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HSBC BANK PLC

ANNUAL REPORT AND ACCOUNTS FOR THE YEAR ENDED 2003

Annual Report and Accounts 2003

Contents

Presentation of Information

This document comprises the *Annual Report and Accounts 2003* for HSBC Bank plc (the 'bank') and its subsidiary undertakings (together the 'group'). It contains the Directors' Report and Accounts, together with the Auditors' report, as required by the UK Companies Act 1985.

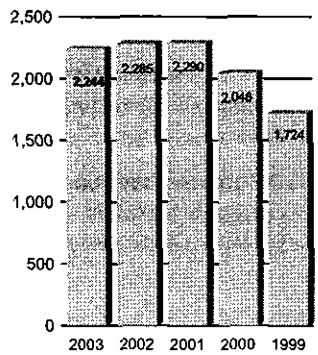
The bank's obligation to file annual reports with the US Securities and Exchange Commission has been suspended following, among other things, the re-listing of two issues of the bank's subordinated notes to London from New York. As a consequence, an *Annual Report on Form 20-F* for 2003 has not been prepared.

Annual Report and Accounts 2003

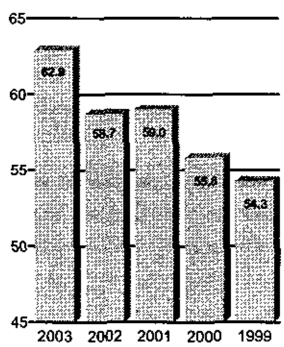
Financial Highlights

	2003	2002	2001	2000	1999
For the year (excluding goodwill amortisation) (£m)					
Profit on ordinary activities before tax	**2,810**	2,773	2,757	2,163	1,727
Profit attributable	**2,046**	1,867	1,937	1,503	1,204
For the year (as reported) (£m)					
Profit on ordinary activities before tax	**2,244**	2,285	2,290	2,046	1,724
Profit attributable	**1,480**	1,379	1,470	1,386	1,201
At year-end (£m)					
Shareholders' funds	**17,064**	16,455	15,648	14,873	5,016
Capital resources	**14,603**	12,768	12,209	11,527	8,121
Customer accounts and deposits by banks	**175,390**	155,234	147,665	131,329	77,874
Total assets	**246,104**	218,378	202,309	185,426	106,468
Ratios (%)					
Return on average shareholders' funds (equity)	**8.5**	8.5	9.3	18.7	25.9
Capital ratios					
— total capital	**10.7**	10.3	10.7	10.7	11.3
— tier 1 capital	**7.4**	7.1	6.8	6.5	6.8
Cost:income ratio (excluding goodwill amortisation)	**62.9**	58.7	59.0	55.8	54.3

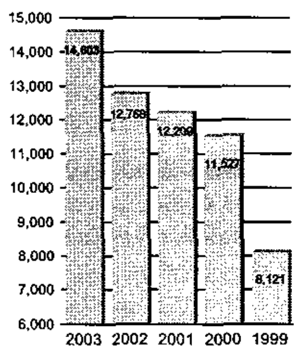
Profit on ordinary activities before tax (as reported) (£m)



Cost:income ratio (%)



Capital resources (£m)



The financial highlights are influenced by changes in the group structure over the five years. The most significant acquisitions are as follows: in 2000, HSBC Private Banking Holdings (Suisse) SA, CCF S.A. (formerly Crédit Commercial de France S.A.); in 2001, HSBC Investment Bank Asia Limited, Banque Hervet, Demirbank TAS, HSBC Guyerzeller Bank AG; in 2002, HSBC Trinkaus & Burkhardt KGaA, HSBC Republic Bank (UK) Limited and activities of HSBC Investment Bank plc.

Business Highlights 2003

- Underlying* operating income up £610 million, 8 per cent
- Underlying* profit before tax in line with last year

Personal Banking – profits up £47 million, or 8 per cent

- Strong growth in mortgages and personal lending, particularly in the UK
  - 25 per cent rise in mortgages, First Direct's Offset mortgage up 53 per cent
  - Winner of several major mortgage awards
- Strong growth in credit cards
- Strong growth in savings and current account balances
- Difficult equity markets reflected in fall in sales of investment products
- 19 per cent growth in repayment protection premiums in the UK

Commercial Banking – profits down £88 million, or 14 per cent

- Competition Commission ruling cost £83 million in the year
  - HSBC increased share of business start-ups attracting more than 102,000 new customers
  - 21 per cent rise in business current account balances

Corporate, Investment Banking and Markets – profit down £32 million, or 4 per cent

- Inclusion of full year figures for Investment Banking
- Underlying* increase of £48 million, 6 per cent
  - Dealing profits up – expansion of product range, successful interest rate positioning and currency volatility
  - Lower benefit from surplus funds in low interest rate environment
  - Business restructured under co-heads

CCF – profit up £17 million, or 5 per cent, in a subdued market

- Mortgage lending up 11 per cent and personal lending 9 per cent
- Number of structured products launched for corporate clients
- Growth in trade services and payments and cash management offset decline in equity related income.
- Costs held flat

HSBC Private Banking – profit up £65 million, or 29 per cent

- Higher volumes of brokerage income
- Higher sales of structured products, trustee and safekeeping services as equity markets began to recover.
- Strong growth in discretionary asset management mandates
- Rising equity markets contributed to growth in fee and commission income
- 59 per cent increase in dealing profits as clients took advantage of upturn in markets in second half of the year

Costs

- Overall costs up £863m, or 17 per cent, reflecting:
  - costs of other HSBC entities transferred into the group
  - increased pension and national insurance costs
  - new headquarters costs
  - restructuring costs
  - salary increments and performance related bonuses (particularly in Corporate, Investment Banking and Markets)

Bad debts

- £59 million, or 16 per cent, rise in bad debts mainly reflects provision for a single corporate customer
- Credit environment remains stable in both personal and commercial sectors.

Goodwill amortisation cost up £78m reflecting the impairment of goodwill on a UK Fund management company acquired in 2000 as part of CCF.

** The term 'underlying' reflects performance excluding business combinations made in 2002, the most significant of which was the divisionalisation of the Investment Banking activities of HSBC Investment Bank plc into HSBC Bank plc on 30 November 2002*

Financial Review

Summary of Financial Performance

Consolidated Profit and Loss Account

	2003 £m	2002 £m
Net interest income	**4,272**	4,039
Other operating income	**4,276**	3,653
Operating income	**8,548**	7,692
Administrative expenses	**(4,886)**	(4,060)
Depreciation	**(491)**	(455)
Amortisation of goodwill	**(483)**	(482)
Operating profit before provisions	**2,688**	2,695
Provisions		
— provisions for bad and doubtful debts	**(436)**	(377)
— provisions for contingent liabilities and commitments	**(45)**	(27)
Amounts written off fixed asset investments	**(28)**	(146)
Operating profit	**2,179**	2,145
Share of operating (loss) in joint ventures and associates	**(57)**	(4)
Gains/(losses) on disposal of		
— interests in joint ventures and associates	**1**	32
— investments	**137**	122
— tangible fixed assets	**(16)**	(10)
Profit on ordinary activities before tax	**2,244**	2,285
Tax on profit on ordinary activities	**(641)**	(808)
Profit on ordinary activities after tax	**1,603**	1,477
Minority interests		
— equity	**(43)**	(30)
— non-equity	**(80)**	(68)
Profit attributable to shareholders	**1,480**	1,379

Profit/(loss) on ordinary activities before tax

	2003 £m	2002 £m
UK Personal Banking	**602**	555
UK Commercial Banking	**539**	627
UK Corporate and Institutional Banking	**369**	312
Global Markets UK	**458**	467
Investment Banking	**(82)**	(2)
International Banking	**202**	208
CCF	**382**	365
Private Banking	**290**	225
HSBC Trinkaus & Burkhardt	**50**	16
Amortisation of goodwill including goodwill on joint ventures	**(566)**	(488)
	2,244	2,285

The UK economy expanded by 2.3 per cent in 2003. After a slow first half of the year, growth accelerated in the third quarter and that momentum continued into the final months of the year. Growth in consumer spending slowed during the course of the year but it nevertheless remained robust and in particular the housing market and household appetite to borrow remained strong. However, low real income growth, together with the expectation of rising interest rates, are expected to dampen household activity in the forthcoming months. Elsewhere, there are a few encouraging signs that industrial activity in particular and corporate confidence in general is starting to improve from a low base. Going forward, stronger global demand, if maintained, should provide a boost to the corporate sector.

Having slipped into recession in the first half of the year, the euro-zone economies returned to growth in the second half, expanding by 0.4 per cent quarter-on-quarter in the third quarter and by 0.3 per cent in the fourth quarter. Once again, however, it was stronger exports that drove the third quarter improvement, while the domestic economies remained subdued. Consumer spending was flat and investment contracted for the third consecutive quarter. The pick-up in exports occurred despite the appreciating euro, which rose more than 15 per cent against the dollar during the course of the year. In the fourth quarter, growth seemed to have been largely the result of inventory build-up, with exports falling back after the strength of the third quarter, and with limited growth in consumer spending. Interest rates were cut twice during 2003, with the European Central Bank's repo rate dropping by 75 basis points to just 2 per cent. By contrast, however, longer-term interest rates have moved higher, rising by about 80 basis points between June and the end of December, as the bond market anticipated economic recovery.

In 2003, personal credit expansion in the UK was the major growth area as consumers took advantage of historically low interest rates, enabling HSBC to generate strong growth in mortgages and consumer lending. Conversely, investment sales were low because of a lack of confidence in equity markets, and sales of pensions and investment products fell. In this environment HSBC grew its deposit base as customers sought flexibility and security for their savings, notwithstanding the low interest rates available. The low interest rate environment also meant that the value of HSBC's maturing liquidity reduced as it was redeployed in lower yielding assets.

The same factors, low interest rates and weak equity markets, increased the cost of pension provision by £59 million in the UK. Employment costs also grew, notably in the UK, as social taxes were raised. In order to adjust for this higher cost environment, the bank took steps to reduce its staff costs, announcing both 1,400 redundancies in the UK and the shift, over the next three years, of 4,000 jobs to the Group's global service centres. In the short term these actions incurred both redundancy and excess property provisions totalling £107 million.

The results in 2003 reflect the full year impact of a number of business combinations in the latter stages of 2002, the most significant of which was the divisionalisation of the investment banking activities of HSBC Investment Bank plc into HSBC Bank plc on 30 November 2002. The term 'underlying' reflects performance excluding these significant changes.

Profit on ordinary activities before tax decreased by £41 million, or 2 per cent compared to last year, as the impact of the UK Competition Commission ruling, lower investment sales, higher costs and specific bad debt charges in the corporate sector offset Global Markets' performance and growth in mortgages, personal lending and insurance income. Excluding the impact of business combinations, the underlying net profit before tax was in line with last year.

Net interest income at £4,272 million increased by 6 per cent, or 4 per cent excluding the effect of business transfers and acquisitions. Average interest-earning assets increased by £13 billion, or 7 per cent, driven by strong growth in mortgages and personal lending in the UK and to a lesser extent France. UK mortgage balances increased by 25 per cent, as borrowers continued to take advantage of the low interest rate environment to re-mortgage. First Direct made a significant contribution to this growth with a 53 per cent increase on last year, reflecting the continuing success of its Offset mortgage product. Both HSBC and First Direct won a number of major awards for their mortgage products during the year.

Personal lending balances, excluding mortgages, increased by 15 per cent in the UK and 9 per cent in France reflecting the success of targeted marketing campaigns and improved utilisation of customer relationship management systems. Card balances in the UK grew by 18 per cent, due to the continued strength of consumer expenditure and a record number of competitor balance transfers following the introduction in July of a '0%' balance transfer promotion. Lending growth was funded through significant growth in savings and current account balances as customers preferred to hold cash in the uncertain investment climate.

The UK Competition Commission ruling on payment of interest on small business accounts had an adverse impact on UK margins and cost £83 million during the year. In response, HSBC committed more resource to advertising and marketing the broad advantages of its small business product, leading to a 21 per cent increase in business current account balances. The bank also increased its share of business start-ups and opened more than 102,000 new business accounts, while the new small business loan, launched in October, attracted nearly £10 million of new lending in its first two months of operation.

Financial Review (continued)

The current subdued economic climate resulted in a slight fall in corporate sector account balances in both the UK and France as corporate activity slowed and customers focused more actively on cash management. In Global Markets, earnings from deploying the excess liquidity of the bank declined as long-term assets matured and proceeds were reinvested at lower rates. While funding costs continued to benefit from the low interest rate environment and positive yield curves, the benefit was less significant than in 2002 as yield curves flattened during the first half of 2003.

Overall interest spread increased by 6 basis points to 2.02 per cent as spreads on personal customer lending and savings products widened. The value of free funds declined by 10 basis points as small business accounts changed to interest bearing and interest rates fell further during the period. As a result the margin fell by 4 basis points to 2.23 per cent.

Other operating income increased by 17 per cent, with underlying growth of 13 per cent. Debt capital markets saw strong performance as both refinancing activity and currency volatility afforded exceptional opportunities to generate sales of interest rate and foreign exchange products. Elsewhere, higher corporate banking fee income reflected restructuring within the telecommunications and transport sectors.

Sales of investment products fell, reflecting continued uncertainty in investment markets, while subdued equity markets reduced the value of long-term assurance business. However, the strong growth in mortgages and personal loans boosted sales of repayment protection products in the UK producing a 19 per cent increase in premiums. In France the launch of a number of structured products and growth in trade services, cash management and regional treasury activities partly offset a decline in equity related income. Private Banking benefited from higher volumes of brokerage activity and sales of tailored structured products, trustee and safekeeping services. Growth in discretionary asset management mandates and the rise in client portfolio values also contributed to the 32 per cent increase in Private Banking net fees and commissions income.

Other operating income in Global Markets of £400 million was £133 million, or 50 per cent, higher than in 2002, largely reflecting growth in dealing profits. Fixed income earnings increased as customers sought long-term financing at low interest rates and investors purchased bonds for enhanced yield. Advantage was also taken of the narrowing of credit spreads. Foreign exchange revenues remained strong, aided by increased volatility in the major currency pairs and by the existence of a clear trend in the markets, in the form of a weakening US dollar. Volumes increased sharply as customers sought to hedge their currency exposure in volatile markets. Income from interest rate derivatives increased in line with the expansion of the bank's product range. There was continued growth in mandates from corporate customers with an increasing number taking advantage of HSBC's geographic reach.

In Private Banking dealing profits increased by 59 per cent on the back of higher client-driven volumes in foreign exchange and investment security sales.

Operating expenses increased by £863 million, or 17 per cent. Excluding the impact of acquisitions and business transfers, costs grew by £508 million, or 10 per cent. Underlying staff costs rose by 15 per cent, with two thirds of this increase accounted for by higher pension expense of £59 million, as the deficit reported at the end of 2002 was amortised; redundancy costs of £63 million; discretionary bonuses of £131 million; and annual pay awards. In Global Markets UK, staff costs were 53 per cent higher than in 2002 reflecting higher bonus accruals in line with increased profitability in specific product lines, while performance-related bonuses and recruitment to support business growth contributed to a 29 per cent increase in Private Banking staff costs.

Non-staff costs, on an underlying basis, were £125 million, or 5 per cent, higher than in 2002. The relocation of the bank's headquarters to Canary Wharf added £69 million to costs as equipment and infrastructure were upgraded and a number of buildings in the City were vacated. Provision of £23 million was also made for vacant space that will arise as a number of processing centres in the UK are closed.

The **charge for bad and doubtful debts** was £59 million or 16 per cent higher than in 2002 largely reflecting provisions for a single corporate customer, partly offset by a number of recoveries and the release of general provisions. Low interest rates, stable employment and improved stock markets provided the economic environment for continuing stability in credit charges in the personal and commercial business sectors.

Amounts written off fixed asset investments in 2002 included a provision for the permanent diminution in value in respect of a life insurance company, which was not repeated in 2003.

Income from joint ventures and associates included a provision for impairment of goodwill on a UK fund management company acquired in 2000 as part of CCF.

Capital Management

Capital measurement and allocation

The Financial Services Authority (FSA) is the supervisor of the bank and the group and, in this capacity, receives information on capital adequacy and sets minimum capital requirements. Individual banking subsidiaries are directly regulated by the appropriate local banking supervisors, which set and monitor capital adequacy requirements for them.

Under the European Union's Banking Consolidation and Amending Directive (Directive 98/31/EC) to the Capital Adequacy Directive (CAD2), the FSA requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets.

The group's capital resources policy is to maintain its capital base through the diversification of its sources of capital and the efficient allocation of capital. It seeks to maintain at all times a prudent relationship between its total capital, as measured according to the criteria used by the FSA for supervisory purposes, and the varied risks of its business.

Capital adequacy is measured by the ratio of capital to risk-weighted assets, taking into account balance sheet assets and off-balance-sheet transactions, calculated for both the bank and the group on a consolidated basis.

The group's capital is divided into two tiers: tier 1, comprising shareholders' funds, innovative tier 1 securities and minority interests in tier 1 capital, but excluding revaluation reserves; and tier 2, comprising general loan loss provisions, property revaluation reserves, qualifying subordinated loan capital and minority and other interests in tier 2 capital. The amount of innovative tier 1 securities cannot exceed 14 per cent of overall tier 1 capital, qualifying tier 2 capital cannot exceed tier 1 capital, and term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also limitations on the amount of general provisions which may be included in tier 2 capital. The book values of goodwill, own shares held and intangible assets are deducted in arriving at tier 1 capital. Total capital is calculated by deducting the book values of unconsolidated investments, investments in the capital of banks, and certain regulatory items from the total of tier 1 and tier 2 capital.

Financial Review (continued)

The table below sets out the analysis of regulatory capital.

