourg Stock Exchange, the most recently published audited annual financial statements and consolidated unaudited semi-annual financial statements of HSBC, and the most recently published

audited annual accounts of the Issuer, will also be available at the offices of Kredietbank S.A. Luxembourgeoise in Luxembourg. HSBC does not publish non-consolidated interim financial statements. The first annual accounts of the Issuer are expected to be prepared for the period commencing on 17 October 2003 and ending on 31 December 2003. The Issuer will not publish semi-annual interim accounts.

- (8) The financial information relating to the HSBC Group contained in this Offering Circular does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. KPMG Audit Plc, Chartered Accountants and Registered Auditor of 1 Canada Square, London E14 5AG, have been auditors to HSBC for the financial years ended 31 December 2000, 2001 and 2002. The auditors have issued unqualified reports in respect of HSBC's financial statements for the financial years ended 31 December 2000, 2001 and 2002, without any statements under Section 237(2) or (3) of the UK Companies Act 1985 and statutory accounts for the financial years ended 31 December 2000, 2001 and 2002 have been delivered to the Registrar of Companies.
- (9) No redemption of the Preferred Securities (optional or otherwise) and no purchase and cancellation of the Preferred Securities will be made by the Issuer, the General Partner or HSBC without such prior consent of the FSA as may for the time being be required. These requirements and restrictions do not affect the ability of HSBC's subsidiaries to engage in market-making activities in relation to the Preferred Securities.

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## ANNEX A

4 August 2003

### HSBC HOLDINGS PLC 2003 INTERIM RESULTS – HIGHLIGHTS

- Operating income up 41 per cent to US\$18,507 million (US\$13,103 million in the first half of 2002).

#### **On a cash basis (excluding goodwill amortisation):**

- Operating profit before provisions up 51 per cent to US\$9,017 million (US\$5,957 million in the first half of 2002).
- Pre-tax profit up 26 per cent to US\$6,879 million (US\$5,458 million in the first half of 2002).
- Attributable profit up 32 per cent to US\$4,873 million (US\$3,681 million in the first half of 2002).
- Return on average invested capital of 14.0 per cent (13.8 per cent in the first half of 2002).
- Cash earnings per share up 20 per cent to US\$0.48 (US\$0.40 in the first half of 2002).

#### **On a reported basis (after goodwill amortisation):**

- Operating profit before provisions up 51 per cent to US\$8,385 million (US\$5,561 million in the first half of 2002).
- Pre-tax profit up 21 per cent to US\$6,112 million (US\$5,057 million in the first half of 2002).
- Attributable profit up 25 per cent to US\$4,106 million (US\$3,280 million in the first half of 2002).
- Return on average shareholders' funds of 13.3 per cent (13.7 per cent in the first half of 2002).
- Basic earnings per share up 17 per cent to US\$0.41 (US\$0.35 in the first half of 2002).

#### **Dividend and capital positions:**

- First interim dividend of US\$0.24 per share; an increase of 17 per cent over the 2002 first interim dividend.
- Tier 1 capital ratio of 8.5 per cent; total capital ratio of 11.7 per cent.

## **HSBC HOLDINGS REPORTS PRE-TAX PROFIT OF US\$6,112 MILLION**

HSBC made a profit on ordinary activities before tax of US\$6,112 million, up US\$1,055 million, or 21 per cent, over the same period in 2002. On the same basis, profit attributable to shareholders was US\$4,106 million, an increase of 25 per cent. On a cash basis, profit before tax increased by US\$1,421 million, or 26 per cent, to US\$6,879 million in the first half of 2003. Household and GFBital contributed US\$651 million and US\$272 million respectively to cash basis profit before tax. Excluding these acquisitions, and at constant currency, cash basis profit before tax increased by US\$255 million, or 4.5 per cent.

Net interest income of US\$11,221 million was US\$3,628 million, or 48 per cent, higher than the same period in 2002, mainly due to the contributions from Household and GFBital.

Other operating income rose US\$1,776 million, or 32 per cent, to US\$7,286 million over the same period in 2002. In addition to the contributions from recent acquisitions, the increase primarily reflected strong growth in wealth management sales in Asia as well as a strong performance within HSBC Global Markets.

Operating expenses (excluding goodwill amortisation) of US\$9,490 million were US\$2,344 million, or 33 per cent, higher than in the first half of 2002. Excluding acquisitions and expressed in constant currency, operating expenses were just over 2 per cent higher.

HSBC's cost:income ratio (excluding goodwill amortisation) was 51.3 per cent in the first half of 2003 compared with 54.5 per cent for the same period in 2002.

Since becoming a member of the HSBC Group, Household has expensed US\$1,539 million in respect of bad and doubtful debts. This accounted for substantially all of the increase of US\$1,659 million in the charge for bad and doubtful debts, which rose to US\$2,374 million compared with US\$715 million in the first half of 2002.

The US\$124 million share of operating losses in joint ventures reflected a provision for the impairment of goodwill allocated to a UK fund management company acquired in 2000 as part of the CCF acquisition.

Gains on disposal of investments of US\$264 million included disposal gains of US\$121 million on the sale of investment debt securities.

The tier 1 capital and total capital ratio for the Group remained strong at 8.5 per cent and 11.7 per cent respectively, at 30 June 2003.

The Group's total assets at 30 June 2003 were US\$983 billion, an increase of US\$224 billion, or 30 per cent, since 31 December 2002.



<i>Figures in US\$m</i>	<i>Half-year to 30 June 2003</i>		<i>Half-year to 30 June 2002</i>		<i>Half-year to 31 December 2002</i>	
<b>Geographical distribution of results</b>						
		<b>%</b>		<b>%</b>		<b>%</b>
Europe	<b>2,380</b>	<b>34.7</b>	2,179	40.0	1,981	39.2
Hong Kong	<b>1,843</b>	<b>26.8</b>	1,900	34.8	1,810	35.8
Rest of Asia-Pacific	<b>753</b>	<b>10.9</b>	670	12.3	623	12.3
North America	<b>1,833</b>	<b>26.6</b>	624	11.3	760	15.0
South America <sup>‡</sup>	<b>70</b>	<b>1.0</b>	85	1.6	(119)	(2.3)
Profit before tax – cash basis	<b>6,879</b>	<b>100.0</b>	5,458	100.0	5,055	100.0
Goodwill amortisation	<b>(767)</b>		(401)		(462)	
Profit before tax	<b>6,112</b>		5,057		4,593	
Tax on profit on ordinary activities	<b>(1,554)</b>		(1,315)		(1,219)	
Profit on ordinary activities after tax	<b>4,558</b>		3,742		3,374	
Minority interests	<b>(452)</b>		(462)		(415)	
Profit attributable	<b>4,106</b>		3,280		2,959	
Profit attributable – cash basis	<b>4,873</b>		3,681		3,421	

**Distribution of results by line of business <sup>††</sup>**

		<b>%</b>		<b>%</b>		<b>%</b>
Personal Financial Services	<b>2,082</b>	<b>30.3</b>	1,757	32.2	1,634	32.3
Consumer Finance	<b>649</b>	<b>9.4</b>	-	-	-	-
Commercial Banking	<b>1,647</b>	<b>23.9</b>	1,484	27.2	1,530	30.3
Corporate, Investment Banking and Markets	<b>2,237</b>	<b>32.5</b>	2,069	37.9	1,827	36.1
Private Banking	<b>268</b>	<b>3.9</b>	249	4.6	164	3.3
Other	<b>(4)</b>	<b>-</b>	(101)	(1.9)	(100)	(2.0)
Profit before tax – cash basis	<b>6,879</b>	<b>100.0</b>	5,458	100.0	5,055	100.0
Goodwill amortisation	<b>(767)</b>		(401)		(462)	
Profit before tax	<b>6,112</b>		5,057		4,593	

<sup>†</sup> Formerly described as Latin America, which included Group entities in Panama and Mexico which are now included in North America. Figures for the first half of 2002 have been restated to reflect this change.