Regulatory capital position

Composition of capital	2003 £m	2002 £m
Tier 1:		
Shareholders' funds	**17,064**	16,455
Minority interests	**460**	334
Innovative tier 1 securities	**1,335**	586
Less: property revaluation reserves	**(69)**	(121)
goodwill capitalised and intangible assets	**(8,688)**	(8,490)
Total qualifying tier 1 capital	**10,102**	8,764
Tier 2:		
Property revaluation reserves	**69**	121
General provisions	**464**	480
Perpetual subordinated loan	**1,247**	1,354
Term subordinated loan	**3,407**	2,389
Minority and other interests in tier 2 capital	**716**	704
Total qualifying tier 2 capital	**5,903**	5,048
Unconsolidated investments	**(901)**	(782)
Investments in other banks and other financial institutions	**(462)**	(226)
Other deductions	**(39)**	(36)
Total capital	**14,603**	12,768
Total risk-weighted assets	**136,305**	123,864
Capital ratios (per cent):		
Total capital	**10.7**	10.3
Tier 1 capital	**7.4**	7.1

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

The increase of £1.3 billion in tier 1 capital was largely due to the issue of innovative tier 1 capital of £0.7 billion, net exchange rate movements of £0.2 billion and goodwill amortisation of £0.6 billion. Exchange rate movements increased shareholder's funds by £0.6 billion, but also increased the goodwill deduction by £0.4 billion. The payment to the HSBC Bank (UK) pension Scheme is deducted from tier 1 capital within goodwill capitalised and intangible assets.

The increase of £0.9 billion in tier 2 capital in 2003 mainly reflects new capital issues, net of maturities, redemptions and regulatory amortisation.

Total risk-weighted assets increased by £12 billion mainly due to growth in customer lending. Exchange rate changes were broadly neutral with the impact of the euro strengthening almost offset by the US dollar weakening.

Board of Directors

Directors

Sir John Bond, *Chairman*

Age 62. A Director since 1993 and Chairman from 1998. Group Chairman of HSBC Holdings plc. Joined HSBC in 1961. An executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1988 to 1992. Chairman of HSBC Bank Middle East Limited and a Director of The Hongkong and Shanghai Banking Corporation Limited. A Director of Ford Motor Company and a member of the Court of the Bank of England.

S K Green, *Deputy Chairman*

Age 55. A Director since 1995 and Deputy Chairman since May 2003. Joined HSBC in 1982. Group Chief Executive of HSBC Holdings plc since May 2003. Executive Director, Corporate, Investment Banking and Markets from 1998 to May 2003. Group Treasurer, HSBC Holdings plc from 1992 to 1998. Chairman of HSBC Asset Management Limited. A Director of CCF S.A., Grupo Financiero HSBC, S.A. de C.V., HSBC Bank Canada, HSBC Bank Middle East Limited, HSBC Bank USA, HSBC North America Holdings Inc., HSBC North America Inc., HSBC Private Banking Holdings (Suisse) S.A., HSBC Trinkaus & Burkhardt KGaA, HSBC USA Inc. and The Hongkong and Shanghai Banking Corporation Limited.

M F Geoghegan CBE, *Chief Executive*

Age 50. A Director and Chief Executive since January 2004. An executive Director of HSBC Holdings plc since 1 March 2004. Joined HSBC in 1973. Group General Manager and President and Chief Executive Officer of HSBC Bank Brasil S.A. - Banco Múltiplo from 1997 to 2003. General Manager and Head of International HSBC Bank plc from 1994 to 1997. Senior Executive Vice President USA Area Management Office from 1992 to 1994. A non-executive Director and Chairman of Young Enterprise.

D D J John, *Chief Operating Officer*

Age 53. A Director and Chief Operating Officer since 2003. HSBC Holdings plc Group General Manager. Joined HSBC in 1972. Deputy Chairman and Chief Executive of HSBC Bank Malaysia Berhad from 1999 to 2002. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited in India from 1997 to 1999. General Manager for Wales from 1993 to 1997. A Director of HSBC Bank Malta p.l.c.

C-H Filippi

Age 51. A Director since 2000. HSBC Holdings plc Group Managing Director since 1 March 2004. Chairman and Chief Executive Officer of CCF S.A. since 1 March 2004. Joined CCF S.A. in 1987. Appointed a Group General Manager and Global Head of Corporate and Institutional Banking in 2001, having been Administrateur Directeur Général of CCF S.A. from 1998 until 2001.

J D Fishburn*

Age 57. A Director since May 2003. Chairman of HFC Bank Limited and an independent non-executive Director of Household International, Inc.

C M S Jones*

Age 60. A Director since 2001. Chairman and Managing Director, James Beattie PLC.

A R D Monro-Davies*

Age 63. A Director since January 2004. Formerly Chief Executive Officer, Fitch Ratings.

A C Reed (Mrs) *

Age 47. A Director since 1996. Finance Director, Marks and Spencer Group plc. Non-executive Director of British Airways Plc.

H A Rose*

Age 63. A Director since 1997. Formerly Deputy Chairman of The Rover Group Limited.

J Singh*

Age 52. A Director since 2001. Chairman and Chief Executive Officer of Edwardian Group Limited. Member of the Board of Warwick Business School.

**Independent non-executive Director.*

Secretary

I B Marshall

Age 54. Joined HSBC in 1995.

Registered Office: 8 Canada Square, London E14 5HQ

Senior Executives

A J Ashford
Age 54. General Manager, Personal Banking. Joined HSBC in 1979.

I M Dorner
Age 49. General Manager, Northern, Scotland and Northern Ireland Division. Joined HSBC in 1986.

R J Duke
Age 53. Group General Manager and General Manager, Banking Services. Joined HSBC in 1971.

G D Harvey-Samuel
Age 46. General Manager, Midlands Division. Joined HSBC in 1978.

A R Hill
Age 45. Chief Executive Officer and Managing Director, HFC Bank Limited. Joined HFC in 1989.

A R F Hughes
Age 52. Chief Executive, First Direct. Joined HSBC in 1969.

A M Keir
Age 45. General Manager, Commercial. Joined HSBC in 1981.

C G F Laughton-Scott
Age 47. Global Head of Corporate and Institutional Banking. Joined HSBC in 1986.

A M Mahoney
Age 41. General Manager, Western and Wales Division. Joined HSBC in 1983.

I D F Ogilvie
Age 44. Head of Human Resources. Joined HSBC in 1981.

M J Powell
Age 42. Treasurer. Joined HSBC in 1984.

J Ranaldi
Age 55. General Manager, Operations. Joined HSBC in 1982.

G A Ronning
Age 56. Chief Financial Officer. Joined HSBC in 1991.

R G Spence
Age 44. General Manager, Southern Division. Joined HSBC in 1978.

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

R M Walker
Age 51. Head of Credit and Risk. Joined HSBC in 1975.

C S O'N Wallis
Age 48. General Manager, International. Joined HSBC in 1978.

G F Williams
Age 55. Head of Information Technology - Europe. Joined HSBC in 1986.

C P M Wills
Age 46. General Manager, Strategy and Support Services. Joined HSBC in 1978.

Report of the Directors

Results for 2003

The consolidated profit for the year attributable to the shareholders of the bank was £1,480 million.

First and second interim dividends of £400 million and £300 million were paid on the ordinary share capital during the year and the Directors have resolved to pay a third interim dividend for 2003 of £700 million.

Further information about the results is given in the consolidated profit and loss account on page 29.

Principal Activities and Business Review

The group provides a comprehensive range of banking and related financial services.

The bank divides its activities into the following business segments: UK Personal Banking; UK Commercial Banking; UK Corporate, Investment Banking and Markets; International Banking; CCF; HSBC Private Banking; and HSBC Trinkaus & Burkhardt.

UK Personal Banking provides current accounts, savings, personal lending, mortgages, cards and wealth management services to customers through a number of channels under the HSBC and First Direct Brands.

UK Commercial Banking provides products and services to a broad range of commercial organisations from sole proprietors to major companies.

Corporate, Investment Banking and Markets, formed out of the alignment of Corporate and Institutional Banking, Global Markets UK and Investment Banking, provides tailored financial solutions to major government, corporate and institutional clients.

International Banking provides a range of retail financial services, primarily across Europe, to local and expatriate customers and wholesale banking to corporate and institutional clients.

CCF offers a wide range of retail, commercial and asset management products to individuals, companies and institutional customers through a network of regional banks in France.

HSBC Private Banking offers an array of client services to high net worth customers, including advisory portfolio management, discretionary asset management, tax, trust and estate planning, mutual funds and currency and securities transactions.

HSBC Trinkaus & Burkhardt, based in Düsseldorf, Germany, offers a comprehensive range of services to wealthy private clients and medium sized companies, institutional investors, public corporations and financial institutions.

The bank has 1,602 branches in the United Kingdom. Outside the United Kingdom, it has branches in Australia, Belgium, Cyprus, the Czech Republic, France, Greece, Guernsey, the Hong Kong Special Administrative Region, Ireland, the Isle of Man, Israel, Italy, Jersey, the Netherlands, South Africa, Spain and Sweden; it has representative offices in Argentina, Côte d'Ivoire, Ghana, Mexico, Singapore, Uganda and Venezuela; and it has subsidiaries in Armenia, France, Germany, Greece, Kazakhstan, Malta, Poland, Russia, Spain, Switzerland and Turkey. Through these undertakings, the bank provides a comprehensive range of banking and related financial services.

In February 2003, the bank acquired the remaining 40 per cent of Equator Holdings Limited it did not already own, for a cash consideration of £4 million, from Nedbank Africa Investments Limited. This, together with the transfer of the majority of the assets and liabilities of HSBC Equator Bank plc to a new branch of the bank in South Africa in February 2004, forms part of the Group's strategy to build its business in South Africa. The transfer was effected by means of an Order of the Court sanctioning a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

In October 2003, the bank acquired Polski Kredyt Bank S.A. for a cash consideration of £5 million. The bank has been re-named HSBC Bank Polska S.A. and focuses on consumer finance business and corporate, investment banking and markets and treasury business.

During 2003, the CCF group increased its interest in Banque Eurofin from 59.84 per cent to 83.94 per cent for a consideration of £21 million. As part of the CCF group's reorganisation of its private banking business, Banque Eurofin was subsequently merged into HSBC Private Bank France. In November 2003, the CCF group acquired the remaining 49 per cent of Elysées-Fonds not already owned, for a consideration of £10 million.

The Financial Review is given on pages 4 to 8.

Report of the Directors (continued)

Share Capital

There have been no changes to the authorised or issued share capital of the bank in the year ended 31 December 2003.

Valuation of Freehold and Leasehold Land and Buildings

Freehold and long leasehold properties were revalued in September 2003 in accordance with the HSBC Group's policy of annual valuation. As a result of this revaluation, the net book value of land and buildings has decreased by £59 million. Further details are included in Note 22 'Tangible fixed assets' in the Notes on the Accounts.

Board of Directors

The objectives of the management structures within the bank, headed by the Board of Directors and led by the Chairman, are to deliver sustainable value to shareholders. Implementation of the strategy set by the Board is delegated to the bank's Executive Committee under the leadership of the Chief Executive.

The Board meets regularly and Directors receive information between meetings about the activities of committees and developments in the bank's business. All Directors have full and timely access to all relevant information and may take independent professional advice if necessary.

The names of Directors serving at the date of this report and brief biographical particulars for each of them are set out on page 9.

Sir Keith Whitson retired as a Director and Deputy Chairman on 28 May 2003 and S K Green was appointed as Deputy Chairman. R Emerson retired as a non-executive Director on 28 May 2003, W R P Dalton retired as a Director and Chief Executive on 31 December 2003 and C F W de Croisset retired as a Director on 25 February 2004.

D D J John was appointed a Director and Chief Operating Officer on 1 January 2003 and J D Fishburn was appointed non-executive Director on 28 May 2003. On 1 January 2004, M F Geoghegan was appointed a Director and Chief Executive and A R D Monro-Davies was appointed a non-executive Director. Having been appointed since the last Annual General Meeting, J D Fishburn, M F Geoghegan and A R D Monro-Davies will retire at the forthcoming Annual General Meeting and offer themselves for election.

Mrs A C Reed, H A Rose and J Singh will retire by rotation at the forthcoming Annual General Meeting. With the exception of Mrs A C Reed, who will retire, they will offer themselves for re-election.

None of the Directors had, during the year or at the end of the year, a material interest, directly or indirectly, in any contract of significance with the bank or any of its subsidiary undertakings.

Board Committees

The Board has appointed a number of committees consisting of certain Directors and senior executives. The following are the principal committees:

Executive Committee

The Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Executive Committee are M F Geoghegan (Chairman), D D J John, both of whom are executive Directors and A J Ashford, R J Duke, A R Hill, A M Keir, C G F Laughton-Scott, M J Powell, G A Ronning and R M Walker, all of whom are senior executives.

Audit Committee

The Audit Committee meets regularly with the bank's senior financial, internal audit and compliance management and the external auditor to consider the bank's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The members of the Audit Committee are H A Rose (Chairman), Mrs A C Reed and A R D Monro-Davies, all of whom are independent non-executive Directors.

Corporate Governance

The HSBC Group is committed to high standards of corporate governance. The bank has complied throughout the year with the relevant best practice provisions of the Combined Code on corporate governance appended to the Listing Rules of the Financial Services Authority.

Internal Control

The Directors are responsible for internal control in the group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud. The procedures also enable the bank to discharge its obligations under the Handbook of Rules and Guidance issued by the Financial Services Authority, the bank's lead regulator.

The key procedures that the Directors have established are designed to provide effective internal control within the HSBC Group and accord with the Internal Control Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales. Such procedures have been in place throughout the year and up to 1 March 2004, the date of approval of the *Annual Report and Accounts*. In the case of companies acquired during the year, the internal controls in place are being reviewed against the HSBC Group's benchmarks and they are being integrated into the HSBC Group's systems. The HSBC Group's key internal control procedures include the following:

- Authority to operate the bank is delegated to the Chief Executive who has responsibility for overseeing the establishment and maintenance of appropriate systems and controls and has authority to delegate such duties and responsibilities as he deems fit among the Directors and senior management. The appointment of executives to the most senior positions within the group requires the approval of the Board of Directors.
- Functional, operating, financial reporting and certain management reporting standards are established by HSBC Holdings' management for application across the whole HSBC Group. These are supplemented by operating standards set by the bank's management, as required.
- Systems and procedures are in place in the group to identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error, unauthorised activities and fraud. Exposure to these risks is monitored by the bank's or major subsidiaries' executive committees and the asset and liability management committees.
- Comprehensive annual financial plans are prepared, reviewed and approved by the Board of Directors. Results are monitored regularly and reports on progress as compared with the related plan are prepared monthly.
- Centralised functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes. Credit and market risks are measured and reported on in the bank and major subsidiaries and aggregated for review of risk concentrations on an HSBC Group-wide basis.
- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management. In addition, functional management in HSBC Holdings has been given responsibility to set policies, procedures and standards in the areas of: finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; operational risk; computer systems and operations; property management; and for certain global product lines.
- Policies and procedures have been established to guide the bank, subsidiary companies and management at all levels in the conduct of business to avoid reputational risk which can arise from social, ethical or environmental issues, or as a consequence of operational risk events. As a banking group, the HSBC Group's good reputation depends upon the way in which it conducts its business but it can also be affected by the way in which clients, to which it provides financial services, conduct their business.
- The internal audit function, which is centrally controlled, monitors compliance with policies and standards and the effectiveness of internal

Report of the Directors (continued)

control structures across the HSBC Group. The work of the internal audit function is focused on areas of greatest risk to the HSBC Group as determined by a risk management approach. The head of this function reports to the Group Chairman and the HSBC Group Audit Committee.

The Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee in carrying out its reviews include: regular reports from the heads of key risk functions; the production and regular updating of summaries of key controls measured against HSBC Group benchmarks which cover all internal controls, both financial and non-financial; annual confirmations from senior executives that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports.

The Directors, through the Audit Committee, have conducted an annual review of the effectiveness of the bank's system of internal control covering all controls, including financial, operational and compliance and risk management.

Reputational, Strategic and Operational Risk

The HSBC Group regularly updates its policies and procedures for safeguarding against reputational, strategic and operational risks. This is an evolutionary process.

The safeguarding of the HSBC Group's reputation is of paramount importance to its continued prosperity and is the responsibility of every member of staff. The HSBC Group has always aspired to the highest standards of conduct and, as a matter of routine, takes account of reputational risks to its business.

Reputational risks are considered and assessed by the Board, its committees and senior management in adherence with the HSBC Group standards. Standards on all major aspects of business are set for the HSBC Group and for individual subsidiary companies, businesses and functions. These policies, which form an integral part of the internal control systems, are communicated through manuals and statements of policy and are promulgated through internal communications. The policies cover social, ethical and environmental issues and set out operational procedures in all areas of reputational risk, including money laundering deterrence, environmental impact, anti-corruption measures and employee relations. The policy manuals address risk issues in detail and co-operation between head office departments and businesses is required to ensure a strong adherence to the HSBC Group's risk management system and its corporate social responsibility practices.

Internal controls are an integral part of how the HSBC Group conducts its business. The HSBC Group's manuals and statements of policy are the foundation of these internal controls. There is a strong process in place to ensure controls operate effectively. Any significant failings are reported through the control mechanisms, internal audit and compliance functions to the Audit Committee, which keeps under review the effectiveness of the system of internal controls and reports regularly to the Board.

KPMG continues to advise the HSBC Group in respect of environmental systems.

Health and Safety

The maintenance of appropriate health and safety standards throughout the bank remains a key responsibility of all managers and the bank is committed actively to managing all health and safety risks associated with its business. The bank's objectives are to identify, remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

Health and safety policies and Group standards and procedures are set by the bank's Fire and Safety Department and are implemented by Coordinators based in each location in which the bank operates.

The HSBC Group faces a range of threats from terrorists and criminals across the world. In particular, over the past year the threat from international terrorism has become signficant in a number of areas where the HSBC Group operates. This threat has mainly manifested itself in bomb attacks such as the one in Istanbul last year in which HSBC's Turkish headquarters building was attacked. Despite suffering tragic loss of life and major damage, existing security measures and well-managed contingency procedures enabled the business to be up and running again the following day.

HSBC Group Security provides regular risk assessments in areas of increased risk to assist management in judging the level of terrorist threat and regular security reviews are conducted to ensure measures to protect HSBC Group staff, buildings, assets and information are appropriate for the level of threat.

Directors' Interests

According to the register of Directors' interests maintained by the bank pursuant to section 325 of the Companies Act 1985, the Directors of the bank at the year-end had the following beneficial interests in the shares and loan capital of HSBC Holdings plc:

Ordinary shares of US$0.50	At 1 January 2003	At 31 December 2003
Sir John Bond[1]	274,369	404,602
C F W de Croisset[1]	35,664	37,441
W R P Dalton[1]	22,624	36,441
C-H Filippi[1]	276,000	386,000
J D Fishburn	19,732[2,3]	19,732[3]
S K Green[1]	173,608	198,758[4]
D D J John[1]	9,377	5,882

1 *Details of additional interests in ordinary shares of US$0.50 each under the Share Option Plans and Restricted Share Plan are set out in the Directors' Remuneration Report on pages 24 to 26.*
2 *Interests at 28 May 2003 - date of appointment.*
3 *Includes 4,054 shares held in the Deferred Phantom Stock Plan operated by Household International, Inc. and which will be released to J D Fishburn when he retires as a Director of that company, which will be no later than May 2017.*
4 *Includes 45,000 shares as beneficiary of a trust holding these shares.*

Sir John Bond has an interest as beneficial owner in £290,000 of HSBC Capital Funding (Sterling 1) L.P. 8.208 per cent Non-cumulative Step-up Perpetual Preferred Securities, which he held throughout the year.

S K Green has an interest as beneficial owner in €75,000 of HSBC Holdings plc 5½ per cent Subordinated Notes 2009 and in £100,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005, which he held throughout the year.

As Directors of CCF S.A. ('CCF'), C F W de Croisset, W R P Dalton, C-H Filippi and S K Green each have an interest as beneficial owner in one share of €5 each in that company, which they held throughout the year. The Directors have waived their rights to receive dividends on these shares and have undertaken to transfer these shares to the bank on ceasing to be Directors of CCF.

Following the acquisition of CCF in 2000, CCF shares issued following the exercise of options over CCF shares became exchangeable for HSBC Holdings plc ordinary shares of US$0.50 each in the same ratio as the exchange offer for CCF (13 HSBC Holdings plc ordinary shares of US$0.50 each for each CCF share). HSBC Holdings plc ordinary shares of US$0.50 each, which may be used to satisfy the exchange of CCF shares for HSBC Holdings plc ordinary shares of US$0.50 each following exercise of these options, were purchased by The HSBC Holdings Employee Benefit Trust 2001 (No.1). C F W de Croisset and C-H Filippi have options over CCF shares that are exchangeable for 2,418,000 and 598,000 HSBC Holdings plc ordinary shares of US$0.50 each respectively, further details of which are set out in the section headed 'Share options' in the Directors' Remuneration Report. However, as potential beneficiaries of the Trust, C F W de Croisset and C-H Filippi are deemed to have a technical interest in all 32,775,055 HSBC Holdings plc ordinary shares of US$0.50 each held by the Trust at 31 December 2003.

Save as stated above, and in the Directors' Remuneration Report, none of the Directors had an interest in any shares or debentures of HSBC Holdings plc or any of its subsidiary undertakings at the beginning or at the end of the year and none of the Directors, or members of their immediate families, was awarded or exercised any right to subscribe for any shares or debentures during the year.

Since the end of the year, the beneficial interests of Sir John Bond, W R P Dalton and S K Green each increased by 17 HSBC Holdings plc ordinary shares of US$0.50 each, which were acquired by Computershare Trustees Limited using monthly contributions to the HSBC UK Share Ownership Plan and the reinvestment of dividend income.

The reinvestment of dividend income by an Individual Savings Account and Personal Equity Plan Manager has resulted in the total interests of Sir John Bond increasing by 56 HSBC Holdings plc ordinary shares of US$0.50 each.

The scrip dividend paid on 20 January 2004 has increased the total beneficial interests in HSBC Holdings plc ordinary shares of US$0.50 each of the following Directors: Sir John Bond 587 shares as beneficiary of a trust holding these shares; C F W de Croisset 296 shares; W R P Dalton 283 shares; and S K Green 1,565 shares, including 355 shares as beneficiary of a trust holding these shares.

Apart from the increases in the interests of Directors as beneficiaries of the trust holding awards of HSBC Holdings plc ordinary shares of US$0.50 each under the HSBC Restricted Share Plan, as a result of the scrip dividend on 20 January 2004, as detailed in the Directors' Remuneration Report on page 26, there have been no other changes in Directors' interests from 31 December 2003 to the date of this report.

Employee Involvement

HSBC believes that its employees help to differentiate it from the competition. Success in delivering the HSBC brand to the bank's customers is based on the premise that one of the most important factors in differentiating the bank from its competitors is the way the bank treats its employees. This involves understanding the importance of each individual's contribution to business success and maximising their potential. The bank creates an environment where the insights of diverse groups are sought and welcomed, and innovation and creativity are rewarded and recognised. The bank's policies promote communication, involvement and collegiate working, including consultative forums for managers, agreed procedures with the recognised union and the bank's participation in the HSBC European Council.

The involvement of employees in the performance of the bank is further encouraged through participation in bonus and share option plans.

Many HSBC employees now participate in one or more of the HSBC Group's employee share plans. There are over 4,300 in the Share Ownership Plan and over 38,000 in Sharesave. Additionally, around 31,000 employees have discretionary options under the executive share option schemes.

Diversity Policy - Employees with Disabilities

By employing and managing diverse people, the bank is a more rounded and balanced organisation, better able to adapt to new situations. Diversity is not simply about gender, ethnicity, disability or age but also about keeping an open mind, embracing non-conformity and creating balanced teams. Respect for individuals of all types will inspire loyalty and this is why the bank is committed to developing effective policies to support its employees and customers with disabilities.

The bank's continued employment policy means that it will make every effort, if existing employees become disabled, to retain them within the workforce, making reasonable adjustments on an individual basis to ensure that they are not disadvantaged and can compete equally.

Community Involvement and Donations

During the year, the bank made charitable donations of £3 million, and made gifts in kind in support of community activities in the United Kingdom. Many staff also gave their time in voluntary activities for the benefit of others.

The bank continued to build its support for the communities in which it operates through activities focused on its commitment to education, particularly for under-privileged primary and secondary school students, and the environment. This commitment to education is led by Dame Mary Richardson, whose primary role within the HSBC Group is as Chief Executive of the HSBC Education Trust in the United Kingdom.

The Trust will consider charitable payments relating to education. Among the initiatives the Trust will support are funding for business and enterprise, sports and language colleges and primary and secondary school programmes for underprivileged children.

The bank's staff and customers made contributions through a number of events and raised more than £450,000 for BBC Children in Need, being named one of the largest corporate fundraisers for that event. Staff raised a further £111,000 for The Childrens Heart Federation with sponsored walks, and £95,000 for research into women's cancers with Cancer Research UK's Race for Life.

In addition, the HSBC Group continued its policy of making donations to charities instead of sending Christmas cards. In 2003, this totalled £180,000, the beneficiaries being: Changing Faces, providing help for people with facial disfigurements; The Samaritans; John Grooms, a leading disability charity; Foundacion Amistad Britanico, a Mexican charity supporting illiterate children; and a project in Turkey supporting the educational needs of children bereaved in the Istanbul bombing.

HSBC's five year partnership 'Investing in Nature' with three charities: WWF; Botanic Gardens Conservation International; and Earthwatch, under which US$50 million will be donated to fund conservation projects around the world, continues. The programme has made progress on cleaning up three of the world's major rivers, benefitting 50 million people who depend upon them and helping to save 8,000 rare plant species from extinction (of a five year target of 20,000). By 2003, more than 500 HSBC employees (of a five year target of 2,000) had travelled to work on vital conservation research projects worldwide and 30 scientists had been trained, as a result of the programme.

In 2003, HSBC announced a five year partnership with the Outward Bound Trust over which period a £500,000 donation will be made. This project will enable 750 children from 5 schools in East London to benefit from residential outward bound experiences and ancillary activities. This project is being independently assessed by Loughborough University as to its impact on the young people involved.

No political donations were made during the year.

Supplier Payment Policy

The bank subscribes to the Better Payment Practice Code for all suppliers, the four principles of which are: to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly.

Copies of, and information about, the Code are available from: The Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET.

The amount due to the bank's trade creditors at 31 December 2003 represented 24 days' average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Auditor

KPMG Audit Plc has expressed its willingness to continue in office and the Board recommends that it be reappointed. A resolution proposing the reappointment of KPMG Audit Plc as auditor of the bank and giving authority to the Directors to determine its remuneration will be submitted to the forthcoming Annual General Meeting.

On behalf of the Board
I B Marshall, *Secretary*

1 March 2004

Directors' Remuneration Report

Remuneration Committee

The functions of the Remuneration Committee are fulfilled by the Remuneration Committee of the Board of the bank's parent company, HSBC Holdings plc. During 2003, the members of the Remuneration Committee were Sir Mark Moody-Stuart (Chairman), W K L Fung and Sir John Kemp-Welch, all of whom are independent non-executive Directors of HSBC Holdings plc and eight meetings were held. S Hintze, an independent non-executive Director of HSBC Holdings plc, was appointed a member of the Committee on 30 January 2004.

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

General policy on employees

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

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

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

The Remuneration Committee is responsible for determining the remuneration policy of the bank, including the terms of bonus plans, share option plans and other long-term incentive plans and for agreeing the individual remuneration packages of the bank's executive Directors and other senior executives. No Directors are involved in deciding their own remuneration.

The Remuneration Committee applies the following key principles:

- to ensure that remuneration is competitive in relation to comparative organisations in each of the countries or regions in which the HSBC Group operates;
- to offer fair and realistic salaries with an important element of variable pay based on relative performance;
- to have as many top-performers as possible at all levels within HSBC participating in some form of long-term share plan; and
- since 1996, to follow a policy of moving progressively from defined benefit to defined contribution Group pension schemes for new employees only.

In line with these principles:

- employees' salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. Allowances and benefits are largely determined by local market practice;
- employees participate in various bonus arrangements. The level of performance-related variable pay depends upon the performance of the bank and the individual concerned. Key measures of success include: achievement of financial goals, encompassing both revenue generation and expense control; customer relationships; full utilisation of professional skills; and adherence to the HSBC Group's ethical standards. The HSBC Group has a long history of paying close attention to its customers in order to provide value for shareholders. This has been achieved by ensuring that the interests of the HSBC Group and its employees are aligned with those of its shareholders and that the HSBC Group's approach to risk management serves the interests of all. Closer alignment with the interests of shareholders continues to be achieved through the promotion and extension of employee participation in the existing share plans and the bank's 'Let's

Reward Success' initiative which seeks to incentivise all employees to deliver higher levels of customer-driven service. Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration; and

- in order to align the interests of employees with those of shareholders, employees are generally eligible to be considered for discretionary awards of share options under the HSBC Holdings Group Share Option Plan. For the majority of employees, the vesting of share awards under the HSBC Holdings Group Share Option Plan is subject to the attainment of total shareholder return ('TSR') targets (full details are set out on pages 20 to 21). Separate transitional arrangements are currently in place for employees of CCF.

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

Executive Directors and senior management

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

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

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

The level of awards available to the executive Directors under the annual cash bonus scheme and the HSBC Holdings Restricted Share Plan 2000 is entirely dependent on performance. Remuneration policy for executive Directors is intended to provide competitive rates of base salary but with the potential for the majority of the value of the remuneration package to be delivered in the form of both short and long-term incentives.

The Committee has made the following modifications to the performance condition for future awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000 in order to make the condition more relevant and long-lasting:

- the elimination of any re-testing provision so that awards lapse if the performance condition is not satisfied after the initial three year performance period; and
- a change to the benchmark group (set out on page 20) to make it more relevant as a benchmark against which the HSBC Group's performance is measured.

Long-term incentive plan

The HSBC Holdings Restricted Share Plan 2000 is the principal long-term incentive plan used to reward the delivery of sustained financial growth of the HSBC Group. So as to align the interests of the Directors and senior employees more closely with those of shareholders, the vesting of Performance Share awards is subject to the attainment of a predetermined TSR target.

Awards

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

	£000
Sir John Bond	2,100
M F Geoghegan	780
S K Green	1,430
D D J John	325
	4,635

The Trustee to the Plan will be provided with funds to acquire HSBC Holdings plc ordinary shares of US$0.50 each at an appropriate time after the announcement of the annual results.

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

Neither C F W de Croisset, who retired on 25 February 2004, nor C-H Filippi have received any awards of Performance Shares under the HSBC Holdings Restricted Share Plan 2000 since the acquisition of CCF in 2000. Rather, in accordance with the arrangements agreed with CCF in 2000, both received share option awards under the HSBC

Holdings Group Share Option Plan. The awards in 2001 and 2002 were not subject to performance conditions and 50 per cent of the award made in 2003 was subject to the TSR performance conditions set out below.

Performance conditions

From 1999, the vesting of awards has been linked to the attainment of predetermined TSR targets as set out below.

Particulars of Directors' interests in shares held in the Restricted Share Plan are set out on page 26.

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

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

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

1. a peer group of nine banks weighted by market capitalisation which are considered most relevant to the HSBC Group in terms of size and international scope. For performance periods up to and including the one beginning in 2003, this group comprised ABN AMRO Holdings N.V., The Bank of East Asia Limited, Citigroup, Deutsche Bank, J P Morgan Chase & Co., Lloyds TSB Group plc, Mitsubishi Tokyo Financial Group Inc., Overseas-Chinese Banking Corporation Ltd. and Standard Chartered PLC. To be more relevant to the HSBC Group in terms of size and international scope, this peer group has been amended for conditional awards made in 2004 and onwards by the replacement of Lloyds TSB Group plc, Overseas-Chinese Banking Corporation Ltd., Mitsubishi Tokyo Financial Group Inc. and The Bank of East Asia Limited with Bank of America Corporation, The Royal Bank of Scotland plc, Banco Santander Central Hispano S.A. and UBS A.G.
2. the five largest banks from each of the US, the UK, continental Europe and the Far East, other than any within paragraph 1 above, weighted by market capitalisation; and
3. the banking sector of the Morgan Stanley Capital International World Index, excluding any within paragraphs 1 and 2 above, weighted by market capitalisation.

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

The extent to which awards will vest will be determined by reference to the HSBC Group's TSR measured against the TSR benchmark. The calculation of the share price component within the HSBC Group's TSR will be the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 2004 is 1 March. The starting point will be, therefore, the average over the period 1 to 26 March inclusive. TSR for the benchmark constituents will be based on their published share prices on 26 March 2004.

If the HSBC Group's TSR over the performance period exceeds the benchmark TSR, awards with a value, at the date of grant, of up to 100 per cent of the individual's earnings will vest. For higher value awards, the greater of 50 per cent of the award or the number of shares, equating at the date of grant to 100 per cent of earnings, will vest at this level of performance. If HSBC Holdings' TSR over the performance period places it within the upper quartile in the ranked list against the benchmark, these higher value awards will vest in full. For performance between the median and the upper quartile, vesting will be on a straightline basis.

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

As a secondary condition, options and awards will only vest if the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the date of grant.

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

1. revenue growth;
2. revenue mix;
3. cost efficiency;
4. credit performance as measured by risk-adjusted revenues; and
5. cash return on cash invested, dividend performance and total shareholder return.

Awards will vest immediately in cases of death. The Remuneration Committee retains discretion to recommend early release of the shares to the Plan Trustee in certain instances, e.g. in the event of redundancy, retirement on grounds of injury or ill health, early retirement, retirement on or after contractual retirement or if the business is no longer part of the HSBC Group. Awards will normally be forfeited if the participant is dismissed or resigns from the HSBC Group.

Where events occur which cause the Remuneration Committee to consider that the performance condition has become unfair or impractical, the right is reserved to the Remuneration Committee to make such adjustments as in its absolute discretion it deems appropriate to make.

Service contracts and terms of appointment

M F Geoghegan does not have a service contract with the bank or any of its subsidiaries with a notice period in excess of one year or with provisions for pre-determined compensation on termination which exceeds one year's salary and benefits in kind.

D D J John has a service contract with the bank with a notice period of two years. This contract was in force before he joined the board of the bank.

C F W de Croisset had and C-H Filippi has contracts of employment that were in force before they joined the board of CCF. In accordance with French legal requirements and practice, these contracts were suspended while they served as executive Directors of CCF. On 29 February 2004, Mr de Croisset took early retirement from the Group, relinquishing his role as Chairman and Chief Executive Officer of CCF. In light of French legal requirements, a review of market practice was undertaken and it was agreed that a one-off payment of €2,427,000 would be made to Mr de Croisset, which is considered appropriate in all the circumstances. He will also receive a pension as set out on page 23. In the case of Mr Filippi, who ceased to be an executive Director of CCF in 2001, his contract remained suspended while he served as an HSBC Group General Manager. On assuming the position of Chairman and Chief Executive Officer of CCF, the suspended contract of employment with CCF will terminate and will be replaced by an International Group contract.

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

Non-executive Directors are appointed for three year terms, subject to their re-election by shareholders at the subsequent Annual General Meeting. Independent non-executive Directors have no service contract and are not eligible to participate in the HSBC Group's share plans. Independent non-executive Directors' terms of appointment will expire in: 2004 — Mrs A C Reed, H A Rose and J Singh; 2005 — C M S Jones; and 2007 — J D Fishburn and A R D Monro-Davies.

Other Directorships

Executive Directors, if so authorised by the Board, may accept appointments as non-executive Directors of suitable companies which are not part of the HSBC Group. Executive Directors normally would be permitted to take on no more than one such appointment. Any remuneration receivable in respect of this appointment is paid to the bank, unless otherwise approved by the Remuneration Committee.

Directors' Remuneration Report (continued)

Audited Information

Directors' emoluments

The emoluments of the Directors of the bank for 2003 were as follows:

	Fees	Salary and other remuneration	Benefits in kind	Discretionary bonuses[1]	Total 2003	Total 2002
	£000	£000	£000	£000	£000	£000
Executive Directors						
W R P Dalton[2]	—[3]	582	14	—[4]	596	592
D D J John	25	294	—	193	512	-
Non-executive Directors						
C F W de Croisset	—[3]	382	—	917	1,299	574
R Emerson[5]	13[6]	—	—	—	13	33
C-H Filippi	25	207	150[7]	400[8]	782	613
J D Fishburn[9]	15	—	—	—	15	—
C M S Jones	25	—	—	—	25	25
A C Reed	33[6]	—	—	—	33	33
H A Rose	35[10]	—	—	—	35	35
J Singh	25	—	—	—	25	25
Total	196	1,465	164	1,510	3,335	2,670

1 *These discretionary bonuses are in respect of 2003 and will be paid in 2004.*
2 *Retired as a Director and Chief Executive on 31 December 2003.*
3 *It is the HSBC Group policy that each HSBC Group Executive may only retain one fee paid by the HSBC Group. As a consequence, neither W R P Dalton nor C F W de Croisset, as Directors of HSBC Holdings plc, received a fee in respect of their directorship of HSBC Bank plc.*
4 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount of £1,250,000 (2002: £400,000) which would otherwise have been paid.*
5 *Retired as a non-executive Director on 28 May 2003.*
6 *Member of the Audit Committee, for which a fee of £7,500 per annum is payable.*
7 *Includes a sum of £143,000 representing the benefit arising from the provision of accommodation for C-H Filippi in the UK.*
8 *In return for the prior waiver of part of the bonus, the employer contribution into the pension scheme has been increased by the amount of £400,000 (2002: £400,000) which would otherwise have been paid.*
9 *From 28 May 2003 - date of appointment.*
10 *Chairman of the Audit Committee, for which a fee of £10,000 per annum is payable.*

Sir John Bond, S K Green, and Sir Keith Whitson who retired on 28 May 2003, received no emoluments from the bank or from its subsidiary undertakings.