<sup>††</sup> The figures for 2002 have been restated to reflect the effect of the transfer of interest rate risk from the business units to CIBM following the implementation of a revised funds transfer pricing mechanism in North America.

### **Comment by Sir John Bond, Group Chairman**

HSBC's performance in the first half of 2003 demonstrated remarkable resilience given that the majority of our business is conducted in countries either in recession or experiencing slower growth. On a reported basis, we generated a profit attributable to shareholders of US\$4.1 billion, some US\$826 million and 25 per cent higher than the first half of 2002. Earnings per share rose by US 6 cents, an increase of 17 per cent. The Board has declared a first interim dividend of US 24 cents, an increase of 17 per cent over the amount paid at this stage in 2002. This dividend will be paid on 7 October 2003. The Board has also announced its intention to pay a second interim dividend of US 12 cents, the first of the quarterly dividends HSBC will in future be paying. It is planned for this second interim dividend to be paid on 20 January 2004.

The results for the first half were achieved against a background of uneven economic activity in most of the world's major economies. There was uncertainty about the pace and timing of the recovery in the US. The war in Iraq further dampened business confidence. The outbreak of SARS affected certain industries, particularly in Asia.

A key feature of our performance was the positive contribution from the new members of HSBC, Household International in the US and GFBital in Mexico. Driven in part by their contributions, as well as by impressive results from our Global Markets business, revenues rose by US\$5.4 billion in the period. Operating profit before provisions and the amortisation of goodwill rose by over US\$3.1 billion. Excluding the effect of these acquisitions and at constant exchange rates, we grew revenues by US\$0.5 billion, or 4 per cent, against cost growth of US\$0.24 billion, or 3 per cent.

The improving balance of our earnings and asset mix, both by geographical region and by line of business, reflects the impact of the acquisitions we have made. 28 per cent of our assets are now located in Asia Pacific, 42 per cent in Europe and 30 per cent in the Americas. Our investment in systems, in new products, and in a relentless focus on serving almost 100 million customers around the world is yielding results. We were delighted to be included, for the first time and amongst the top 50, in a ranking of the world's 100 most valuable brands prepared by Interbrand. We made further progress in all lines of business.

### **Personal Financial Services**

- The first half of 2003 was marked by low and declining interest rates. These encouraged further growth in consumer credit and prompted unprecedented levels of mortgage refinancing in the UK and US. HSBC gained both market share and significantly increased fee income. In the UK, our mortgage products remained highly rated, receiving the 'Best National Bank' award over two, five, and 10 years from *What Mortgage* magazine. Drawing on our multicultural experience, we have recently become the first UK bank to launch an Islamic mortgage in the UK. This followed the successful launch of a similar product in New York last year.
- First Direct's Offset product accounted for more than 25 per cent of HSBC's mortgage growth in the UK.

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

- Volatile equity markets discouraged retail investors but structured investment products remained popular, particularly in Asia. Sales of ‘capital protected’ investment funds in the region grew to US\$3.5 billion in the period, an increase of 25 per cent. As many investors continued to prefer liquidity and security over uncertain growth opportunities, deposits grew by the equivalent of US\$3.5 billion or 3 per cent.
- We have made significant investments in giving customers a choice of delivery channels, and in customer relationship management systems for the staff who serve them. Such investments are bringing results. In the three years since we launched personal internet banking, we have achieved 10.9 million registered users, including 5.8 million added through the Household acquisition.
- While the acquisition of Household approximately doubled our personal internet banking base, the number of personal customers in our other businesses registered for internet banking also rose, by 15 per cent in the first half of 2003. Sales through the internet also grew, with over 800,000 products sold in the first half of 2003. At First Direct in the UK, 23 per cent of product sales in May 2003 took place over the internet, up from 6 per cent two years ago.

**Consumer Finance**

- Household’s contribution in its first three months as a member of the HSBC Group was encouraging and in line with our expectations. This was despite the impact of low growth in the US economy which affected asset growth and credit quality.
- Household is committed to taking a leadership role in the consumer finance industry by establishing a benchmark for quality. As a result, Household will significantly increase its investment in compliance, monitoring and training to approximately US\$150 million during 2003, which is more than double the amount invested in 2002.
- Most important, stability returned to Household’s funding base with its debt spreads falling below historical levels, reflecting its position within the HSBC Group. New benchmark issuance during the period demonstrated the increased breadth and depth of funding support available.

**Commercial Banking**

- Providing services to small and medium-sized enterprises around the world is a core strength of HSBC. Our business continues to grow, reflecting our success in broadening relationships with customers and our concentration on establishing service quality as our competitive advantage.
- Overall, profitability in commercial banking grew. This reflected HSBC’s leadership in attracting business start-ups, in developing fee-based services attractive to customers, and in increasing the volume of deposits gathered. Credit costs remained low. In the UK, changes resulting from the Competition Commission review cost US\$52 million in the first half, in line with our expectations.

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

- Also in the UK, HSBC was voted 'Best Small Business Bank' by CIMA (the Chartered Institute of Management Accountants), received *Business Moneyfacts*' 2003 award for 'Best Computer Banking Provider', and was 'Best Factoring House' according to *Trade Finance* magazine.
- In Hong Kong, HSBC made available additional funds and offered favourable terms to small businesses which have suffered from the economic impact of SARS. It is still too soon to predict what the longer term effects of the outbreak will be on the commercial customer base but every effort is being made to minimise it.
- We are pleased with the continued progress of our commercial banking operations in France. This has been enhanced by the acquisition of Banque Hervet which has taken full opportunity to develop with other HSBC entities a broader range of trade service products for its predominantly commercial customer base.
- Following the launch of business internet banking in Hong Kong, the US and the UK last year, we have made online business banking available in 17 more countries. By the end of June, 15 per cent - or some 300,000 of our business customers - were banking with us online.

**Corporate, Investment Banking and Markets**

- The overall performance of our corporate, investment banking and markets business was excellent and reinforced our position as one of the world's top tier players in this very important sector. The results reflect our success in bringing these activities closer together and in pursuing the strategic plan we adopted in 2002. We have broadened the range of products and services we offer to our customer base, enhancing the value of the relationships we support.
- Our Global Markets division produced record results as increased customer sales combined with favourable trading conditions. Historically low interest rates and a weakening US dollar resulted in strong debt origination activity and increased sales of our widened product offerings for structured financing and hedging solutions. In debt capital market activities our rankings and market share increased in most bond issuance markets whilst for the sixth consecutive year we achieved the 'Best at Treasury and Risk Management in Asia' Euromoney award for excellence.
- In corporate and institutional banking, revenue growth was achieved through increased fees from refinancing activity and credit expansion. However, credit costs rose due to increased provisioning, mainly for a small number of relationships in the energy and telecommunications sectors.
- Investment banking fees grew, reflecting our strategic focus on higher margin financing and advisory business.
- Our asset management businesses performed well, attracting net inflows of US\$10 billion and broadly maintaining profitability in a continuing environment of low investor appetite for equities.