Pensions

Pension arrangements for bank employees are provided by the HSBC Bank (UK) Pension Scheme, the assets of which are held in a separate trust fund. The Pension Scheme is administered by HSBC Bank Pension Trust (UK) Limited, whose Board of 19 Directors (eight of whom are elected by employees and one by pensioners) meets quarterly. It has three committees that monitor and review investment performance, discretionary benefits and administration and communications. The Pension Scheme does not invest in shares of the bank's parent company or in any of its subsidiary undertakings.

Pension arrangements to contractual retirement age of 60 for D D J John are provided under the HSBC Bank (UK) Pension Scheme.

The pension arrangements for W R P Dalton to contractual retirement age of 60 are provided under the HSBC Holdings Overseas (No.1) Pension Plan on a defined contribution basis, with an employer contribution in respect of 2003 of £1,379,000 (including a bonus waiver of £1,250,000) (2002: £529,000 including a bonus waiver of £400,000).

Pension arrangements to contractual retirement age of 60 for C-H Filippi are provided under the HSBC Group International Contract Executive Retirement Plan on a defined contribution basis, with an employer contribution by way of bonus waiver in respect of 2003 of £400,000 (2002: £400,000).

C F W de Croisset was, until his retirement from CCF on 29 February 2004, and C-H Filippi is, eligible for pension benefits which are supplementary to those accrued under the French State and compulsory arrangements. The amount of these supplementary pensions, payable from age 60, accrued at the rate of €6,098 and €4,574 per annum respectively for each year of service (maximum 18 years) as executive Directors of CCF. Consequent on Mr de Croisset's early retirement from CCF and following a review of market practice, it has been agreed to provide a total pension of €341,467 per annum (equivalent to 32.5 per cent of his average total cash compensation over a three-year period) payable from 1 March 2004. In the case of C-H Filippi, these arrangements applied up to 30 June 2001, when he ceased to be an executive Director of CCF. The whole cost of these benefits is met by CCF.

The pension entitlements earned by these Directors during the year are shown below:

	Accrued annual pension at 31 December 2003	Increase in accrued pension during 2003, excluding any increase for inflation	Transfer value of accrued pension at 1 January 2003[1]	Transfer value of accrued pension at 31 December 2003[1]	Change in transfer value of accrued pension 1 January – 31 December 2003[1]
	£000	£000	£000	£000	£000
Executive Director					
D D J John	125	20	1,095	1,504	409
Non-executive Directors					
C F W de Croisset	64	7	626	860	234
C-H Filippi	14[2]	—	83	105	22

1 *The transfer value represents a liability of the HSBC Group's pension funds and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.*

2 *The accrued annual pension payable under the supplementary arrangements from CCF S.A., membership of which ceased on 30 June 2001, being the date he ceased to be an executive Director of CCF S.A.*

Only basic salary is pensionable. Neither of the executive Directors of the bank is subject to the earnings cap introduced by the 1989 Finance Act.

Pension payments totalling £379,000 (2002: £384,000) were made to seven (2002: seven) former Directors of the bank.

Directors' Remuneration Report (continued)

Audited Information

Share options

At 31 December 2003, the undernamed Directors held options to acquire the number of HSBC Holdings ordinary shares of US$0.50 each set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the HSBC Holdings savings-related share option plans before 2001 are exercisable at a 15 per cent discount to the market value at the date of award and those awarded since 2001 at a 20 per cent discount. Except as otherwise indicated, no options were exercised or lapsed during the year and there are no remaining performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares at 31 December 2003 was £8.78. The highest and lowest market values of the ordinary shares during the year were £9.135 and £6.31. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date.

Options over ordinary shares of US$0.50 each

	Options held at 1 January 2003	Options awarded during year	Options exercised during year	Options held at 31 December 2003	Exercise price in £	Date of award	Exercisable from[1]	Exercisable until
Executive Directors								
W R P Dalton	22,704	—	22,704[2]	—	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	30,273	—	30,273[2]	—	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	36,000	—	36,000[2]	—	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	36,000[3]	—	36,000[2]	—	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	—	—	2,798[4]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D D J John	21,000	—	—	21,000	6.2767	16 Mar 1998	16 Mar 2001	16 Mar 2008
	1,248	—	—	1,248[4]	5.3980	1 Apr 1999	1 Aug 2004	31 Jan 2005
	1,119	—	—	1,119[4]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
	499	—	—	499[4]	6.7536	11 Apr 2001	1 Aug 2006	31 Jan 2007
Non-executive Directors								
Sir John Bond	75,000[3]	—	75,000[5]	—	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	—	—	2,798[4]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
C F W de Croisset	206,000[6]	—	—	206,000	8.7120	23 Apr 2001	23 Apr 2004	23 Apr 2011
	206,000[6]	—	—	206,000	8.4050	7 May 2002	7 May 2005	7 May 2012
	—	206,000[7]	—	206,000	6.9100	2 May 2003	2 May 2006	1 May 2013
C-H Filippi	202,000[6]	—	—	202,000	8.7120	23 Apr 2001	23 Apr 2004	23 Apr 2011
	202,000[6]	—	—	202,000	7.4550	30 Aug 2002	30 Aug 2005	30 Aug 2012
	—	202,000[7]	—	202,000	6.9100	2 May 2003	2 May 2006	1 May 2013
S K Green	2,498[4]	—	—	—[8]	6.7536	11 Apr 2001	1 Aug 2006	31 Jan 2007
	—	3,070[4]	—	3,070	5.3496	23 Apr 2003	1 Aug 2008	31 Jan 2009

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *At the date of exercise, 5 March 2003, the market value per share was £6.70.*
3 *The exercise of these options was conditional upon the growth in earnings per share over a three-year period being equal to or greater than a composite rate of inflation (comprising 50 per cent of the Hong Kong Composite Consumer Price Index, 35 per cent of the UK Retail Price Index and 15 per cent of the USA All Urban Consumer Price Index) plus 2 per cent per annum. This condition has been satisfied.*
4 *Options awarded under the HSBC Holdings Savings-Related Share Option Plan.*
5 *At the date of exercise, 31 March 2003, the market value per share was £6.49.*
6 *Options awarded under the HSBC Holdings Group Share Option Plan. In accordance with agreements made at the time of the acquisition, there are no performance criteria conditional upon which the outstanding options are exercisable.*
7 *Options awarded under the HSBC Holdings Group Share Option Plan. Vesting of 50 per cent of the award is subject to the performance tests applicable to the HSBC Holdings Restricted Share Plan as set out in the section headed "Performance Conditions" on pages 20 to 21.*
8 *Options lapsed on 9 April 2003 following closure of the associated savings-related account by the Director.*

Audited Information

At 31 December 2003, C F W de Croisset and C-H Filippi held the following options to acquire CCF shares of €5 each. On exercise of these options, each CCF share will be exchanged for 13 HSBC Holdings plc ordinary shares of US$0.50 each. The options were granted by CCF for nil consideration at a 5 per cent discount to the market value at the date of award. There are no remaining performance criteria conditional upon which the outstanding options are exercisable. No options over CCF shares of €5 each were awarded to or exercised by either C F W de Croisset or C-H Filippi during the year, except as otherwise indicated.

Options over CCF S.A. shares of €5 each

Options held at 1 January 2003	Exercise price per share (€)	Options held at 31 December 2003	Equivalent HSBC Holdings ordinary shares of US$0.50 each at 31 December 2003	Date of award	Exercisable from	Exercisable until
C F W de Croisset						
10,000	32.78	10,000	130,000	23 Jun 1994	23 Jun 1996	23 Jun 2004
30,000	34.00	30,000	390,000	22 Jun 1995	22 Jun 1997	22 Jun 2005
30,000	35.52	30,000	390,000	9 May 1996	9 May 1998	9 May 2006
30,000	37.05	30,000	390,000	7 May 1997	7 Jun 2000	7 May 2007
30,000	73.50	30,000	390,000	29 Apr 1998	7 Jun 2000	29 Apr 2008
28,000	81.71	28,000	364,000	7 Apr 1999	7 Jun 2000	7 Apr 2009
28,000	142.50	28,000	364,000	12 Apr 2000	1 Jan 2002	12 Apr 2010
C-H Filippi						
20,000	73.50	—[1]	—	29 Apr 1998	7 Jun 2000	29 Apr 2008
23,000	81.71	23,000	299,000	7 Apr 1999	7 Jun 2000	7 Apr 2009
23,000	142.50	23,000	299,000	12 Apr 2000	1 Jan 2002	12 Apr 2010

1 *At the date of exercise, 5 December 2003, the market value per HSBC share was £8.77.*

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

Directors' Remuneration Report (continued)

Audited Information

Restricted Share Plan

HSBC Holdings Ordinary shares of US$0.50

	Awards held at 1 January 2003	Awards made during year	Monetary value of awards made during year £000	Awards vested during year	Awards held at 31 December 2003[1]	Date of award	Year in which awards may vest
Sir John Bond	29,746	—	—	30,647[2]	—	2 Mar 1998	2003
	67,996	—	—	—	71,386	4 Mar 1999	2004
	85,365	—	—	—	89,621	10 Mar 2000	2005
	80,001	—	—	—	83,988	12 Mar 2001	2006
	119,795	—	—	—	125,767	8 Mar 2002	2007
	—	159,873[3]	1,100	—	167,843	5 Mar 2003	2008
W R P Dalton	19,833	—	—	20,433[2]	—	2 Mar 1998	2003
	39,665	—	—	—	41,643	4 Mar 1999	2004
	38,803	—	—	—	40,738	10 Mar 2000	2005
	45,715	—	—	—	47,994	12 Mar 2001	2006
	75,660	—	—	—	79,432	8 Mar 2002	2007
	—	109,004[3]	750	—	114,438	5 Mar 2003	2008
S K Green	23,796	—	—	24,516[2]	—	2 Mar 1998	2003
	39,665	—	—	—	41,643	4 Mar 1999	2004
	38,803	—	—	—	40,738	10 Mar 2000	2005
	80,001	—	—	—	83,988	12 Mar 2001	2006
	94,575	—	—	—	99,290	8 Mar 2002	2007
	—	109,004[3]	750	—	114,438	5 Mar 2003	2008
D D J John	16,513	—	—	—	17,338	4 Mar 1999	2004
	12,554	—	—	—	13,179	10 Mar 2000	2005
	17,144	—	—	—	17,999	12 Mar 2001	2006
	25,220	—	—	—	26,478	8 Mar 2002	2007
	—	36,336[3]	250	—	38,148	5 Mar 2003	2008

Unless otherwise indicated, vesting of these shares is subject to the performance tests set out in the section headed "Performance Conditions" on pages 20 to 21.

1 Includes additional shares arising from scrip dividends.

2 *At the date of vesting, 31 March 2003, the market value per share was £6.49. The market value per share (adjusted for the share capital reorganisation implemented on 2 July 1999) on 2 March 1998, the date of the award, was £6.22. The awards were subject to performance conditions of earnings per share to be achieved in whole or in part, as follows: (1) earnings per share in the year 2001 (the fourth year of the performance period) to be greater than earnings per share in 1997 (the base year for the calculation) by a factor equivalent to the composite rate of inflation (a weighted average of inflation in the UK, USA and the Hong Kong SAR) plus 2 per cent, compounded over each year of the performance period; (2) earnings per share to increase relative to the previous year in not less than three of the four years of the performance period; and (3) cumulative earnings per share over the four years of the performance period, 1998 to 2001 inclusive, must exceed an aggregate figure calculated by compounding 1997 earnings per share by a factor equivalent to the annual composite rate of inflation plus 2 per cent for each year of the performance period. On meeting all of these three primary tests, 50 per cent of the conditional awards would be released to each eligible participant. A secondary test would apply such that, if the cumulative earnings per share over the performance period exceeded an aggregate figure calculated by compounding 1997 earnings per share by a factor equivalent to the same annual composite rate of inflation as described above, plus 5 per cent or more, or 8 per cent or more, for each year of the performance period, 75 per cent or 100 per cent respectively of the conditional awards would be released. In accordance with the rules of the Plan, these conditions were re-tested over the years 1999 to 2002. The performance conditions were met in full and the shares were released.*

3 *The market value per share on 5 March 2003 was £6.70. The shares acquired by the Trustee of the Plan were purchased at an average price of £6.88.*

Following the dividend paid on 20 January 2004, the awards held by Directors as beneficiaries of the Trust holding these shares have increased as follows: Sir John Bond 4,253 shares; W R P Dalton 2,559 shares; S K Green 2,999 shares; and D D J John 892 shares.

On behalf of the Board
I B Marshall, *Secretary*

1 March 2004

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on the next page, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank and its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the group and the bank have the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that, in preparing the financial statements (on pages 29 to 102), the bank has used appropriate accounting policies, consistently applied save as disclosed in the Notes on the Accounts and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the bank keeps accounting records which disclose with reasonable accuracy, at any time, the financial position of the bank and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

On behalf of the Board
I B Marshall, *Secretary*

1 March 2004

Independent Auditors' Report to the Member of HSBC Bank plc

We have audited the financial statements on pages 29 to 102.

This report is made solely to the bank's member in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the bank's member those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the bank and the bank's member for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' report and, as described on page 27, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the bank has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the bank and the group as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc 1 March 2004
Chartered Accountants
Registered Auditor
London

Consolidated Profit and Loss Account for the Year Ended 31 December 2003

	Note	2003 £m	2002 £m
Interest receivable			
— interest receivable and similar income arising from debt securities		**1,631**	1,792
— other interest receivable and similar income		**6,636**	6,492
Interest payable		**(3,995)**	(4,245)
Net interest income		**4,272**	4,039
Dividend income	*3*	**88**	114
Fees and commissions receivable		**3,657**	3,161
Fees and commissions payable		**(657)**	(560)
Dealing profits	*4*	**680**	388
Other operating income		**508**	550
Other income		**4,276**	3,653
Operating income		**8,548**	7,692
Administrative expenses	*5*	**(4,886)**	(4,060)
Depreciation and amortisation			
— tangible fixed assets	*22*	**(491)**	(455)
— goodwill	*21*	**(483)**	(482)
Operating expenses		**(5,860)**	(4,997)
Operating profit before provisions		**2,688**	2,695
Provisions			
— provisions for bad and doubtful debts	*14*	**(436)**	(377)
— provisions for contingent liabilities and commitments	*28*	**(45)**	(27)
Amounts written off fixed asset investments		**(28)**	(146)
Operating profit		**2,179**	2,145
Share of operating (loss) in joint ventures and associates		**(57)**	(4)
Gains/(losses) on disposal of			
— interests in joint ventures and associates		**1**	32
— investments		**137**	122
— tangible fixed assets		**(16)**	(10)
Profit on ordinary activities before tax	*6*	**2,244**	2,285
Tax on profit on ordinary activities	*7*	**(641)**	(808)
Profit on ordinary activities after tax		**1,603**	1,477
Minority interests			
— equity		**(43)**	(30)
— non-equity		**(80)**	(68)
Profit for the financial year attributable to shareholders		**1,480**	1,379
Dividends (including amounts attributable to non-equity shareholders)	*9*	**(1,440)**	(1,144)
Retained profit for the year		**40**	235
		pence	pence
Earnings per ordinary share (basic and diluted)	*10*	**180.7**	167.5

Movements in reserves are set out in Note 32 'Reserves'. All of the above represents continuing operations.

Consolidated Balance Sheet at 31 December 2003

	Note	2003 £m	2002 £m
Assets			
Cash and balances at central banks		**1,210**	1,834
Items in the course of collection from other banks		**1,819**	1,967
Treasury bills and other eligible bills	*11*	**2,197**	2,047
Loans and advances to banks	*12*	**33,642**	26,627
Loans and advances to customers	*13*	**116,298**	104,907
Debt securities	*16*	**49,556**	44,948
Equity shares	*17*	**5,837**	3,483
Interests in joint ventures			
— gross assets		**49**	137
— gross liabilities		**(43)**	(48)
	18	**6**	89
Interests in associates	*19*	**125**	109
Intangible fixed assets	*21*	**8,315**	8,338
Tangible fixed assets	*22*	**4,916**	4,790
Other assets	*23*	**18,965**	16,614
Prepayments and accrued income		**3,218**	2,625
Total assets		**246,104**	218,378
Liabilities			
Deposits by banks	*24*	**29,287**	24,399
Customer accounts	*25*	**146,103**	130,835
Items in the course of transmission to other banks		**1,144**	1,545
Debt securities in issue	*26*	**9,769**	8,343
Other liabilities	*27*	**30,168**	26,789
Accruals and deferred income		**3,073**	2,578
Provisions for liabilities and charges	*28*		
— deferred taxation		**693**	588
— other provisions for liabilities and charges		**1,151**	1,037
Subordinated liabilities	*29*		
— undated loan capital		**1,268**	1,374
— dated loan capital		**3,991**	2,856
Minority interests			
— equity		**351**	342
— non-equity	*30*	**2,042**	1,237
Called up share capital	*31*	**797**	797
Share premium account	*32*	**12,157**	12,208
Revaluation reserves	*32*	**69**	121
Profit and loss account	*32*	**4,041**	3,329
Shareholders' funds (including non-equity interests)		**17,064**	16,455
Total liabilities		**246,104**	218,378
Memorandum items			
Contingent liabilities	*36*		
— acceptances and endorsements		**455**	742
— guarantees and assets pledged as collateral security		**15,368**	14,359
		15,823	15,101
Commitments	*36*	**73,581**	61,377

Sir John Bond, *Chairman*
M F Geoghegan, *Chief Executive and Director*
D D J John, *Chief Operating Officer and Director*
I B Marshall, *Secretary*

Balance Sheet of HSBC Bank plc at 31 December 2003

	Note	2003 £m	2002 £m
Assets			
Cash and balances at central banks		**616**	599
Items in the course of collection from other banks		**1,400**	1,558
Treasury bills and other eligible bills	*11*	**1,635**	1,430
Loans and advances to banks	*12*	**20,942**	14,224
Loans and advances to customers	*13*	**84,320**	76,207
Debt securities	*16*	**22,320**	20,589
Equity shares	*17*	**2,850**	1,209
Interests in associates	*19*	**7**	5
Investments in subsidiary undertakings	*20*	**15,369**	14,372
Intangible fixed assets	*21*	**33**	38
Tangible fixed assets	*22*	**1,650**	1,704
Other assets	*23*	**9,219**	7,716
Prepayments and accrued income		**2,166**	1,674
Total assets		**162,527**	141,325
Liabilities			
Deposits by banks	*24*	**22,237**	20,062
Customer accounts	*25*	**94,222**	79,770
Items in the course of transmission to other banks		**901**	1,063
Debt securities in issue	*26*	**2,930**	2,873
Other liabilities	*27*	**16,524**	14,604
Accruals and deferred income		**1,596**	1,230
Provisions for liabilities and charges	*28*		
— deferred taxation		**3**	60
— other provisions for liabilities and charges		**270**	313
Subordinated liabilities	*29*		
— undated loan capital		**1,168**	1,262
— dated loan capital		**5,612**	3,633
Called up share capital	*31*	**797**	797
Share premium account	*32*	**12,157**	12,208
Revaluation reserves	*32*	**1,115**	685
Profit and loss account	*32*	**2,995**	2,765
Shareholders' funds (including non-equity interests)		**17,064**	16,455
Total liabilities		**162,527**	141,325
Memorandum items			
Contingent liabilities	*36*		
— acceptances and endorsements		**328**	631
— guarantees and assets pledged as collateral security		**9,242**	8,423
		9,570	9,054
Commitments	*36*	**59,025**	50,469

Sir John Bond, *Chairman*
M F Geoghegan, *Chief Executive and Director*
D D J John, *Chief Operating Officer and Director*
I B Marshall, *Secretary*

Statement of Total Consolidated Recognised Gains and Losses for the Year Ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year attributable to shareholders	**1,480**	1,379
Unrealised deficit on revaluation of land and buildings	**(56)**	(44)
Exchange and other movements	**625**	359
Total recognised gains and losses for the year	**2,049**	1,694

Reconciliation of Movements in Consolidated Shareholders' Funds for the Year Ended 31 December 2003

	2003 £m	2002 £m
Profit for the financial year attributable to shareholders	**1,480**	1,379
Dividends	**(1,440)**	(1,144)
	40	235
Other recognised gains and losses relating to the year	**569**	315
New share capital subscribed	**—**	292
Share capital redeemed	**—**	(35)
Net addition to shareholders' funds	**609**	807
Shareholders' funds at 1 January	**16,455**	15,648
Shareholders' funds at 31 December	**17,064**	16,455
Shareholders' funds are analysed as follows:		
Equity interests	**16,575**	15,913
Non-equity interests	**489**	542
	17,064	16,455

Non-equity interests in shareholders' funds comprise proceeds of the issue of US$ non-cumulative preference shares and the £ preferred ordinary share (Note 31), including share premium and after deducting unamortised issue costs.

No note of historical cost profits and losses has been presented as there is no material difference between the group's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis.

Notes on the Accounts

1 Basis of preparation

a The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings, and in accordance with applicable accounting standards.

The consolidated accounts are prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 ('the Act') relating to banking groups.

As permitted by Section 230 of the Act, no profit and loss account is presented for the bank.

In accordance with Financial Reporting Standard ('FRS') 8, 'Related Party Disclosures', no disclosure is presented of transactions with entities that are part of the HSBC Group as all voting rights are controlled by HSBC Holdings plc which publishes its own publicly available accounts. The group has also taken advantage of the exemption under FRS 1 (revised), 'Cash flow statements', allowing wholly-owned subsidiary undertakings to be excluded from the requirement to prepare a cash flow statement.

The accounts have been prepared in accordance with the Statements of Recommended Practice ('SORPs') issued by the British Bankers' Association ('BBA') and Irish Bankers' Federation ('IBF') and with the SORP 'Accounting issues in the asset finance and leasing industry' issued by the Finance & Leasing Association ('FLA').

The SORP issued by the Association of British Insurers ('ABI'), 'Accounting for insurance business' contains recommendations on accounting for insurance business for insurance companies and insurance groups. The group is primarily a banking group, rather than an insurance group, and, consistent with previously established practice for such groups preparing consolidated financial statements complying with Schedule 9 to the Act, values its long-term assurance businesses using the Embedded Value method. This method includes a valuation of the discounted future earnings expected to emerge from business currently in force, taking into account factors such as recent experience and general economic conditions, together with the surplus retained in the long-term assurance funds.

b The preparation of financial information requires the use of estimates and assumptions about future conditions. This is particularly so in the development of provisions for bad and doubtful debts. Making reliable estimates of customers' and other counterparties' abilities to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic uncertainty such as exists in some the group's overseas exposures. Therefore, while management believes it has employed all available information to estimate adequate allowances for all identifiable risks in the current portfolios, there can be no assurance that the provisions for bad and doubtful debts or other provisions will prove adequate for all losses ultimately realised.

c The consolidated accounts of the group comprise the accounts of HSBC Bank plc ('the bank') and its subsidiary undertakings (together 'the group'). Accounts of subsidiary undertakings are made up to 31 December. The consolidated accounts include the attributable share of the results and reserves of joint ventures and associates, based on accounts made up to dates not earlier than six months prior to 31 December.

All significant intra-group transactions are eliminated on consolidation.

2 Principal accounting policies

a *Income recognition*

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (Note 2b).

Fee and commission income is accounted for in the period when receivable, except where it is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, it is recognised on an appropriate basis over the relevant period.

2 Principal accounting policies *(continued)*

b *Loans and advances and doubtful debts*

It is the HSBC Group's policy that each operating company will make provisions for bad and doubtful debts promptly where required and on a consistent basis.

Loans are designated as non-performing as soon as management has doubts as to the ultimate collectability of principal or interest, or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, interest will be suspended (see below) and a specific provision raised if required.

However, the suspension of interest may exceptionally be deferred for up to 12 months past due in the following situations:

— where cash collateral is held covering the total of principal and interest due and a legal right of set-off exists; or

— where the value of net realisable tangible security is considered more than sufficient to cover the full repayment of all principal and interest due and credit approval has been given to the rolling-up or capitalisation of interest payments.

There are two basic types of provision, specific and general, each of which is considered in terms of the charge and the amount outstanding.

Specific provisions

Specific provisions represent the quantification of actual and inherent losses from identified accounts and are deducted from loans and advances in the balance sheet.

Other than where provisions on smaller balance homogeneous loans are assessed on a portfolio basis, the amount of specific provision raised is assessed on a case-by-case basis. The amount of specific provision raised is the group's estimate of the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value, and in reaching a decision consideration is given, among other things, to the following factors:

— the financial standing of the customer, including a realistic assessment of the likelihood of repayment of the loan within an acceptable period and the extent of the group's other commitments to the same customer;

— the realisable value of any security for the loan;

— the costs associated with obtaining repayment and realisation of the security; and

— if loans are not in local currency, the ability of the borrower to obtain the relevant foreign currency.

Where specific provisions are raised on a portfolio basis, the level of provisioning takes into account management's assessment of the portfolio's structure, past and expected credit losses, business and economic conditions, and any other relevant factors. The principal portfolios evaluated on a portfolio basis are credit cards and other consumer lending products.

General provisions

General provisions augment specific provisions and provide cover for loans that are impaired at the balance sheet date but which will not be identified as such until some time in the future. The HSBC Group requires operating companies to maintain a general provision, which is determined taking into account the structure and risk characteristics of each company's loan portfolio. Historic levels of latent risk are regularly reviewed by each operating company to determine that the level of general provisioning continues to be appropriate. Where entities operate in a significantly higher risk environment, an increased level of general provisioning will apply, taking into account local market conditions and economic and political factors. General provisions are deducted from loans and advances to customers in the balance sheet.

2 Principal accounting policies *(continued)*

b *Loans and advances and doubtful debts (continued)*

Loans on which interest is being suspended

Provided that there is a realistic prospect of interest being paid at some future date, interest on non-performing loans is charged to the customer's account. However, the interest is not credited to the profit and loss account but to an interest suspense account in the balance sheet which is netted against the relevant loan. On receipt of cash (other than from the realisation of security), suspended interest is recovered and taken to the profit and loss account. A specific provision of the same amount as the interest receipt is then raised against the principal balance. Amounts received from the realisation of security are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

Non-accrual loans

Where the probability of receiving interest payments is remote, interest is no longer accrued and any suspended interest balance is written off.

Loans are not reclassified as accruing until interest and principal payments are up-to-date and future payments are reasonably assured.

Loan write-offs

Loans and suspended interest are written off, either partially or in full, when there is no prospect of recovery of these amounts.

Assets acquired in exchange for advances

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange and subsequent provisions are based on any further deterioration in its value.

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c *Treasury bills, debt securities and equity shares*

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are disclosed as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value.

Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity so as to give a constant rate of return. If the maturity is at the borrowers' option within a specified range of years, the earliest maturity is adopted. These securities are included in the balance sheet at cost adjusted for the amortisation of premiums and discounts arising on acquisition. The amortisation of premiums and discounts is included in 'Interest receivable'. Any profit or loss on realisation of these securities is recognised in the profit and loss account as it arises and included in 'Gains on disposal of investments'.

Other treasury bills, debt securities, equity shares and short positions in securities are included in the balance sheet at market value. Changes in the market value of such assets and liabilities are recognised in the profit and loss account as 'Dealing profits' as they arise. For liquid portfolios market values are determined by reference to independently sourced mid-market prices. In certain less liquid portfolios securities are valued by reference to bid or offer prices as appropriate. Where independent prices are not available, market values may be determined by discounting the expected future cash flows using an appropriate interest rate adjusted for the credit risk of the counterparty. In addition, adjustments are made for illiquid positions where appropriate.

Notes on the Accounts (continued)

2 Principal accounting policies *(continued)*

c *Treasury bills, debt securities and equity shares (continued)*

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in 'Loans and advances to banks' or 'Loans and advances to customers'.

d *Subsidiary undertakings, joint ventures and associates*

The bank's investments in subsidiary undertakings are stated at net asset values including attributable goodwill, where this has been capitalised, with the exception of the group's interest in long-term assurance business as explained in Note 2(g). Changes in net assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

Interests in joint ventures are stated at the group's share of gross assets, including attributable goodwill, less the group's share of gross liabilities.

Interests in associates are stated at the group's share of net assets, including attributable goodwill.

Goodwill arises on the acquisition of subsidiary undertakings, joint ventures or associates when the cost of acquisition exceeds the fair value of the group's share of separable net assets acquired. Negative goodwill arises on the acquisition of subsidiary undertakings, joint ventures and associates when the fair value of the group's share of separable net assets acquired exceeds the cost of acquisition. For acquisitions made on or after 1 January 1998, goodwill is included in the balance sheet in 'Intangible fixed assets' in respect of subsidiary undertakings, in 'Interests in joint ventures' in respect of joint ventures and in 'Interests in associates' in respect of associates. Capitalised goodwill is amortised over its estimated life on a straight-line basis. For acquisitions prior to 1 January 1998, goodwill was charged against reserves in the year of acquisition. Capitalised goodwill is tested for impairment when necessary by comparing the present value of the expected future cash flows from an entity with the carrying value of its net assets, including attributable goodwill. Negative goodwill is credited in the profit and loss account in the periods expected to be benefited.

At the date of disposal of subsidiary undertakings, joint ventures or associates, any unamortised goodwill or goodwill charged directly to reserves is included in the group's share of net assets of the undertaking in the calculation of the gain or loss on disposal of the undertaking.

e *Tangible fixed assets*

Land and buildings are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:

— freehold land and land held on leases with more than 50 years to expiry are not depreciated;

— land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases; and

— buildings and improvements thereto are depreciated on cost or valuation at the greater of 2 per cent per annum on the straight-line basis or over the unexpired terms of the leases or over the remaining useful lives.

Equipment, fixtures and fittings are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 and 20 years.

Operating lease assets (Note 2f) are depreciated over their useful economic lives such that, for each asset, rentals less depreciation are recognised at a constant periodic rate of return on the net cash invested in that asset.

2 Principal accounting policies *(continued)*

f *Finance and operating leases*

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where the group is a lessor under finance leases the amounts due under the leases, and under hire purchase contracts that are in the nature of finance leases, after deduction of unearned charges, are included in 'Loans and advances to banks' or 'Loans and advances to customers'. Finance charges receivable are recognised over the periods of the leases so as to give a constant rate of return on the net cash investment in the leases, taking into account tax payments and receipts associated with the leases.

Where the group is a lessee under finance leases the leased assets are capitalised and included in 'Equipment, fixtures and fittings' and the corresponding liability to the lessor is included in 'Other liabilities'. Finance charges payable are recognised over the periods of the leases, based on the interest rates implicit in the leases.

All other leases are classified as operating leases and, where the group is the lessor, are included in 'Tangible fixed assets'. The residual values of equipment on operating leases are regularly monitored. Provision is made to the extent that the carrying value of equipment is impaired through residual values not being fully recoverable. Rentals payable and receivable under operating leases are accounted for on the straight-line basis over the periods of the leases and are included in 'Administrative expenses' and 'Other operating income' respectively.

g *Long-term assurance business*

The value placed on the group's interest in long-term assurance business includes a valuation of the discounted future earnings expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as recent experience and general economic conditions, together with the surplus retained in the long-term assurance funds. These are determined annually in consultation with independent actuaries and are included in 'Other assets'.

Changes in the value placed on the group's interest in long-term assurance business are calculated on a post-tax basis and reported in the profit and loss account as part of 'Other operating income' after adjusting for taxation.

Long-term assurance assets and liabilities attributable to policyholders are recognised in the group's accounts in 'Other assets' and 'Other liabilities'.

h *Deferred taxation*

Deferred tax is recognised in full on timing differences between the accounting and taxation treatment of income and expenditure, subject to assessment of the recoverability of deferred tax assets. Deferred tax balances are not discounted.

i *Pension and other post-retirement benefits*

The group operates a number of pension and other post-retirement benefit schemes.

For UK defined benefit pension schemes, annual contributions are made, on the advice of qualified actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life and used to pay a pension to the employee or dependant after retirement. The costs of providing these benefits are charged to the profit and loss account on a systematic basis.

Arrangements for staff retirement benefits in overseas locations vary from country to country and are made in accordance with local regulations and custom. The pension cost of the major overseas schemes is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

The cost of providing post-retirement health-care benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives.

2 Principal accounting policies *(continued)*

j *Foreign currencies*

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end. The results of overseas branches and subsidiary undertakings, joint ventures and associates are translated into sterling at the average rates of exchange for the year.

Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result for the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.

Other exchange differences are recognised in the profit and loss account.

k *Off-balance-sheet financial instruments*

Off-balance-sheet financial instruments comprise futures, forward, swap and option transactions undertaken by the group in the foreign exchange, interest rate, equity, credit derivative and commodity markets. Netting is applied where a legal right of set-off exists. Mark-to-market assets and liabilities are presented gross, with netting shown separately.

Accounting for these instruments is dependent upon whether the transactions are undertaken for trading or non-trading purposes.

Trading transactions

Trading transactions include transactions undertaken for market-making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked-to-market and the net present value of any gain or loss arising is recognised in the profit and loss account as 'Dealing profits', after appropriate deferrals for unearned credit margin and future servicing costs. Off-balance-sheet trading transactions are valued by reference to an independent liquid price where this is available. For those transactions where there are no readily quoted prices, which predominately relates to over the counter transactions, market values are determined by reference to independently sourced rates, using valuation models. Adjustments are made for illiquid positions where appropriate.

Assets, including gains, resulting from off-balance-sheet exchange rate, interest rate, equities, credit derivative and commodity contracts that are marked-to-market are included in 'Other assets'. Liabilities, including losses, resulting from such contracts, are included in 'Other liabilities'.

Non-trading transactions

Non-trading transactions are those which are held for hedging purposes as part of the group's risk management strategy against assets, liabilities, positions or cash flows measured on an accruals basis. Non-trading transactions include qualifying hedges and positions that synthetically alter the characteristics of specified financial instruments.

Non-trading transactions are accounted for on an equivalent basis to the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions.

To qualify as a hedge, a derivative must effectively reduce the price, foreign exchange or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. If these criteria are met, the derivative is accounted for on the same basis as the underlying hedged item. Derivatives used for hedging purposes include swaps, forwards and futures.

2 **Principal accounting policies** *(continued)*

k *Off-balance-sheet financial instruments (continued)*

Interest rate swaps are also used to alter synthetically the interest rate characteristics of financial instruments. In order to qualify for synthetic alteration, a derivative instrument must be linked to specific individual, or pools of similar, assets or liabilities by the notional principal and interest rate risks of the associated instruments, and must achieve a result that is consistent with defined risk management objectives. If these criteria are met, accruals based accounting is applied, i.e. income or expense is recognised and accrued to the next settlement date in accordance with the contractual terms of the agreement.

Any gain or loss arising on the termination of a qualifying derivative is deferred and amortised to earnings over the original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the qualifying derivative is immediately marked-to-market and any profit or loss arising is taken to the profit and loss account.