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

**Private Banking**

- The results of our private banking business reflected an improved revenue mix. We achieved growth in brokerage fees and commissions, sales of structured products, trust services and safekeeping. There was also a significant increase in discretionary asset management mandates and client foreign exchange and other dealing activity.
- Restructuring of the Group's private banking operations continued in order to improve efficiency. We began the process of combining all four of the private banks in France to create one of the largest businesses of its kind in the country.

**GFBital**

The integration of GFBital in Mexico (acquired in November 2002) progressed well. Consumer asset growth was strong, particularly as interest rates declined later in the half year. Co-operation with Household to develop this business is under way. GFBital is exploring avenues to channel qualifying migrants to Household as they enter the United States. Household's home city of Chicago has the second largest Hispanic population in the US.

**Household**

Completion of the acquisition of Household International on 28 March marked the most significant change in the shape of HSBC in more than a decade. We were pleased to complete the transaction within the very demanding timetable established in November 2002 when it was first announced.

There are significant overlaps in profile between Household's customer base and elements of HSBC's and the Household business model provides access for credit to those who would not otherwise enjoy it. The two businesses are being brought together smoothly and quickly. Both teams are excited about the opportunities to deploy their respective skills and strengths across broader platforms and, in the case of Household, in a wider geographical footprint.

Synergies are now being clarified and quantified, and the evidence to date is encouraging. The most immediate synergies have come from improvements in funding costs which we now feel confident will exceed US\$1 billion per annum, based on spread improvement achieved to date.

Further synergies will be achieved in card processing, IT contingency rationalisation, purchasing, call centre co-operation and the shared use of HSBC's Group Service Centres. These, in addition to the Group-wide application of Household's credit-scoring and data-mining technology and the consolidation of certain central administrative functions, should produce synergy benefits exceeding US\$200 million per annum within two years.

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

In addition, there will be revenue synergies in taking the Household model overseas and establishing it alongside existing HSBC operations to tap the growing demand for consumer finance.

**Credit Quality**

Driven by slower economic growth and rising unemployment in the US and Hong Kong, personal credit quality showed modest deterioration in the period. The charge for bad and doubtful debts in the commercial banking sector remained moderate. In corporate banking, there was evidence of strain in the power and energy sectors and in telecommunications, as well as in the equipment suppliers to these industries. The effect of the SARS outbreak was not material in the first half.

Excluding Household, our bad and doubtful debt charge amounted to an annualised 44 basis points of our loan book, of which approximately two-thirds arose from personal lending; this was in line with last year's experience.

During the second quarter, Household saw the level of non-performing loans rise to 3.76 per cent, tracking bankruptcy filings. Annualised charge-offs rose to 4.83 per cent of the book.

**Outlook**

There are mixed signals in current economic data. The significant easing of monetary policy around the world is bolstering consumer sentiment, in part through its positive effect on the housing market. Fiscal deficits are being recognised as an inevitable consequence of policies aimed at avoiding deflation. Significant debt reduction and refinancing to lower rates have been achieved on corporate balance sheets. There has been good progress in corporate restructuring, particularly in eliminating excess capacity. Sentiment is improving and there are signs in some industries that the worst may be behind us. The recent modest rise in merger and acquisition activity is consistent with this view. Prospects for the rest of 2003 are reasonable though we remain cautious about the longer term outlook because of structural imbalances in the world's major economies.

We are positioning HSBC for modest, and uneven, economic recovery. In most developed markets, we expect revenue growth to remain subdued. We are concentrating on improving our efficiency to respond to the growing costs of new regulations and additional taxes in many jurisdictions. Strategically, therefore, we are building our business in those markets where the demographic profiles indicate growing consumer demand. We are particularly excited by the opportunities in the emerging economies of Asia, including India and China, and in the Middle East, Mexico and Brazil. Perhaps an additional and overlooked new market opportunity will be provided by the immigrant population of the United States to which, through Household, we now have access.

Overall, HSBC's ability to generate capital remains strong. We are in an excellent position to benefit from any upturn in the world economy when it occurs and to pursue opportunities for growth that may arise. Within our industry, HSBC's business is uniquely

diversified, both geographically and by line of business. HSBC is in good shape and on course.

## HSBC Holdings plc

## Financial Overview

<i>30 June 2002</i>	<i>31 December 2002</i>	<i>Half-year to</i>	<i>30 June 2003</i>		
<i>US\$m</i>	<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
<b>For the half-year</b>					
<b>Cash basis<sup>†</sup></b>					
5,458	5,055	Profit before tax	<b>6,879</b>	4,272	53,649
3,681	3,421	Profit attributable	<b>4,873</b>	3,026	38,005
<b>Reported basis</b>					
5,057	4,593	Profit before tax	<b>6,112</b>	3,796	47,667
3,280	2,959	Profit attributable	<b>4,106</b>	2,550	32,023
1,929	3,072	Dividends	<b>2,589</b>	1,608	20,192
<b>At period-end</b>					
51,178	52,406	Shareholders' funds	<b>70,290</b>	42,525	548,121
55,440	57,430	Capital resources	<b>66,881</b>	40,463	521,538
532,233	548,371	Customer accounts and deposits by banks	<b>623,318</b>	377,107	4,860,634
746,335	759,246	Total assets	<b>982,689</b>	594,527	7,663,009
410,986	430,551	Risk-weighted assets	<b>569,613</b>	344,616	4,441,842
<i>US\$</i>	<i>US\$</i>	<b>Per share</b>	<i>US\$</i>	<i>£</i>	<i>HK\$</i>
0.40	0.36	Cash earnings <sup>†</sup>	<b>0.48</b>	0.30	3.74
0.35	0.32	Basic earnings	<b>0.41</b>	0.25	3.20
0.35	0.31	Diluted earnings	<b>0.40</b>	0.25	3.12
0.205	0.325	Dividends <sup>††</sup>	<b>0.24</b>	0.15	1.87
5.42	5.53	Net asset value	<b>6.48</b>	3.92	50.53
<b>Share information</b>					
9,450	9,481	US\$0.50 ordinary shares in issue (million)	<b>10,841</b>		
US\$109	US\$105	Market capitalisation (billion)	<b>US\$128</b>		
£7.55	£6.87	Closing market price per share	<b>£7.16</b>		
		Total shareholder return to 30 June 2003 <sup>†††</sup>	<b>HSBC</b>	<b>Benchmark</b>	
		- over 1 year	100	96	
		- since 1 January 1999	167	111	

<sup>†</sup> Cash based measurements are after excluding the impact of goodwill amortisation.

<sup>††</sup> The first interim dividend of US\$0.24 per share is translated at the closing rate on 30 June 2003 (see page 24).