3 Dividend income

	2003 £m	2002 £m
Income from equity shares	**88**	114

4 Dealing profits

	2003 £m	2002 £m
Foreign exchange	**398**	357
Interest rate derivatives	**144**	5
Debt securities	**84**	37
Equities and other trading	**54**	(11)
	680	388

5 Administrative expenses

a *Analysis of expenses*

	2003 £m	2002 £m
Staff costs		
— wages and salaries	**2,537**	2,044
— social security costs	**330**	267
— other pension costs (Note 5b below)	**274**	196
	3,141	2,507
Premises and equipment (excluding depreciation)	**582**	545
Other administrative expenses	**1,163**	1,008
	4,886	4,060

Notes on the Accounts (continued)

5 Administrative expenses *(continued)*

a *Analysis of expenses (continued)*

The average number of persons employed by the group during the year was made up as follows:

	2003	2002
UK Personal, Commercial, Corporate and Institutional Banking	**46,609**	47,752
Global Markets UK	**964**	939
Investment Banking	**1,778**	156
International Banking	**7,116**	6,352
CCF	**14,162**	14,185
Private Banking	**3,587**	2,835
HSBC Trinkaus & Burkhardt	**1,578**	630
	75,794	72,849

The average numbers of persons for acquisitions and transfers have been weighted in proportion to the time that they have been owned by the group.

b *Retirement benefits*

The group has continued to account for pensions in accordance with Statement of Standard Accounting Practice ('SSAP') 24, 'Accounting for pension costs' and the disclosures given in i) are those required by that standard. FRS 17, 'Retirement benefits' was issued in November 2000. Prior to full implementation, which has been deferred until accounting periods beginning on or after 1 January 2005, phased transitional disclosures are required from 31 December 2001. These disclosures, to the extent not given in i), are set out in ii).

i Pension schemes

Within the group, the HSBC Bank (UK) Pension Scheme, assets of which are held in a separate trust fund, covers 96 per cent of UK employees. The HSBC Bank (UK) Pension Scheme comprises a funded defined benefit scheme ('the Principal Scheme') and a defined contribution scheme which was established on 1 July 1996 for new employees.

Actuarial valuations of the assets and liabilities of the Principal Scheme are carried out triennially by professionally qualified actuaries to determine its financial position and to enable the bank to determine the level of contributions to be made to the Principal Scheme.

The latest valuation of the Principal Scheme was made at 31 December 2002 by C G Singer, Fellow of the Institute of Actuaries, of Watson Wyatt LLP. At that date, the market value of the Principal Scheme's assets was £5,772 million. The actuarial value of the assets represented 88 per cent of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting deficit amounted to £788 million. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 6.85 per cent per annum, salary increases of 3.0 per cent per annum and post-retirement pension increases of 2.5 per cent per annum.

As previously advised, in anticipation of the above valuation result, HSBC made a payment into the scheme, in February 2003, amounting to £500 million. In addition, following receipt of the valuation results, a further payment of £84 million was made in August 2003 into the scheme. HSBC has decided to continue ongoing contributions to the scheme at the rate of 20.0 per cent of pensionable salaries, until completion of the next actuarial valuation, due as at 31 December 2005.

The deficit as at 31 December 2002 is being amortised over a thirteen year period, the average remaining service life of the existing employed members. The amortisation is net of the interest benefit from the £584 million payments made during the year.

5 Administrative expenses *(continued)*

b *Retirement benefits (continued)*

i *Pension schemes (continued)*

The group's total pension cost for the year ended 31 December 2003 was £272 million (2002: £184 million), which includes £174 million (2002: £106 million) in respect of the Principal Scheme. This comprises:

	Year ended 31 December 2003
	£m
Regular cost	**124**
Amortisation of deficit	**50**
Total cost for the year	**174**

A prepayment of £502 million (2002: £nil) for the group entities participating in the Principal Scheme is included in Prepayments and accrued income.

For CCF, retirement provision for employees in France is provided via both State and compulsory supplementary pension funds founded (via Government decree) on agreements between Employer Organisations and Unions. These 'compulsory supplementary' arrangements cover some 14,411 employees.

ii *FRS 17*

The financial assumptions used to calculate scheme liabilities for the group's main defined benefit pension schemes under FRS 17 are:

2003	*Discount rate*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pension*	*Rate of pay Increase*
	%	**%**	**%**	**%**
United Kingdom*	**5.5**	**2.5**	**2.5**	**3.0**
France	**5.25**	**2.0**	**2.0**	**3.5**
Switzerland	**3.5**	**1.5**	**0 - 1.5**	**2.5**

2002	*Discount rate*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pension*	*Rate of pay increase*
	%	%	%	%
United Kingdom*	5.6	2.25	2.25	2.75
France	5.5	2.0	2.0	3.5
Switzerland	3.75	1.5	0 - 1.5	2.5

** United Kingdom disclosure in this section mostly relates to the bank.*

Notes on the Accounts (continued)

5 Administrative expenses *(continued)*

b *Retirement benefits (continued)*

ii FRS 17 (continued)

2001	*Discount rate*	*Inflation assumption*	*Rate of increase for pensions in payment and deferred pension*	*Rate of pay increase*
	%	%	%	%
United Kingdom*	5.9	2.5	2.5	3.75
France	5.5	2.0	2.0	3.5
Switzerland	4.5	1.5	1.5	2.5

** United Kingdom disclosure in this section mostly relates to the bank.*

The assets in the defined benefit schemes and the expected rates of return are:

	Expected rate of return at 31 December 2003	*Value at 31 December 2003*	*Expected rate of return at 31 December 2002*	*Value at 31 December 2002*	*Expected rate of return at 31 December 2001*	*Value at 31 December 2001*
	%	**£m**	%	£m	%	£m
Equities	**8.5**	**3,916**	8.5	3,395	7.5	3,941
Bonds	**4.9**	**1,992**	4.9	1,293	5.1	848
Property	**7.0**	**621**	7.0	659	7.5	655
Other	**3.84**	**515**	3.65	263	4.0	535
Total market value of assets		**7,044**		5,610		5,979
Present value of scheme liabilities		**(9,066)**		(7,484)		(6,816)
Deficit in the schemes*		**(2,022)**		(1,874)		(837)
Related deferred tax asset		**588**		540		209
Net pension liability		**(1,434)**		(1,334)		(628)
* Analysis of the deficit is as follows:						
The Principal Scheme		**(1,794)**		(1,636)		(661)
Other schemes — unfunded		**(224)**		(199)		(178)
Other schemes — funded		**(4)**		(39)		2
		(2,022)		(1,874)		(837)

Of the deficit in unfunded schemes, £219 million has been provided (2002: fully provided).

The net pension liability will have a consequent effect on reserves when FRS 17 is fully implemented.

The Principal Scheme is closed to new entrants. For this scheme the current service cost will increase as the members of the scheme approach retirement under the projected unit credit method.

The Principal Scheme mostly relates to the bank.

5 Administrative expenses *(continued)*

b *Retirement benefits (continued)*

ii FRS 17 (continued)

The following amounts would be reflected in the consolidated profit and loss account and statement of total consolidated recognised gains and losses on implementation of FRS 17:

	Year ended 31 December 2003 £m	*Year ended 31 December 2002* £m
Amount that would be charged to operating profit		
Current service cost	**169**	166
Past service cost	**9**	—
Total operating charge	**178**	166
Amount that would be credited to other finance income		
Expected return on pension scheme assets	**424**	405
Interest on pension scheme liabilities	**(404)**	(399)
Net return	**20**	6
Amount that would be recognised in the statement of total consolidated recognised gains and losses		
Actual return less expected return on pension scheme assets	**614**	(853)
Experience gains and losses arising on the scheme liabilities	**(129)**	(347)
Changes in assumptions underlying the present value of the scheme	**(1,168)**	251
Actuarial loss	**(683)**	(949)
Movement in pension schemes deficit during the year		
Deficit in the pension schemes at 1 January	**(1,874)**	(837)
Movement in the year:		
Total operating charge	**(178)**	(166)
Contributions	**711**	147
Other finance income	**20**	6
Actuarial loss	**(683)**	(949)
Acquisitions	**—**	(104)
Exchange and other movements	**(18)**	29
Deficit in the pension schemes at 31 December	**(2,022)**	(1,874)
History of experience gains and losses		
Difference between expected and actual return on scheme assets:		
Amount	**614**	(853)
Percentage of scheme assets	**9%**	(15%)
Experience gains and losses arising on scheme liabilities:		
Amount	**(129)**	(347)
Percentage of the present value of scheme liabilities	**(1%)**	(5%)
Total amount recognised in the statement of total consolidated recognised		
Amount	**(683)**	(949)
Percentage of the present value of scheme liabilities	**(8%)**	(13%)

Notes on the Accounts (continued)

5 Administrative expenses *(continued)*

b *Retirement benefits (continued)*

ii FRS 17 (continued)

The Principal Scheme covers both UK employees of the group and UK employees of other HSBC Group companies. The deficit is the group's share of the Principal Scheme's deficit although the group's share increased following the acquisition of the business of HSBC Investment Bank plc.

iii Post-retirement health-care benefits

The group also provides post-retirement health-care benefits for certain pensioners and employees together with their dependent relatives. An actuarial assessment of the liabilities of the scheme, which is unfunded, is carried out on a regular basis by qualified actuaries. The liabilities are evaluated by discounting the expected future claims to a net present value.

The charge relating to post-retirement health-care is £2 million for the year (2002: £12 million).

The latest actuarial assessment was carried out at 31 December 2000 and updated to 31 December 2003. At 31 December 2003, the estimated present value of the post-retirement benefit obligation was £121 million (2002: £120 million) for the group and £121 million (2002: £120 million) for the bank, of which £115 million (2002: £105 million) has been provided for by the group and £115 million (2002: £105 million) has been provided for by the bank. The main financial assumptions used to estimate the obligation at 31 December 2003 were price inflation of 2.5 per cent per annum (2002: 2.5 per cent), health-care claims cost escalation of 7.5 per cent per annum (2002: 7.5 per cent) and a discount rate of 5.3 per cent per annum (2002: 5.6 per cent). Under FRS 17, the deferred tax asset related to the unprovided liability of £6 million (2002: £15 million) would be £2 million (2002: £5 million).

The movement in the FRS 17 liability is as follows:

	Year ended 31 December 2003 **£m**	*Year ended 31 December 2002* £m
Deficit at 1 January	**(120)**	(147)
Current service cost	**—**	—
Interest cost on liabilities	**(7)**	(9)
Change in assumptions underlying the present value of scheme liabilities	**6**	36
Deficit at 31 December	**(121)**	(120)

c *Directors' emoluments*

The aggregate emoluments of the Directors of the bank, computed in accordance with Part I of Schedule 6 of the Act were:

	2003 £000	2002 £000
Fees	**196**	201
Salaries and other emoluments	**1,629**	1,487
Discretionary bonuses	**1,510**	982
	3,335	2,670
Gains on exercise of share options	**735**	229

In addition, there are annual commitments under retirement benefit agreements with former Directors of £460,980 (2002: £459,584).

5 Administrative expenses *(continued)*

c *Directors' emoluments (continued)*

Retirement benefits accrue to three Directors under defined benefit schemes and to two Directors under a money purchase scheme.

During the year, aggregate contributions to money purchase pension schemes were £1,779,000 (2002: £929,000).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Group Remuneration Committee of HSBC Holdings.

Details of individual Directors' remuneration are disclosed in the 'Directors' Remuneration Report' on page 22.

d *Auditors' remuneration*

Auditors' remuneration for statutory audit amounted to £7.3 million (2002: £5.6 million) including £2.9 million (2002: £1.5 million) which relates to the bank. The following remuneration was paid to the group's principal auditor (KPMG):

	2003 **£m**	2002 £m
Audit services		
Statutory audit	**6.9**	5.1
Audit-related regulatory reporting	**1.2**	1.8
	8.1	6.9
Further assurance services	**1.5**	0.2
Tax services		
Advisory services	**0.4**	0.5
Other services		
Other services	**0.5**	1.1
Total fees paid to principal auditor	**10.5**	8.7

Fees paid in respect of auditors other than the principal auditor for audits were £0.4 million (2002: £0.5 million).

The following is a description of the type of services included within the categories listed above.

Audit-related services include services for assurance and other services that are reasonably related to the performance of the audit or review of the financial statements including comfort letters and interim reviews.

Further assurance services include services for advice on accounting matters, reporting on internal controls not connected with the financial statements (such as S166 reports), due diligence work, and environmental audits.

Tax services include services for tax advice and tax planning.

Other services include all other services.

The majority of the increase in auditors' remuneration relates to acquisitions.

Notes on the Accounts (continued)

6 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:

a *Income*

	2003 £m	2002 £m
Aggregate rentals receivable, under		
— finance leases	**230**	226
— hire purchase contracts	**656**	552
— operating leases	**335**	327
Increase in the value of long-term assurance business	**53**	84
Profits less losses on debt securities and equities dealing	**102**	(5)
Gain on disposal of investment securities	**119**	104

b *Charges on income*

	2003 £m	2002 £m
Charges incurred with respect to subordinated liabilities	**262**	245
Finance charges in respect of finance leases and similar hire purchase contracts	**15**	12
Rentals payable on premises held under operating leases	**198**	149

c *Gains on disposal of investments and tangible fixed assets*

Gains on disposal of investments and tangible fixed assets attracted a tax charge of £24 million (2002: £21 million).

7 Tax on profit on ordinary activities

The charge for taxation comprises:

	2003 £m	2002 £m
United Kingdom corporation tax charge*	**590**	670
Adjustment in respect of prior periods	**(123)**	(44)
	467	626
Relief for overseas taxation*	**(186)**	(160)
	281	466
Overseas taxation (including £(15) million (2002: £(1) million) in respect of previous periods)	**275**	234
Joint ventures and associates	**6**	3
Current taxation	**562**	703
Origination and reversal of timing differences	**75**	79
Adjustment in respect of previous periods	**4**	26
Deferred taxation (Note 28a)	**79**	105
Total charge for taxation	**641**	808

* *Figures for 2002 have been restated to reflect in greater detail the effect of underlying taxes attributable to overseas group dividends receivable in the UK. This has no impact on the total tax charge for 2002.*

During the year, the group provided for UK corporation tax at 30 per cent (2002: 30 per cent).

The tax charge includes £11 million (2002: £18 million) in respect of the tax attributable to the increase in the value of long-term assurance business attributable to shareholders.

7 Tax on profit on ordinary activities *(continued)*

Analysis of overall tax charge

	2003 **£m**	2002 £m
Taxation at UK corporation tax rate of 30% (2002: 30%)	**673**	685
Other non-deductible items including unrelieved losses	**15**	12
Tax-free gains	**(1)**	(5)
Impact of differently taxed overseas profits in principal locations	**(90)**	(36)
Amortisation of goodwill	**164**	141
Prior year adjustments	**(121)**	(22)
Other items	**1**	33
Timing differences impact on current tax	**(79)**	(105)
Current tax charge	**562**	703
Deferred tax charge	**79**	105
Overall tax charge	**641**	808

8 Profit of the bank

The profit of the bank for the year attributable to shareholders was £1,650 million (2002: £1,854 million).

9 Dividends

	2003 **£m**	2002 £m
Equity		
Ordinary dividends		
— paid	**700**	600
— proposed	**700**	500
	1,400	1,100
Non-equity		
Preference dividends	**40**	44
	1,440	1,144

10 Earnings per ordinary share

Basic and diluted earnings per ordinary share are calculated by dividing the profit for the financial year attributable to equity shareholders, after deducting preference dividends, of £1,440 million (2002: £1,335 million) by the weighted average number of ordinary shares in issue in 2003 of 797 million (2002: 797 million).

Notes on the Accounts (continued)

11 Treasury bills and other eligible bills

	group				bank			
	Book value	*Market valuation*	*Book value*	*Market valuation*	*Book value*	*Market valuation*	*Book value*	*Market valuation*
	2003	**2003**	2002	2002	**2003**	**2003**	2002	2002
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Investment securities								
— treasury bills and similar securities	**1,560**	**1,562**	948	952	**1,045**	**1,047**	367	367
— other eligible bills	**438**	**438**	630	630	**438**	**438**	630	630
	1,998	**2,000**	1,578	1,582	**1,483**	**1,485**	997	997
Other securities								
— treasury bills and similar securities	**199**		469		**152**		433	
	2,197		2,047		**1,635**		1,430	

Investment securities:

	Cost and book value
group	**£m**
At 1 January 2003	**1,578**
Additions	**8,666**
Disposals and amounts repaid	**(8,366)**
Amortisation of discounts and premiums	**49**
Exchange and other movements	**71**
At 31 December 2003	**1,998**

bank	**£m**
At 1 January 2003	**997**
Additions	**7,915**
Disposals and amounts repaid	**(7,515)**
Amortisation of discounts and premiums	**39**
Exchange and other movements	**47**
At 31 December 2003	**1,483**

11 Treasury bills and other eligible bills *(continued)*

The maturities of investment treasury bills and other eligible bills at 31 December 2003 are analysed as follows:

	group		*bank*	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	£m	**£m**	**£m**	**£m**
Due within 1 year	**1,775**	**1,777**	**1,472**	**1,474**
Due 1 year and over	**223**	**223**	**11**	**11**
	1,998	**2,000**	**1,483**	**1,485**

The net unamortised discounts on investment securities were:

	group	*bank*
	2003	**2003**
	£m	**£m**
	6	**5**

12 Loans and advances to banks

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Remaining maturity				
— repayable on demand	**8,084**	7,259	**7,388**	5,252
— 3 months or less but not repayable on demand	**21,757**	15,716	**11,612**	7,049
— 1 year or less but over 3 months	**2,937**	2,854	**1,223**	1,040
— 5 years or less but over 1 year	**587**	548	**512**	471
— over 5 years	**288**	264	**211**	415
Specific bad and doubtful debt provisions (Note 14)	**(11)**	(14)	**(4)**	(3)
	33,642	26,627	**20,942**	14,224
Amounts include:				
Subordinated	**61**	45	**—**	—
Due from subsidiary undertakings — unsubordinated			**2,348**	1,051
Due from fellow subsidiary undertakings — unsubordinated	**3,438**	1,067	**2,875**	866

Notes on the Accounts (continued)

13 Loans and advances to customers

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Remaining maturity				
— repayable on demand or at short notice	**20,199**	18,413	**20,388**	12,954
— 3 months or less but not repayable on demand or at short notice	**21,098**	19,714	**9,035**	12,688
— 1 year or less but over 3 months	**11,694**	12,308	**6,696**	7,954
— 5 years or less but over 1 year	**29,321**	26,363	**21,618**	20,094
— over 5 years	**36,366**	30,361	**27,929**	23,839
General and specific bad and doubtful debt provisions (Note 14)	**(2,380)**	(2,252)	**(1,346)**	(1,322)
	116,298	104,907	**84,320**	76,207
Amounts include:				
Subordinated	**134**	114	**15**	15
Due from subsidiary undertakings — unsubordinated			**6,882**	6,043
Due from fellow subsidiary undertakings — unsubordinated	**864**	440	**831**	439
Due from joint ventures — unsubordinated	**211**	203	**175**	165

Securitisation transactions

Loans and advances to customers include balances that have been securitised. Certain of these balances meet the requirements for linked presentation under FRS 5, 'Reporting the substance of transactions'.