††† Total shareholder return (TSR) is as defined on page 174 of the Annual Report and Accounts 2002. HSBC's governing objective is to beat the TSR of its defined benchmark, with a minimum objective to achieve double TSR over a five-year period beginning on 1 January 1999.

## HSBC Holdings plc

## Financial Overview (continued)

30 June 2002	31 December 2002	Half-year to	30 June 2003
%	%	Performance ratios	%
		<b>On a cash basis</b> †	
13.8	11.8	Return on average invested capital††	<b>14.0</b>
21.5	18.3	Return on average net tangible equity†††	<b>24.5</b>
1.18	1.04	Post-tax return on average tangible assets	<b>1.23</b>
2.11	1.79	Post-tax return on average risk-weighted assets	<b>2.17</b>
		<b>On a reported basis</b>	
13.7	11.2	Return on average shareholders' funds	<b>13.3</b>
1.04	0.90	Post-tax return on average assets	<b>1.03</b>
1.90	1.58	Post-tax return on average risk-weighted assets	<b>1.86</b>
		<b>Efficiency and revenue mix ratios</b>	
54.5	57.9	Cost:income ratio (excluding goodwill amortisation)	<b>51.3</b>
		As a percentage of total operating income:	
57.9	58.3	- net interest income	<b>60.6</b>
42.1	41.7	- other operating income	<b>39.4</b>
29.4	29.4	- net fees and commissions	<b>25.3</b>
4.9	5.0	- dealing profits	<b>6.8</b>
		<b>Capital ratios</b>	
9.7	9.0	- tier 1 capital	<b>8.5</b>
13.5	13.3	- total capital	<b>11.7</b>

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

†† Return on invested capital is based on cash-based attributable profit adjusted for depreciation attributable to revaluation surpluses. Average invested capital is measured as shareholders' funds after



adding back goodwill amortised and goodwill previously written-off directly to reserves and deducting property revaluation reserves. This measure broadly reflects invested capital.

\*\*\*

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

## HSBC Holdings plc

## Consolidated Profit and Loss Account

30 June 2002	31 December 2002	Half-year to	30 June 2003		
US\$m	US\$m		US\$m	£m	HK\$m
14,229	14,366	Interest receivable	18,206	11,306	141,989
(6,636)	(6,499)	Interest payable	(6,985)	(4,338)	(54,476)
7,593	7,867	<b>Net interest income</b>	<b>11,221</b>	6,968	87,513
5,510	5,625	Other operating income	7,286	4,525	56,823
13,103	13,492	<b>Operating income</b>	<b>18,507</b>	11,493	144,336
(7,146)	(7,808)	Operating expenses excluding goodwill	(9,490)	(5,894)	(74,012)
(396)	(458)	Goodwill amortisation	(632)	(392)	(4,929)
5,561	5,226	<b>Operating profit before provisions</b>	<b>8,385</b>	5,207	65,395
(715)	(606)	Provisions for bad and doubtful debts	(2,374)	(1,474)	(18,515)
(3)	(36)	Provisions for contingent liabilities and commitments	(22)	(14)	(172)
(45)	(23)	Loss from foreign currency redenomination in Argentina	(34)	(21)	(265)
(139)	(185)	Amounts written off fixed asset investments	(60)	(37)	(468)
4,659	4,376	<b>Operating profit</b>	<b>5,895</b>	3,661	45,975
(23)	(5)	Share of operating loss in joint ventures	(124)	(77)	(967)
71	64	Share of operating profit in associates	92	57	718
351	181	Gains/(losses) on disposal of:	264	164	2,058
(1)	(23)	- investments	(15)	(9)	(117)
5,057	4,593	<b>Profit on ordinary activities before tax</b>	<b>6,112</b>	3,796	47,667
(1,315)	(1,219)	Tax on profit on ordinary activities	(1,554)	(965)	(12,119)
3,742	3,374	<b>Profit on ordinary activities after tax</b>	<b>4,558</b>	2,831	35,548
(278)	(227)	Minority interests:	(261)	(162)	(2,035)
(184)	(188)	- equity	(191)	(119)	(1,490)
3,280	2,959	<b>Profit attributable to shareholders</b>	<b>4,106</b>	2,550	32,023

(1,929)	(3,072)	Dividends	(2,589)	(1,608)	(20,192)
1,351	(113)	<b>Retained profit/(deficit) for the period</b>	<b>1,517</b>	942	11,831

## HSBC Holdings plc

## Consolidated Balance Sheet

<i>At 30 June 2002</i>	<i>At 31 December 2002</i>		<i>At 30 June 2003</i>		
<i>US\$m</i>	<i>US\$m</i>		<i>US\$m</i>	<i>£m</i>	<i>HK\$m</i>
<b>ASSETS</b>					
5,561	7,659	Cash and balances at central banks	<b>9,509</b>	5,753	74,151
		Items in the course of collection			
5,894	5,651	from other banks	<b>8,706</b>	5,267	67,889
19,255	18,141	Treasury bills and other eligible bills	<b>21,348</b>	12,916	166,472
		Hong Kong SAR Government			
8,986	9,445	certificates of indebtedness	<b>9,977</b>	6,036	77,804
100,965	95,496	Loans and advances to banks	<b>116,012</b>	70,187	904,662
342,057	352,344	Loans and advances to customers	<b>503,625</b>	304,693	3,927,268
172,792	175,730	Debt securities	<b>189,991</b>	114,945	1,481,550
8,710	8,213	Equity shares	<b>12,492</b>	7,558	97,413
144	190	Interests in joint ventures	<b>85</b>	51	663
1,042	1,116	Interests in associates	<b>1,177</b>	712	9,178
47	651	Other participating interests	<b>683</b>	413	5,326
15,111	17,163	Intangible fixed assets	<b>26,618</b>	16,104	207,567
13,988	14,181	Tangible fixed assets	<b>14,548</b>	8,802	113,445
44,363	45,884	Other assets	<b>56,785</b>	34,355	442,806
7,420	7,382	Prepayments and accrued income	<b>11,133</b>	6,735	86,815
<u>746,335</u>	<u>759,246</u>	<b>Total assets</b>	<u><b>982,689</b></u>	<u>594,527</u>	<u>7,663,009</u>
<b>LIABILITIES</b>					
		Hong Kong SAR currency			
8,986	9,445	notes in circulation	<b>9,977</b>	6,036	77,804
61,455	52,933	Deposits by banks	<b>75,771</b>	45,841	590,862
470,778	495,438	Customer accounts	<b>547,547</b>	331,266	4,269,772
		Items in the course of transmission to			
4,112	4,634	other banks	<b>5,965</b>	3,609	46,515
28,683	34,965	Debt securities in issue	<b>144,502</b>	87,424	1,126,827
86,642	72,090	Other liabilities	<b>83,874</b>	50,744	654,045
7,707	7,574	Accruals and deferred income	<b>9,363</b>	5,665	73,013
		Provisions for liabilities and charges			
1,181	1,154	- deferred taxation	<b>1,373</b>	831	10,707
3,292	3,683	- other provisions	<b>5,531</b>	3,346	43,131
		Subordinated liabilities			
3,517	3,540	- undated loan capital	<b>3,559</b>	2,153	27,753
12,199	14,831	- dated loan capital	<b>17,189</b>	10,399	134,040
		Minority interests			
2,253	2,122	- equity	<b>2,193</b>	1,327	17,101
4,352	4,431	- non-equity	<b>5,555</b>	3,361	43,318
<u>4,725</u>	<u>4,741</u>	<b>Called up share capital</b>	<u><b>5,421</b></u>	<u>3,280</u>	<u>42,273</u>
<u>46,453</u>	<u>47,665</u>	<b>Reserves</b>	<u><b>64,869</b></u>	<u>39,245</u>	<u>505,848</u>

51,178	52,406	Shareholders' funds	70,290	42,525	548,121
<u>746,335</u>	<u>759,246</u>	Total liabilities	<u>982,689</u>	<u>594,527</u>	<u>7,663,009</u>

## HSBC Holdings plc

## Consolidated Cash Flow Statement

<i>Figures in US\$m</i>	<i>Half-year to 30 June 2003</i>	<i>Half-year to 30 June 2002</i>	<i>Half-year to 31 December 2002</i>
<b>Net cash inflow from operating activities</b>	<b>14,391</b>	12,948	3,478
<b>Dividends received from associated undertakings</b>	<b>45</b>	66	48
<b>Returns on investments and servicing of finance:</b>			
Interest paid on finance leases and similar hire purchase contracts	(18)	(14)	(15)
Interest paid on subordinated loan capital	(374)	(364)	(506)
Dividends paid to minority interests – equity	(317)	(284)	(196)
– non-equity	(243)	(20)	(337)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(952)</b>	(682)	(1,054)
<b>Taxation paid</b>	<b>(1,100)</b>	(523)	(848)
<b>Capital expenditure and financial investments:</b>			
Purchase of investment securities	(91,237)	(66,893)	(63,278)
Proceeds from sale and maturities of investment securities	87,730	62,767	59,792
Purchase of tangible fixed assets	(657)	(756)	(967)
Proceeds from sale of tangible fixed assets	259	123	205
<b>Net cash outflow from capital expenditure and financial investments</b>	<b>(3,905)</b>	(4,759)	(4,248)
<b>Acquisitions and disposals:</b>			
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings	(1,151)	20	229
Purchase of interest in associated undertakings and other participating interests	(40)	(26)	(623)
Proceeds from disposal of associated undertakings and other participating interests	2	356	-
<b>Net cash inflow/(outflow) from acquisitions and disposals</b>	<b>(1,189)</b>	350	(394)
<b>Equity dividends paid</b>	<b>(2,625)</b>	(1,844)	(1,765)
<b>Net cash inflow/(outflow) before financing</b>	<b>4,665</b>	5,556	(4,783)
<b>Financing:</b>			
Issue of ordinary share capital	432	182	155
Issue of preference share capital	1,237	-	-
Redemption of preference share capital	(208)	(50)	-
Subordinated loan capital issued	1,274	630	3,475
Subordinated loan capital repaid	(492)	(637)	(1,286)

Net cash inflow from financing	2,243	125	2,344
Increase/(decrease) in cash	<u>6,908</u>	<u>5,681</u>	<u>(2,439)</u>

## HSBC Holdings plc

## Other Primary Financial Statements

### Statement of total consolidated recognised gains and losses for the half-year to

30 June 2002	31 December 2002		30 June 2003
US\$m	US\$m		US\$m
3,280	2,959	Profit for the period attributable to shareholders	4,106
		Unrealised deficit on revaluation of investment properties:	
-	(22)	- subsidiaries	(24)
-	(1)	- associates	-
		Unrealised deficit on revaluation of land and buildings (excluding investment properties):	
-	(297)	- subsidiaries	(214)
2,432	1,349	Exchange and other movements	2,208
<u>5,712</u>	<u>3,988</u>	Total recognised gains and losses for the period	<u>6,076</u>

### Reconciliation of movements in consolidated shareholders' funds for the half-year to

30 June 2002	31 December 2002		30 June 2003
US\$m	US\$m		US\$m
3,280	2,959	Profit for the period attributable to shareholders	4,106
(1,929)	(3,072)	Dividends	(2,589)
<u>1,351</u>	<u>(113)</u>		<u>1,517</u>
2,432	1,029	Other recognised gains and losses relating to the period	1,970
182	155	New share capital subscribed, net of costs	447
		Reserve in respect of obligations under CCF	
(31)	(10)	share options	(17)
-	-	Merger reserve on acquisition of Household	13,405
		Reserve in respect of obligations under Household	
-	-	share options	112
		Reserve in respect of obligations under Household	
-	-	8.875 per cent Adjustable Conversion-Rate Equity	
856	167	Security Units	6
<u>4,790</u>	<u>1,228</u>	Amounts arising on shares issued in lieu of dividends	<u>444</u>
		Net addition to shareholders' funds	17,884
46,388	51,178	Shareholders' funds at beginning of period	52,406

51,17852,406

Shareholders' funds at end of period

70,290**HSBC Holdings plc****Additional Information****1. Accounting policies**

The accounting policies adopted are consistent with those described in the 2002 Annual Report and Accounts.

**2. Dividend**

The Directors have declared a first interim dividend for 2003 of US\$0.24 per ordinary share, an increase of 17 per cent. The dividend will be payable on 7 October 2003 to shareholders on the Register at the close of business on 22 August 2003. The dividend will be payable in cash, in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the exchange rates on 29 September 2003, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 3 September 2003, and elections will be required to be made by 24 September 2003.

The dividend payable in cash on shares held through Euroclear France, the settlement and central depository system for Euronext Paris, will be converted into euros at the exchange rate on 29 September 2003 and paid on 7 October 2003 through CCF, HSBC's paying agent.

The dividend payable to holders of American Depositary Shares ('ADSs'), each of which represents five ordinary shares, will be paid in cash in US dollars or as a scrip dividend of new ADSs on 7 October 2003 or 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 and in Hong Kong on 20 August 2003 and in Paris on 25 August 2003. The ADSs will be quoted ex-dividend in New York on 20 August 2003.

**3. Earnings and dividends per share**

<i>Figures in US\$</i>	<i>Half-year to 30 June 2003</i>	<i>Half-year to 30 June 2002</i>	<i>Half-year to 31 December 2002</i>
Cash earnings per share	<b>0.48</b>	0.40	0.36
Basic earnings per share	<b>0.41</b>	0.35	0.32
Diluted earnings per share	<b>0.40</b>	0.35	0.31
Dividend per share	<b>0.24</b>	0.205	0.325
Dividend pay out ratio <sup>‡</sup>	<b>50 %</b>	51 %	90 %

<sup>‡</sup> Dividends per share expressed as a percentage of cash earnings per share.

**3. Earnings and dividends per share** (continued)

Basic earnings per ordinary share was calculated by dividing the earnings of US\$4,106 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 10,066 million (first half of 2002: earnings of US\$3,280 million and 9,298 million shares; second half of 2002: earnings of US\$2,959 million and 9,380 million shares).

Diluted earnings per share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive ordinary potential shares, by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (being share options outstanding not yet exercised) of 10,161 million (first half of 2002: 9,404 million shares; second half of 2002: 9,469 million shares).