The non-recourse finance has been netted against loans and advances to customers as follows:

	2003	2002
	£m	£m
Customer loans	**1,202**	1,423
Non-recourse finance	**(1,054)**	(1,271)
Funding provided by the bank	**148**	152

13 Loans and advances to customers *(continued)*

The bank has securitised a designated portion of its corporate loan portfolio. The transaction was effected through a declaration of trust in favour of Clover Securitisation Limited. Clover Securitisation Limited holds its beneficial interest in the trust for Clover Funding No. 1 plc, Clover Funding No. 2 plc, Clover Funding No. 3 plc, Clover Funding No. 4 plc (collectively 'Clover Funding') and the bank.

To fund the acquisition of this beneficial interest, Clover Funding has issued £1,423 million (2002: £1,423 million) floating rate notes ('FRNs'). Clover Funding No.2 plc is in scheduled accumulation and has collected £221 million (2002: £nil) to repay its outstanding Notes in April 2004. The offering circulars for the FRNs stated that they are the obligations of Clover Funding only and are not guaranteed by, or the responsibility of, any other party.

Non-returnable proceeds of £1,054 million (2002: £1,271 million) received by the bank from Clover Funding have been deducted from 'Loans and advances to customers'. Clover Securitisation Limited has entered into swap agreements with the bank under which Clover Securitisation Limited pays the floating rate of interest on the loans and receives interest linked to three-month London Interbank Offered Rate ('LIBOR'). The proceeds generated from the loans are used in priority to meet the claims of the FRN holders, and amounts payable in respect of the interest rate swap arrangements after the payment of trustee and administration expenses.

There is no provision whatsoever, either in the financing arrangements or otherwise, whereby the bank or any part of the group has a right or obligation either to keep the loans and advances on repayment of the finance or to repurchase them at any time other than in certain circumstances where the bank is in breach of warranty.

The bank is not obliged to support any losses that may be suffered by the FRN holders and does not intend to provide such support.

The bank has taken up £41 million (2002: £41 million) of subordinated FRNs that are repayable after payments in respect of senior FRNs. The bank has made subordinated loans of £26 million (2002: £26 million) to Clover Funding that are repayable after all other payments. Interest is payable on the subordinated FRNs and subordinated loans conditional upon Clover Funding having funds available.

Clover Securitisation Limited's entire share capital is held by Clover Holdings Limited. Clover Funding's entire share capital is held by Clover Holdings Limited. Clover Holdings Limited's entire share capital is held by trustees under the terms of a trust for charitable purposes.

The bank recognised net income of £4 million (2002: £3 million) which comprised £66 million (2002: £64 million) interest receivable by Clover Funding and £62 million (2002: £61 million) of interest on FRNs and other third-party expenses payable by Clover Funding.

Notes on the Accounts (continued)

14 Provisions for bad and doubtful debts

a *Movements on provisions for bad and doubtful debts*

	Specific	*General*	*Total*	*Specific*	*General*	*Total*
	2003	**2003**	**2003**	2002	2002	2002
	£m	**£m**	**£m**	£m	£m	£m
group						
At 1 January	**1,739**	**527**	**2,266**	1,502	546	2,048
Amounts written off	**(437)**	**—**	**(437)**	(290)	—	(290)
Recoveries of amounts written off in previous years	**70**	**—**	**70**	41	—	41
Charge/(release) to the profit and loss account	**509**	**(73)**	**436**	412	(35)	377
Acquisitions	**—**	**—**	**—**	37	15	52
Exchange and other movements	**46**	**10**	**56**	37	1	38
At 31 December	**1,927**	**464**	**2,391**	1,739	527	2,266
bank						
At 1 January	**991**	**334**	**1,325**	804	366	1,170
Amounts written off	**(354)**	**—**	**(354)**	(210)	—	(210)
Recoveries of amounts written off in previous years	**60**	**—**	**60**	33	—	33
Charge/(release) to the profit and loss account	**393**	**(60)**	**333**	369	(32)	337
Exchange and other movements	**(14)**	**—**	**(14)**	(5)	—	(5)
At 31 December	**1,076**	**274**	**1,350**	991	334	1,325

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Included in:				
Loans and advances to banks (Note 12)	**11**	14	**4**	3
Loans and advances to customers (Note 13)	**2,380**	2,252	**1,346**	1,322
	2,391	2,266	**1,350**	1,325

b *Movements on suspended interest account*

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
At 1 January	**80**	80	**35**	31
Amounts written off	**(13)**	(12)	**(10)**	(8)
Interest suspended during the year	**27**	44	**17**	22
Suspended interest recovered	**(17)**	(23)	**(9)**	(7)
Exchange and other movements	**4**	(9)	**(1)**	(3)
At 31 December	**81**	80	**32**	35

14 Provisions for bad and doubtful debts *(continued)*

c *Non-performing loans*

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Loans on which interest has been suspended (net of suspended interest)	**1,449**	1,321	**900**	909
Provisions	**(793)**	(626)	**(486)**	(364)
	656	695	**414**	545
Other non-performing loans	**1,594**	1,502	**898**	887
Provisions	**(1,134)**	(1,113)	**(590)**	(627)
	460	389	**308**	260
Total non-performing loans (net of provisions)	**1,116**	1,084	**722**	805

15 Concentrations of exposure

The group has the following concentrations of loans and advances to customers:

	2003	2002
	£m	£m
Total gross advances to customers:		
Residential mortgages	**29,028**	24,061
Other personal	**20,606**	18,354
Commercial, industrial and international trade	**27,517**	27,622
Commercial real estate	**8,751**	7,377
Other property related	**3,070**	2,464
Government	**1,430**	1,382
Other commercial	**15,630**	16,109
Non-bank financial institutions	**12,385**	9,869
	118,417	107,238

The analysis of concentration of exposure is based on the categories used by the group to manage the associated risks. Of total loans and advances to customers gross of provisions, £83,939 million (2002: £75,299 million) was advanced by operations located in the United Kingdom.

Other commercial includes advances in respect of transport, energy and agriculture.

Notes on the Accounts (continued)

16 Debt securities

	group				bank			
	Book value	Market valuation	Book value	Market valuation	Book value	Market valuation	Book value	Market valuation
	2003	**2003**	2002	2002	**2003**	**2003**	2002	2002
Issued by public bodies	**£m**	**£m**	£m	£m	**£m**	**£m**	£m	£m
Investment securities								
— government securities and US government agencies	**7,276**	**7,377**	6,077	6,215	**2,609**	**2,610**	1,564	1,570
— other public sector securities	**785**	**845**	806	870	**105**	**108**	61	62
	8,061	**8,222**	6,883	7,085	**2,714**	**2,718**	1,625	1,632
Other debt securities								
— government securities and US government agencies	**9,938**		8,898		**2,100**		2,229	
— other public sector securities	**58**		67		**22**		41	
	9,996		8,965		**2,122**		2,270	
Issued by other bodies								
Investment securities								
— bank and building society certificates of deposit	**106**	**106**	240	240	**66**	**66**	101	101
— other securities	**14,042**	**14,348**	13,448	13,728	**3,327**	**3,374**	3,173	3,237
	14,148	**14,454**	13,688	13,968	**3,393**	**3,440**	3,274	3,338
Other debt securities								
— bank and building society certificates of deposit	**3,882**		5,890		**3,748**		5,660	
— other securities	**13,469**		9,522		**10,343**		7,760	
	17,351		15,412		**14,091**		13,420	
	49,556		44,948		**22,320**		20,589	
Due within 1 year	**12,426**		15,532		**7,247**		10,310	
Due 1 year and over	**37,130**		29,416		**15,073**		10,279	
	49,556		44,948		**22,320**		20,589	
Amounts include:								
Subordinated debt securities	**145**		153		**107**		104	
Unamortised net premiums on investment securities	**139**		167		**83**		171	
Investment securities								
— listed	**17,376**	**17,826**	17,097	17,542	**4,080**	**4,127**	3,706	3,769
— unlisted	**4,833**	**4,850**	3,474	3,511	**2,027**	**2,031**	1,193	1,201
	22,209	**22,676**	20,571	21,053	**6,107**	**6,158**	4,899	4,970
Other debt securities								
— listed	**17,727**		13,698		**9,258**		8,324	
— unlisted	**9,620**		10,679		**6,955**		7,366	
	27,347		24,377		**16,213**		15,690	
	49,556		44,948		**22,320**		20,589	

16 Debt securities *(continued)*

Where securities are carried at market valuation, and the market valuation is higher than cost, the difference between cost and market valuation is not disclosed as it cannot be determined without unreasonable expense.

The above market valuations do not take account of transactions entered into to hedge the value of the group's investment securities. If these transactions were included, the market valuation of investment securities would be £22,496 million for the group (2002: £20,782 million) and £6,158 million (2002: £4,970 million) for the bank.

Investment securities:

	Cost	*Provisions*	*Book value*
	£m	**£m**	**£m**
group			
At 1 January 2003	**20,598**	**(27)**	**20,571**
Additions	**18,796**	**(4)**	**18,792**
Disposals and amounts repaid	**(17,071)**	**21**	**(17,050)**
Amortisation of discounts and premiums	**(191)**	**—**	**(191)**
Exchange and other movements	**98**	**(11)**	**87**
At 31 December 2003	**22,230**	**(21)**	**22,209**
bank			
At 1 January 2003	**4,905**	**(6)**	**4,899**
Additions	**4,808**	**—**	**4,808**
Disposals and amounts repaid	**(3,585)**	**6**	**(3,579)**
Amortisation of discounts and premiums	**(187)**	**—**	**(187)**
Exchange and other movements	**166**	**—**	**166**
At 31 December 2003	**6,107**	**—**	**6,107**

17 Equity shares

	group				*bank*			
	Book value	*Market valuation*	*Book value*	*Market valuation*	*Book value*	*Market valuation*	*Book value*	*Market valuation*
	2003	**2003**	2002	2002	**2003**	**2003**	2002	2002
	£m	**£m**	£m	£m	**£m**	**£m**	£m	£m
Investment securities								
— listed	**524**	**649**	435	477	**61**	**88**	27	40
— unlisted	**1,195**	**1,397**	1,131	1,286	**95**	**106**	86	109
	1,719	**2,046**	1,566	1,763	**156**	**194**	113	149
Other securities								
— listed	**4,098**		1,843		**2,694**		1,095	
— unlisted	**20**		74		**—**		1	
	4,118		1,917		**2,694**		1,096	
	5,837		3,483		**2,850**		1,209	

Notes on the Accounts (continued)

17 Equity shares *(continued)*

Where securities are carried at market valuation, and the market valuation is higher than cost, the difference between cost and market valuation is not disclosed as it cannot be determined without unreasonable expense.

Investment securities:

	Cost	*Provisions*	*Book value*
	£m	**£m**	**£m**
group			
At 1 January 2003	**1,847**	**(281)**	**1,566**
Additions	**1,202**	—	**1,202**
Disposals	**(1,221)**	**54**	**(1,167)**
Provisions made	—	**(40)**	**(40)**
Exchange and other movements	**159**	**(1)**	**158**
At 31 December 2003	**1,987**	**(268)**	**1,719**
bank			
At 1 January 2003	**162**	**(49)**	**113**
Additions	**75**	—	**75**
Disposals	**(44)**	**9**	**(35)**
Provisions made	—	**(9)**	**(9)**
Exchange and other movements	**(2)**	**14**	**12**
At 31 December 2003	**191**	**(35)**	**156**

Included in investment securities is £2 million, after amortisation, of HSBC Holdings' shares (2002: £2 million) held in trust for the purposes of conditional awards under the Restricted Share Plan, details of which are provided in the 'Directors' Remuneration Report' on page 26. At 31 December 2003, the trust held 1,418,000 ordinary shares (2002: 974,815) of nominal value US$0.50 each with a market value at that date of £13 million (2002: £7 million) in respect of these conditional awards.

Also included within investment securities is £24 million of HSBC Holdings' shares (2002: £13 million) held in trust which may be used in respect of the exercise of share options. At 31 December 2003, the trust held 2,719,256 ordinary shares (2002: 1,482,249) of US$0.50 each with a market value of £24 million (2002: £10 million) in respect of these option holders.

18 Interests in joint ventures

a *Movements in interests in joint ventures*

	group
	£m
At 1 January 2003	**89**
Additions	—
Retained profits and losses	**4**
Amortisation of goodwill	**(83)**
Exchange and other movements	**(4)**
At 31 December 2003	**6**

None of the joint ventures is listed or a bank.

18 Interests in joint ventures *(continued)*

b *Principal joint venture as at 31 December 2003*

	Country of incorporation	*Principal activity*	*Interest in equity capital*
Framlington Group Limited	UK	Asset management	51%

Framlington Group Limited prepares its financial statements up to 31 December and its principal country of operation is the United Kingdom.

The group's share of total operating income in joint ventures is £15 million (2002: £27 million).

The group's share of contingent liabilities in joint ventures is £nil (2002: £nil).

c *Goodwill*

Included within the group's share of gross assets of joint ventures is goodwill of £94m which has been fully written off in 2003 (2002: net book value £83m).

Notes on the Accounts (continued)

19 Interests in associates

a *Movements in interests in associates*

	group	*bank*
	£m	£m
At 1 January 2003	**109**	5
Retained profits	**16**	—
Write-up of associates to net asset value, including attributable goodwill	**—**	3
Exchange and other movements	**—**	(1)
At 31 December 2003	**125**	7

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Shares in banks	**9**	7	**—**	—
Other	**116**	102	**7**	5
	125	109	**7**	5

None of the associates are listed.

On the historical cost basis, the bank's interests in associates would have been included as follows:

	2003	2002
	£m	£m
Cost	**15**	15
Provisions	**(10)**	(10)
	5	5

b *Principal associate as at 31 December 2003*

	Country of incorporation	*Principal activity*	*Interest in equity capital*
Erisa	France	Insurance	49.99%

20 Investments in subsidiary undertakings

a *Movements in investments in subsidiary undertakings*

	£m
At 1 January 2003	14,372
Acquisitions	38
Increases in share capital	555
Disposals	(26)
Write-up to net asset value including attributable goodwill	482
Redemption of shares	(115)
Exchange and other movements	63
At 31 December 2003	**15,369**

The above amount represents the direct interests of the bank in its subsidiary undertakings. Interests in subsidiary undertakings include £8,019 million (2002: £7,892 million) representing interests in banks.

On the historical cost basis, the bank's interests in subsidiary undertakings would have been included as follows:

	2003 £m	2002 £m
Cost	14,278	13,763
Provisions	(1)	(1)
	14,277	13,762

b *Principal subsidiary undertakings as at 31 December 2003*

	Country of incorporation
CCF S.A. (99.99% owned) (directly owned)	France
HSBC Asset Finance (UK) Limited (directly owned)	England
HSBC Bank A.S. (directly owned)	Turkey
HSBC Bank International Limited	Jersey
HSBC Bank Malta p.l.c. (70.03% owned)	Malta
HSBC Guyerzeller Bank AG (83.99% owned)	Switzerland
HSBC Invoice Finance (UK) Limited	England
HSBC Life (UK) Limited (directly owned)	England
HSBC Rail (UK) Limited	England
HSBC Private Bank (Guernsey) Limited (formerly HSBC Republic Bank (Guernsey) Limited) (97.82% owned)	Guernsey
HSBC Private Bank (Suisse) S.A. (formerly HSBC Republic Bank (Suisse) S.A.) (97.82% owned)	Switzerland
HSBC Republic Bank (UK) Limited (97.82% owned)	England
HSBC Trinkaus & Burkhardt KGaA (73.47% owned)	Germany
HSBC Trust Company (UK) Limited (directly owned)	England

Details of all subsidiary undertakings will be annexed to the next Annual Return of the bank. All of the above subsidiary undertakings are engaged in the business of banking or other financial services.

Except where indicated otherwise, the issued equity capital of the above undertakings is wholly owned by the group and is held by subsidiaries of the bank.

Notes on the Accounts (continued)

20 Investments in subsidiary undertakings *(continued)*

c *Acquisitions*

On 31 January 2003, the group acquired the business in respect of two branches of Banque Worms from Deutsche Bank Group for a cash consideration of £1 million. Goodwill of £1 million arose on this acquisition.

On 20 February 2003, the bank increased its stake in Equator Holdings Limited from 60 per cent to 100 per cent for a cash consideration of £4 million. Negative goodwill of £1 million arose on this acquisition.

On 31 March 2003, the group increased its stake in Banque Eurofin from 59.84 per cent to 61.43 per cent for a cash consideration of £2 million. Goodwill of £1 million arose on this acquisition. On 30 June 2003, the group increased its stake again to 77.56 per cent for a cash consideration of £13 million. Goodwill of £7 million arose on this acquisition. On 31 July 2003, the group increased its stake again to 83.94 per cent for a cash consideration of £6 million. Goodwill of £4 million arose on this acquisition. As part of the CCF group's reorganisation of its private banking business, Banque Eurofin was merged into HSBC Private Bank France.

On 1 September 2003, the group increased its stake in Banque de Savoie from 98.2 per cent to 99.94 per cent for a cash consideration of £1 million. Goodwill of £1 million arose on this acquisition.

On 24 October 2003, the bank acquired 100 per cent of Polski Kredyt Bank S.A. for a cash consideration of £5 million. Goodwill of £1million arose on this acquisition.

On 24 November 2003, the group increased its stake in Elysées-Fonds from 51 per cent to 100 per cent for a cash consideration of £10 million. Goodwill of £6 million arose on the acquisition.

All acquisitions have been accounted for on an acquisitions basis. No fair value table has been disclosed as the acquisition is not considered significant.