The cash earnings per share was calculated by dividing the basic earnings, including the add-back of amortised goodwill, by the weighted average number of ordinary shares outstanding.

**4. Taxation**

<i>Figures in US\$m</i>	<i>Half-year to 30 June 2003</i>	<i>Half-year to 30 June 2002</i>	<i>Half-year to 31 December 2002</i>
UK corporation tax charge	<b>225</b>	322	362
Overseas taxation	<b>1,219</b>	736	481
Joint ventures	-	(6)	-
Associates	<b>8</b>	19	(2)
Current taxation	<b>1,452</b>	1,071	841
Deferred taxation	<b>102</b>	244	378
Total charge for taxation	<b>1,554</b>	1,315	1,219
Effective tax rate	<b>25.4%</b>	26.0%	26.5%

HSBC Holdings and its subsidiary undertakings in the United Kingdom 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\$250 million (first half 2002: US\$253 million; second half 2002: US\$155 million) provided at the rate of 17.5 per cent (2002: 16.0 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.

**4. Taxation** (continued)

At 30 June 2003, there were in total potential future tax benefits of approximately US\$1,086 million (30 June 2002: US\$842 million; 31 December 2002: US\$885 million) in respect of trading losses, expenditure charged to the profit and loss account but not yet allowed for tax, and capital losses, against which a 100 per cent valuation allowance has been taken, as recoverability of these assets is currently considered remote. Should circumstances change then the treatment of these assets would be reviewed.

<b>Analysis of overall tax charge:</b>	<i>Half-year to 30 June 2003</i>	<i>Half-year to 30 June 2002</i>	<i>Half-year to 31 December 2002</i>
<i>Figures in US\$m</i>			
Taxation at UK corporate tax rate of 30%	<b>1,834</b>	1,517	1,378
Impact of differently taxed overseas profits in principal locations	<b>(196)</b>	(241)	(231)
Tax-free gains	<b>(15)</b>	(48)	29
Argentine losses (relieved)/unrelieved	<b>(7)</b>	18	69
Goodwill amortisation	<b>238</b>	128	133
Acquisition accounting adjustments	<b>(115)</b>	-	-
Prior period adjustments	<b>(113)</b>	(7)	(83)
Other items	<b>(72)</b>	(52)	(76)
Overall tax charge	<b>1,554</b>	1,315	1,219
Timing differences subject to deferred tax	<b>(102)</b>	(244)	(378)
Current tax charge	<b>1,452</b>	1,071	841

The acquisition accounting adjustments arise because certain assets and liabilities were revalued on the Household and GFBital acquisitions. The difference between the 'fair value' of assets and liabilities, which is included in the accounts, and the book value is amortised to the profit and loss account over the life of the assets and liabilities. This amortisation resulted in a positive impact on the profit and loss account. There is no tax associated with this adjustment to net income and so it reduces the effective tax rate.

**5. Subordinated liabilities**

	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
<i>Figures in US\$m</i>			
Dated subordinated loan capital which is repayable:			
- within 1 year	<b>615</b>	1,651	956
- between 1 and 2 years	<b>1,024</b>	652	862
- between 2 and 5 years	<b>2,070</b>	2,056	1,957
- over 5 years	<b>13,480</b>	7,840	11,056
	<b>17,189</b>	12,199	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>At</i>
	<i>30 June</i>	<i>30 June</i>	<i>31 December</i>
	<i>2003</i>	<i>2002</i>	<i>2002</i>
Deposits by banks	<b>4,080</b>	1,386	1,661
Customer accounts	<b>8,148</b>	5,510	4,204
Debt securities in issue	<b>30,228</b>	1,718	1,437
Other liabilities	<b>3,851</b>	3,619	2,884
	<b><u>46,307</u></b>	<u>12,233</u>	<u>10,186</u>

The amount of assets pledged to secure these liabilities are included under the following headings:

<i>Figures in US\$m</i>	<i>Amount of assets pledged</i>		
	<i>At</i>	<i>At</i>	<i>At</i>
	<i>30 June</i>	<i>30 June</i>	<i>31 December</i>
	<i>2003</i>	<i>2002</i>	<i>2002</i>
Treasury bills and other eligible securities	<b>2,041</b>	1,513	1,673
Loans and advances to customers	<b>37,922</b>	3,114	2,514
Debt securities	<b>42,464</b>	34,740	39,126
Other	<b>2,461</b>	1,478	1,144
	<b><u>84,888</u></b>	<u>40,845</u>	<u>44,457</u>



**7. Capital resources**

	<i>At 30 June 2003</i>	<i>At 30 June 2002</i>	<i>At 31 December 2002</i>
Capital ratios (%)			
Total capital ratio	<b>11.7</b>	13.5	13.3
Tier 1 capital ratio	<b>8.5</b>	9.7	9.0

**Composition of capital***Figures in US\$m*

Tier 1:			
Shareholders' funds	<b>70,290</b>	51,178	52,406
Minority interests	<b>3,521</b>	3,434	3,306
Innovative tier 1 securities	<b>4,964</b>	3,570	3,647
Less: property revaluation reserves	<b>(1,707)</b>	(2,292)	(1,954)
: goodwill capitalised and intangible assets	<b>(28,007)</b>	(15,587)	(17,855)
: own shares held <sup>‡</sup>	<b>(801)</b>	(576)	(601)
Total qualifying tier 1 capital	<b>48,260</b>	39,727	38,949
Tier 2:			
Property revaluation reserves	<b>1,707</b>	2,292	1,954
General provisions	<b>2,816</b>	2,085	2,348
Perpetual subordinated debt	<b>3,543</b>	3,514	3,542
Term subordinated debt	<b>14,885</b>	9,882	12,875
Minority interests in tier 2 capital	<b>556</b>	793	775
Total qualifying tier 2 capital	<b>23,507</b>	18,566	21,494
Unconsolidated investments	<b>(3,703)</b>	(2,031)	(2,231)
Investments in other banks	<b>(662)</b>	(696)	(638)
Other deductions	<b>(521)</b>	(126)	(144)
Total capital	<b>66,881</b>	55,440	57,430
Total risk-weighted assets	<b>569,613</b>	410,986	430,551

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

<sup>‡</sup> This principally reflects shares held in trust to fulfil the Group's obligations under employee share option plans.

**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 Executive Committee.

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

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**9. Contingent liabilities and commitments**

The total contract amounts of contingent liabilities and commitments which, at 30 June 2003, were US\$450,233 million (30 June 2002: US\$255,130 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>Half-year to 30 June 2003</i>	<i>Half-year to 30 June 2002</i>	<i>Half-year to 31 December 2002</i>
Operating profit	<b>5,895</b>	4,659	4,376
Change in prepayments and accrued income	<b>(2,450)</b>	156	199
Change in accruals and deferred income	<b>1,682</b>	447	(257)
Interest on finance leases and similar hire purchase contracts	<b>20</b>	15	21
Interest on subordinated loan capital	<b>479</b>	445	417
Depreciation and amortisation	<b>1,298</b>	941	1,103
Amortisation of discounts and premiums	<b>254</b>	9	(17)
Provisions for bad and doubtful debts	<b>2,374</b>	715	606
Loans written off net of recoveries	<b>(2,834)</b>	(888)	(1,043)
Provisions for liabilities and charges	<b>591</b>	462	417
Provisions utilised	<b>(457)</b>	(948)	(383)
Amounts written off fixed asset investments	<b>60</b>	139	185
Net cash inflow from trading activities	<b>6,912</b>	6,152	5,624
Change in items in the course of collection from other banks	<b>(2,215)</b>	(119)	243
Change in treasury bills and other eligible bills	<b>(118)</b>	460	255
Change in loans and advances to banks	<b>(14,353)</b>	11,320	5,230
Change in loans and advances to customers	<b>(52,514)</b>	(32,940)	(2,392)
Change in other securities	<b>(6,335)</b>	(7,523)	10,066
Change in other assets	<b>(881)</b>	(5,947)	(1,108)
Change in deposits by banks	<b>20,923</b>	7,806	(11,311)
Change in customer accounts	<b>51,214</b>	20,505	10,656
Change in items in the course of transmission to other banks	<b>1,331</b>	314	402
Change in debt securities in issue	<b>6,201</b>	1,585	1,350
Change in other liabilities	<b>7,248</b>	14,092	(15,672)
Elimination of exchange differences <sup>‡</sup>	<b>(3,022)</b>	(2,757)	135
Net cash inflow from operating activities	<b>14,391</b>	12,948	3,478

‡

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. Profit and loss account impact from Household for the 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>	<i>31 December 2002 US\$m</i>
Interest receivable	18,206	3,492	14,714	14,229	14,366
Interest payable	(6,985)	(702)	(6,283)	(6,636)	(6,499)
<b>Net interest income</b>	<b>11,221</b>	<b>2,790</b>	<b>8,431</b>	<b>7,593</b>	<b>7,867</b>
Other operating income	7,286	612	6,674	5,510	5,625
<b>Operating income</b>	<b>18,507</b>	<b>3,402</b>	<b>15,105</b>	<b>13,103</b>	<b>13,492</b>
Operating expenses excluding goodwill	(9,490)	(1,214)	(8,276)	(7,146)	(7,808)
Goodwill amortisation	(632)	(115)	(517)	(396)	(458)
<b>Operating profit before provisions</b>	<b>8,385</b>	<b>2,073</b>	<b>6,312</b>	<b>5,561</b>	<b>5,226</b>
Provisions for bad and doubtful debts	(2,374)	(1,539)	(835)	(715)	(606)
Provisions for contingent liabilities and commitments	(22)	-	(22)	(3)	(36)
Loss from foreign currency redenomination in Argentina	(34)	-	(34)	(45)	(23)
Amounts written off fixed asset investments	(60)	-	(60)	(139)	(185)
<b>Operating profit</b>	<b>5,895</b>	<b>534</b>	<b>5,361</b>	<b>4,659</b>	<b>4,376</b>
Share of operating loss in joint ventures	(124)	-	(124)	(23)	(5)
Share of operating profit in associates	92	-	92	71	64
Gains/(losses) on disposal of:					
- investments	264	2	262	351	181
- tangible fixed assets	(15)	-	(15)	(1)	(23)
<b>Profit on ordinary activities before tax</b>	<b>6,112</b>	<b>536</b>	<b>5,576</b>	<b>5,057</b>	<b>4,593</b>
Tax on profit on ordinary activities	(1,554)	(133)	(1,421)	(1,315)	(1,219)
<b>Profit on ordinary activities after tax</b>	<b>4,558</b>	<b>403</b>	<b>4,155</b>	<b>3,742</b>	<b>3,374</b>
Minority interests:					
- equity	(261)	-	(261)	(278)	(227)
- non-equity	(191)	-	(191)	(184)	(188)
<b>Profit attributable to shareholders</b>	<b>4,106</b>	<b>403</b>	<b>3,703</b>	<b>3,280</b>	<b>2,959</b>
Dividends	(2,589)	-	(2,589)	(1,929)	(3,072)
<b>Retained profit/(deficit) for the period</b>	<b>1,517</b>	<b>403</b>	<b>1,114</b>	<b>1,351</b>	<b>(113)</b>

**12. Registers of shareholders – First interim dividend for 2003**

The Overseas Branch Register of shareholders in Hong Kong will be closed for one day, on Friday 22 August 2003. Any person who has acquired shares registered on the Hong Kong Branch Register but who has not lodged the share transfer with the Branch Registrar should do so before 4.00pm on Thursday 21 August 2003 in order to receive the dividend.

Any person who has acquired shares registered on the Principal Register in the United Kingdom but who has not lodged the share transfer with the Principal Registrar should do so before 4.00pm on Friday 22 August 2003 in order to receive the dividend. Transfers between the Principal Register and the Branch Register may not be made while the Branch Register is closed.

Similarly, transfers of American Depositary Shares must be lodged with the depositary by noon on Friday 22 August 2003 in order to receive the dividend.

**13. Proposed second interim dividend for 2003**

The Directors intend to declare a second interim dividend for 2003 of US\$0.12 per ordinary share. The proposed timetable for the dividend is:

Announcement of second interim dividend for 2003	10 November 2003
Shares quoted ex-dividend in London and Hong Kong and American Depositary Shares (ADSs) quoted ex-dividend in New York	26 November 2003
Record date for second interim dividend for 2003	28 November 2003
Closure of Hong Kong Overseas Branch Register of shareholders	28 November 2003
Shares quoted ex-dividend in Paris	1 December 2003
Mailing of dividend documentation	9 December 2003
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	7 January 2004
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	12 January 2004
Payment date: dividend warrants, new share certificates and notional tax vouchers mailed and shares credited to stock accounts in CREST	20 January 2004

**14. 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>	<b><i>30 June 2003</i></b>	<i>30 June 2002</i>	<i>31 December 2002</i>
Closing : HK\$/US\$	<b>7.798</b>	7.800	7.798
: £/US\$	<b>0.605</b>	0.654	0.620
Average : HK\$/US\$	<b>7.799</b>	7.799	7.799 <sup>‡</sup>
: £/US\$	<b>0.621</b>	0.693	0.641 <sup>‡</sup>

<sup>‡</sup> *Average for the second half of 2002.*

**15. 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.

**16. Notifiable interests in share capital**

According to the register maintained under section 211 of the Companies Act 1985, Legal and General Investment Management Limited notified the Company on 11 June 2002 that it had an interest in 284,604,788 HSBC Holdings ordinary shares, representing 3.01 per cent of the ordinary shares in issue at that date.

No notifiable interest, being 5 per cent or more, in the equity share capital is recorded in the register maintained under Section 336 of the Securities and Futures Ordinance of Hong Kong.

**17. 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, trading as an intermediary in the Company's shares in London, neither the Company nor any subsidiary undertaking has bought, sold or redeemed any securities of the Company during the six months ended 30 June 2003.

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## 18. Interim Report and 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 2003 Interim Report was approved by the Board of Directors on 4 August 2003. The statutory accounts for the year ended 31 December 2002 have been delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act and filed with the US Securities and Exchange Commission. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under Section 237(2) or (3) of the Act. This news release does not constitute the unaudited interim consolidated financial statements which are contained in the Interim Report. The unaudited interim consolidated financial statements have been reviewed by the Company's auditor, KPMG Audit Plc, in accordance with the guidance contained in *Bulletin 1999/4: Review of interim financial information* issued by the Auditing Practices Board. On the basis of its review it was not aware of any material modifications that should be made to the unaudited interim consolidated financial statements as presented for the six months ended 30 June 2002 in the Interim Report. The full report of its review is included in the Interim Report to the shareholders.

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## 19. Forward-looking statements

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

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## 20. Corporate Governance

HSBC is committed to high standards of corporate governance. HSBC Holdings has complied throughout the six months to 30 June 2003 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.

There have been no material changes to the information disclosed in the *2002 Annual Report and Accounts* in respect of the remuneration of employees, remuneration policies and share option plans. On 28 March 2003 the Company acquired Household International, Inc. which has approximately 34,500 employees. The terms of the employment agreement with W F Aldinger, Chairman and Chief Executive Officer of Household, particulars of which were set out in the Disclosable Transaction Circular dated 26 February 2003, came into effect on 28 March 2003.

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## 21. Interim Report

Copies of the Interim Report will be sent to registered shareholders on or about 15 August 2003 and may be obtained from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; or from Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or from HSBC Bank USA, 452 Fifth Avenue, New York, New York 10018, USA; or from Direction de la Communication, CCF, 103 avenue des Champs Elysées, 75419, Paris Cedex 08, France. The Interim Report will also be available on the HSBC website [www.hsbc.com](http://www.hsbc.com) and on The Stock Exchange of Hong Kong's website [www.hkex.com.hk](http://www.hkex.com.hk).

A Chinese translation of the report may be obtained on request from Computershare Hong Kong Investor Services Limited, Rooms 1901-5, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Custodians or nominees that wish to distribute copies of the Interim Report to their clients may request copies for collection by writing to Group Corporate Affairs at the addresses given above.

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## 22. Final results and third interim dividend for 2003

The results for the year to 31 December 2003 will be announced on Monday 1 March 2004. It is intended that any third interim dividend for 2003 that is announced on that date would be payable on 5 May 2004 to shareholders on the Register on 19 March 2004. HSBC's shares would be quoted ex-dividend in London and in Hong Kong on 17 March 2004 and in Paris on 22 March 2004. The American Depositary Shares would be quoted ex-dividend in New York on 17 March 2004.

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## 23. 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, New York 10018, USA. The news release will also be available on the HSBC website [www.hsbc.com](http://www.hsbc.com).

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



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## ANNEX B

3 March 2003

### HSBC HOLDINGS PLC 2002 FINAL RESULTS – HIGHLIGHTS

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

#### **On a cash basis (excluding goodwill amortisation):**

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

#### **On a reported basis (after goodwill amortisation):**

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

#### **Dividend and capital position:**

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

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

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

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

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

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

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

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

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

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

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

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

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

***Geographical distribution of results***

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

***Distribution of results by line of business***

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

<sup>†</sup> *Figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 'Deferred Tax', details of which are in Note 1 on page 15.*

<sup>††</sup> *Figures for 2001 have been restated to reflect a reclassification of Panama and Mexico to North America, from South America (formerly Latin America).*

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

**Comment by Sir John Bond, Group Chairman**

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

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

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

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

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

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

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

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

### **Comment by Sir John Bond, Group Chairman**

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

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

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

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

### **Argentina**

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

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

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

**Comment by Sir John Bond, Group Chairman**

**Acquisitions**

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

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

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

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

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

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

## **Comment by Sir John Bond, Group Chairman**

### **Pensions**

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

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

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

### **Outlook**

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

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

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



**Comment by Sir John Bond, Group Chairman**

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

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

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

<sup>†</sup> Cash based measurements are after excluding the impact of goodwill amortisation.

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

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

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

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

<sup>†</sup> Cash based measurements are after excluding the impact of goodwill amortisation.

<sup>††</sup> 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.

<sup>†††</sup> Cash basis attributable profit divided by average shareholders' funds after deduction of average purchased goodwill.

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

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

31 December 2001<sup>†</sup>

Year ended 31 December 2002

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

<sup>†</sup>

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

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

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

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

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

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

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

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

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

## 1. Accounting policies

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

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

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

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

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

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

### *Consolidated balance sheet*

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

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

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



## 2. Dividend

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

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

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

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

## 3. Earnings and dividends per share

*Figures in US\$*

*Year ended 31 December*

*2002*

*2001*

Cash earnings per share	<b>0.76</b>	0.63
Basic earnings per share	<b>0.67</b>	0.54
Diluted earnings per share	<b>0.66</b>	0.53
Dividends per share	<b>0.53</b>	0.48
Dividend pay out ratio <sup>‡</sup>	<b>70 %</b>	76 %

<sup>‡</sup> *Dividends per share expressed as a percentage of cash earnings per share.*

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

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

**3. Earnings and dividends per share** (continued)

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

**4. Taxation**

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

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

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

**Analysis of overall tax charge**

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

**4. Taxation** (continued)

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

**5. Subordinated liabilities**

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

**6. Assets charged as security for liabilities**

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

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

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

**7. Capital resources***Figures in US\$m*

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

<sup>†</sup> This principally reflects shares held in trust to fulfil the Group's obligations under employee share option plans.

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

## 8. Foreign exchange exposure

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

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

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## 9. Contingent liabilities and commitments

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

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

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

<sup>†</sup> 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***Figures in US\$ millions*

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

**12. Analysis of fees and commissions receivable and payable**

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



**13. Geographical distribution of results****HSBC European Operations**

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

## HSBC Hong Kong Operations

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

**HSBC Rest of Asia-Pacific Operations**

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

**HSBC North American Operations**

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

**HSBC South American Operations**

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

**14. Registers of shareholders**

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

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

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

**15. Foreign currency amounts**

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

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

**16. Litigation**

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

**17. Dealings in HSBC Holdings shares**

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

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**18. Statutory accounts**

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

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**19. Forward-looking statements**

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

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**20. Remuneration**

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

The Remuneration Committee applies the following key principles:

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

**20. Remuneration** *(continued)*

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

Salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. Allowances and benefits are largely determined by local market practice. The level of performance-related variable pay depends upon the performance of HSBC Holdings, constituent businesses and of the individual concerned. Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration.

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

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

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**21. Annual Review and Annual Report and Accounts**

The *Annual Review 2002* and/or *Annual Report and Accounts 2002* will be mailed to shareholders on or about 1 April 2003. Copies may be obtained from Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; Group Public Affairs, HSBC Bank USA, 452 Fifth Avenue, New York, NY 10018, USA; CCF, Direction de la Communication, 103 avenue des Champs-Élysées, 75419 Paris Cedex 08, France; or from the HSBC Group website – [www.hsbc.com](http://www.hsbc.com).

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

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

The *Annual Report and Accounts* and *Annual Review* will be available on the Stock Exchange of Hong Kong's website – [www.hkex.com.hk](http://www.hkex.com.hk).



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

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

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**22. Annual General Meeting**

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

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

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**23. Interim results and first interim dividend for 2003**

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

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**24. News release**

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

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**25. Household acquisition**

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

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

**25. Household acquisition** *(continued)*

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

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

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