21 Intangible fixed assets

Goodwill	*group*	*bank*
	2003	**2003**
	£m	**£m**
Cost		
At 1 January 2003	**9,412**	**46**
Additions (group: positive goodwill of £21 million, negative goodwill of £1 million)	**20**	**—**
Exchange and other movements	**492**	**(2)**
At 31 December 2003	**9,924**	**44**
Accumulated amortisation		
At 1 January 2003	**1,074**	**8**
Charge to the profit and loss account (group: net of negative goodwill of £46 million)	**483**	**3**
Exchange and other movements	**52**	**—**
At 31 December 2003	**1,609**	**11**
Net book value at 31 December 2003 (group: net of negative goodwill of £8 million)	**8,315**	**33**
Net book value at 31 December 2002 (group: net of negative goodwill of £51 million)	8,338	38

Additions represent goodwill arising on the acquisition of and increased holdings in subsidiaries during 2003.

Positive goodwill on the acquisition of CCF S.A. and HSBC Private Banking Holdings (Suisse) SA and their subsidiaries is being amortised over 20 years. Other positive goodwill is being amortised over periods of up to 15 years. Negative goodwill is being credited to the profit and loss account over 5 years, the period to benefit.

22 Tangible fixed assets

a *Movements on tangible fixed assets*

group	*Freehold land and buildings* £m	*Long leasehold land and buildings* £m	*Short leasehold land and buildings* £m	*Equipment, fixtures and fittings* £m	*Equipment on operating leases* £m	*Total* £m
Cost or valuation						
At 1 January 2003	**1,167**	**638**	**278**	**2,314**	**2,595**	**6,992**
Additions	**10**	—	**16**	**313**	**437**	**776**
Disposals	**(105)**	—	**(29)**	**(110)**	**(192)**	**(436)**
Reclassification	—	**(81)**	—	**81**	—	—
Deficit on revaluation taken to profit and loss	**(3)**	—	—	—	—	**(3)**
Transfer of accumulated depreciation arising on revaluation	**(14)**	**(9)**	—	—	—	**(23)**
Surplus/(deficit) on revaluation	**14**	**(70)**	—	—	—	**(56)**
Exchange and other movements	**50**	**(9)**	**4**	**110**	**(2)**	**153**
At 31 December 2003	**1,119**	**469**	**269**	**2,708**	**2,838**	**7,403**
Accumulated depreciation						
At 1 January 2003	**(32)**	**(2)**	**(174)**	**(1,425)**	**(569)**	**(2,202)**
Disposals	—	—	**29**	**93**	**142**	**264**
Transfer of accumulated depreciation arising on revaluation	**14**	**9**	—	—	—	**23**
Charge to the profit and loss account	**(26)**	**(10)**	**(10)**	**(285)**	**(157)**	**(488)**
Exchange and other movements	**(1)**	**(1)**	**(9)**	**(73)**	—	**(84)**
At 31 December 2003	**(45)**	**(4)**	**(164)**	**(1,690)**	**(584)**	**(2,487)**
Net book value						
At 31 December 2003	**1,074**	**465**	**105**	**1,018**	**2,254**	**4,916**
At 31 December 2002	1,135	636	104	889	2,026	4,790

Notes on the Accounts (continued)

22 Tangible fixed assets *(continued)*

a *Movements on tangible fixed assets (continued)*

	Freehold land and buildings	*Long leasehold land and buildings*	*Short leasehold land and buildings*	*Equipment, fixtures and fittings*	*Total*
bank	**£m**	**£m**	**£m**	**£m**	**£m**
Cost or valuation					
At 1 January 2003	**447**	**625**	**201**	**1,428**	**2,701**
Additions	**3**	**—**	**13**	**200**	**216**
Disposals	**(4)**	**—**	**(4)**	**(64)**	**(72)**
Acquisitions	**6**	**—**	**—**	**20**	**26**
Reclassification	**—**	**(81)**	**—**	**81**	**—**
Deficit on revaluation taken to profit and loss	**(3)**	**—**	**—**	**—**	**(3)**
Transfer of accumulated depreciation arising on revaluation	**(5)**	**(9)**	**—**	**—**	**(14)**
Surplus/(deficit) on revaluation	**23**	**(72)**	**—**	**—**	**(49)**
Exchange and other movements	**5**	**(7)**	**—**	**1**	**(1)**
At 31 December 2003	**472**	**456**	**210**	**1,666**	**2,804**
Accumulated depreciation					
At 1 January 2003	**(23)**	**(3)**	**(135)**	**(836)**	**(997)**
Disposals	**—**	**—**	**4**	**59**	**63**
Transfer of accumulated depreciation arising on revaluation	**5**	**9**	**—**	**—**	**14**
Charge to the profit and loss account	**(14)**	**(10)**	**(8)**	**(184)**	**(216)**
Exchange and other movements	**(5)**	**(1)**	**(9)**	**(3)**	**(18)**
At 31 December 2003	**(37)**	**(5)**	**(148)**	**(964)**	**(1,154)**
Net book value					
At 31 December 2003	**435**	**451**	**62**	**702**	**1,650**
At 31 December 2002	424	622	66	592	1,704

b *Assets held under finance leases*

The net book amount of equipment, fixtures and fittings included assets held under finance leases of £12 million (2002: £5 million) for the group and £nil (2002: £nil) for the bank, on which the depreciation charge was £6 million (2002: £2 million) for the group and £nil (2002: £2 million) for the bank. The net book amount of equipment on operating leases included assets held under finance leases of £111 million (2002: £117 million) for the group on which the depreciation charge was £5 million (2002: £3 million).

22 Tangible fixed assets *(continued)*

c *Valuations*

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Cost or valuation of freehold and long leasehold land and buildings:				
At valuation	**1,566**	1,787	**917**	1,062
At cost	**22**	18	**11**	10
	1,588	1,805	**928**	1,072
On the historical cost basis, freehold and long leasehold land and buildings would have been included as follows:				
Cost	**1,652**	1,900	**1,009**	1,087
Accumulated depreciation	**(275)**	(267)	**(139)**	(119)
Net book value	**1,377**	1,633	**870**	968

The group values its freehold and long leasehold properties on an annual basis. In September 2003, the group's freehold and long leasehold properties were revalued on an existing use basis or open market value as appropriate or, in the case of a few specialised properties, at depreciated replacement cost. The properties were revalued either by professional external valuers or by professionally qualified staff. The valuation has been updated for any material changes at 31 December 2003.

As a result of the revaluation, there was a deficit below the net book value of land and buildings of £59 million (bank: £52 million), of which £56 million, net of minority interests of £nil and deficits taken to the profit and loss account of £3 million, (bank: £49 million, net of deficits taken to the profit and loss account of £3 million) has been included in the revaluation reserve at 31 December 2003.

d *Land and buildings occupied for own activities*

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Net book value	**1,586**	1,642	**925**	936

Land and buildings with a net book value of £4 million (2002: £22 million) are occupied by HSBC Holdings plc and its subsidiaries other than the group.

Notes on the Accounts (continued)

22 Tangible fixed assets *(continued)*

e *Residual values of equipment on operating leases*

Included in the net book value of equipment on operating leases are residual values at the end of current lease terms, which will be recovered through re-letting or disposal in the following periods:

	2003 £m	2002 £m
Within 1 year	**707**	347
Between 1 and 2 years	**68**	687
Between 2 and 5 years	**387**	180
Over 5 years	**652**	443
	1,814	1,657

Residual value risk arises in relation to an operating lease transaction to the extent that the actual value of the leased asset at the end of the lease term (the residual value) recovered through disposing of or re-letting the asset at the end of the lease term, could be different to that projected at the inception of the lease. Residual value exposure is regularly monitored by the business through reviewing the recoverability of the residual value projected at lease inception. This entails considering the re-lettability and projected disposal proceeds of operating lease assets at the end of their lease terms. Provision is made to the extent that the carrying values of leased assets are impaired through residual values not being fully recoverable.

23 Other assets

	group		*bank*	
	2003 £m	2002 £m	**2003 £m**	2002 £m
Bullion	**8**	5	**1**	1
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked-to-market	**11,119**	9,530	**8,368**	6,699
Deferred taxation (Note 28a)	**98**	55	**88**	167
Long-term assurance assets attributable to policyholders (Note 27)	**3,714**	3,263	**—**	—
Other	**4,026**	3,761	**762**	849
	18,965	16,614	**9,219**	7,716
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked-to-market:				
Due from subsidiary undertakings			**1,429**	738
Due from fellow subsidiary undertakings	**1,171**	1,212	**1,014**	1,142

23 Other assets *(continued)*

'Other' also includes the surplus retained in long-term assurance funds and the net present value of policies in force. These assets form part of the total value of the group's interest in long-term assurance business as follows:

	2003 £m	2002 £m
Net tangible assets of long-term assurance subsidiaries	**43**	41
Surplus retained in long-term assurance funds and net present value of policies in force	**659**	559
Total long-term assurance business attributable to shareholders	**702**	600

The increase in the value of long-term assurance business attributable to shareholders which is included in the consolidated profit and loss account amounts to £53 million (2002: £84 million) before tax and £42 million (2002: £66 million) after tax.

The key assumptions used in determining the value of policies in force are:

	2003 %	2002 %
Risk discount rate (net of tax)	**8.0**	10.0
Economic assumptions (gross of tax)		
Investment return on unit-linked funds	**6.6**	6.8
Investment return on non-linked funds	**4.5**	5.0
Expense inflation	**3.2**	3.7

The group has changed the Risk discount rate used in the Embedded Value calculation from 10 per cent to 8 per cent to align the rate with expected market yields.

The composition of the net tangible assets relating to long-term assurance funds is analysed as follows:

	2003 £m	2002 £m
Loans and advances to banks	**121**	135
Debt securities	**1,054**	871
Equity shares	**2,001**	1,626
Other assets	**578**	694
Prepayments and accrued income	**19**	21
Other liabilities	**(59)**	(84)
Long-term assurance net assets attributable to policyholders	**3,714**	3,263

24 Deposits by banks

	group		*bank*	
	2003 £m	2002 £m	2003 £m	2002 £m
Repayable on demand	**8,166**	8,358	**4,789**	4,892
With agreed maturity dates or periods of notice by remaining maturity				
— 3 months or less but not repayable on demand	**16,750**	12,901	**15,061**	13,123
— 1 year or less but over 3 months	**2,180**	2,317	**1,803**	941
— 5 years or less but over 1 year	**1,386**	387	**356**	273
— over 5 years	**805**	436	**228**	833
	29,287	24,399	**22,237**	20,062

Notes on the Accounts (continued)

24 Deposits by banks *(continued)*

	group		bank	
	2003	2002	**2003**	2002
Amounts include:	**£m**	£m	**£m**	£m
Due to subsidiary undertakings			**7,984**	8,022
Due to fellow subsidiary undertakings	**2,960**	3,042	**1,778**	643

25 Customer accounts

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Repayable on demand	**89,603**	77,813	**65,763**	55,287
With agreed maturity dates or periods of notice by remaining maturity				
— 3 months or less but not repayable on demand	**49,454**	45,972	**24,884**	21,128
— 1 year or less but over 3 months	**3,651**	3,750	**1,849**	1,366
— 5 years or less but over 1 year	**2,938**	2,608	**1,375**	1,565
— over 5 years	**457**	692	**351**	424
	146,103	130,835	**94,222**	79,770
Amounts include:				
Due to joint ventures	**246**	261	**232**	248
Due to associates	**3**	3	**3**	3
Due to subsidiary undertakings			**3,177**	1,329
Due to fellow subsidiary undertakings	**1,276**	86	**878**	826
Due to parent undertaking	**2,612**	2,593	**1,708**	1,344

26 Debt securities in issue

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Bonds and medium-term notes, by remaining maturity				
— within 1 year	**961**	1,414	**91**	796
— between 1 and 2 years	**673**	508	**613**	5
— between 2 and 5 years	**710**	1,657	**228**	847
— over 5 years	**588**	199	**39**	20
	2,932	3,778	**971**	1,668
Other debt securities in issue, by remaining maturity				
— 3 months or less	**6,251**	3,833	**1,769**	1,202
— 1 year or less but over 3 months	**355**	390	**190**	1
— 5 years or less but over 1 year	**216**	295	**—**	2
— over 5 years	**15**	47	**—**	—
	6,837	4,565	**1,959**	1,205
	9,769	8,343	**2,930**	2,873

27 Other liabilities

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Short positions in securities:				
Debt securities				
— government securities	**7,735**	5,769	**4,420**	3,368
— other debt securities	**1,410**	1,157	**789**	834
Equity shares	**794**	905	**765**	844
	9,939	7,831	**5,974**	5,046
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts that are marked-to-market	**11,273**	10,723	**8,495**	7,463
Current taxation	**513**	567	**283**	343
Obligations under finance leases	**296**	167	**—**	—
Dividend payable	**706**	507	**706**	507
Long-term assurance liabilities attributable to policyholders (Note 23)	**3,714**	3,263	**—**	—
Other liabilities	**3,727**	3,731	**1,066**	1,245
	30,168	26,789	**16,524**	14,604
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts that are marked-to-market include amounts:				
Due to subsidiary undertakings			**1,015**	336
Due to fellow subsidiary undertakings	**1,585**	1,437	**1,569**	1,291
Obligations under finance leases fall due as follows				
— within 1 year	**—**	—	**—**	—
— between 1 and 5 years	**—**	—	**—**	—
— over 5 years	**635**	367	**—**	—
	635	367	**—**	—
— less future finance charges	**(339)**	(200)	**—**	—
	296	167	**—**	—

	group		bank	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Short positions in debt securities are in respect of securities				
— due within 1 year	**411**	683	**353**	347
— due 1 year and over	**8,734**	6,243	**4,856**	3,855
	9,145	6,926	**5,209**	4,202
— listed	**7,403**	2,670	**3,784**	2,667
— unlisted	**1,742**	4,256	**1,425**	1,535
	9,145	6,926	**5,209**	4,202

Notes on the Accounts (continued)

28 Provisions for liabilities and charges

a *Deferred taxation*

	group	*bank*
	£m	**£m**
At 1 January 2003	**533**	**(107)**
Charge to the profit and loss account (Note 7)	**79**	**27**
Exchange and other movements	**(17)**	**(5)**
At 31 December 2003	**595**	**(85)**

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Included in 'Provisions for liabilities and charges'	**693**	588	**3**	60
Included in 'Other assets' (Note 23)	**(98)**	(55)	**(88)**	(167)
	595	533	**(85)**	(107)

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Short-term timing differences	**(66)**	(64)	**(32)**	(68)
Accelerated capital allowances	**70**	85	**71**	86
Leasing transactions	**772**	678	**—**	—
Provisions for bad and doubtful debts	**(172)**	(164)	**(86)**	(109)
Relief for tax losses	**(10)**	(17)	**—**	—
Other items	**1**	15	**(38)**	(16)
	595	533	**(85)**	(107)

There is no material deferred taxation liability not provided for.

At 31 December 2003, there were potential future tax benefits of approximately £110 million (2002: £119 million) in respect of capital losses that have not been recognised because recoverability of the potential benefits is not considered likely.

No provision has been made for deferred taxation on gains recognised on revaluing property to its market value or on the sale of properties where potentially taxable gains will be covered by available tax losses.

28 Provisions for liabilities and charges *(continued)*

b *Other provisions for liabilities and charges*

	Provisions for pensions and other post-retirement obligations	*Provisions for contingent liabilities and commitments*	*Premises-related provisions*	*Insurance and other provisions*	*Total*
	£m	**£m**	**£m**	**£m**	**£m**
group					
At 1 January 2003	**339**	**178**	**117**	**403**	**1,037**
Additional provisions/increase in provisions	**15**	**95**	**51**	**171**	**332**
Provisions released	**—**	**(50)**	**(9)**	**(32)**	**(91)**
Provisions utilised	**(18)**	**(23)**	**(89)**	**(62)**	**(192)**
Exchange and other movements	**28**	**—**	**44**	**(7)**	**65**
At 31 December 2003	**364**	**200**	**114**	**473**	**1,151**
bank					
At 1 January 2003	**113**	**38**	**110**	**52**	**313**
Additional provisions/increase in provisions	**2**	**23**	**47**	**2**	**74**
Provisions released	**—**	**(8)**	**(9)**	**(1)**	**(18)**
Provisions utilised	**(6)**	**(17)**	**(88)**	**(2)**	**(113)**
Exchange and other movements	**10**	**—**	**46**	**(42)**	**14**
At 31 December 2003	**119**	**36**	**106**	**9**	**270**

Included within 'Provisions for contingent liabilities and commitments' are provisions:

- for the costs of possible redress relating to the sales of certain personal pension plans and endowments of £9 million (2002: £19 million); and
- against possible payments to be made under guarantee contracts of £56 million.

The personal pension provision is the result of an actuarial calculation extrapolated from a sample of cases and the timing of the expenditure depends on settlement of the individual claims.

The 'Premises-related provisions' relate to discounted future costs associated with vacant and sub-let short leasehold properties, including those that have or will become vacant as a consequence of the move of the group's head office and most of its London-based operations to Canary Wharf in 2002, and to discounted future costs to make good dilapidations upon the expiry of leases. The provisions cover rent voids while finding new tenants, shortfalls in expected rent receivable compared to rent payable and costs of refurbishing the building to attract tenants or make good dilapidations. Uncertainties relate to movements in market rents, the delay in finding new tenants, timing of rental reviews and the estimation of costs of refurbishment.

Included within 'Insurance and other provisions' are provisions of £415 million (2002: £271 million) relating to the general insurance business.

Notes on the Accounts (continued)

29 Subordinated liabilities

	2003 £m	2002 £m
Undated subordinated loan capital		
— bank	**1,168**	1,262
— subsidiary undertakings	**100**	112
	1,268	1,374
Dated subordinated loan capital		
— bank	**3,570**	2,396
— subsidiary undertakings	**421**	460
	3,991	2,856
Total subordinated liabilities		
— bank	**4,738**	3,658
— subsidiary undertakings	**521**	572
	5,259	4,230
Dated subordinated loan capital is repayable		
— within 1 year	**306**	73
— between 1 and 2 years	**278**	328
— between 2 and 5 years	**591**	795
— over 5 years	**2,816**	1,660
	3,991	2,856

Undated subordinated loan capital

		2003 £m	2002 £m
bank			
US$750 million	Undated Floating Rate Primary Capital Notes	**420**	466
US$500 million	Undated Floating Rate Primary Capital Notes	**280**	310
US$300 million	Undated Floating Rate Primary Capital Notes (Series 3)	**168**	186
£150 million	9.25% Step-up Undated Subordinated Notes	**150**	150
£150 million	8.625% Step-up Undated Subordinated Notes	**150**	150
		1,168	1,262
subsidiary undertakings			
¥10,000 million	Undated Subordinated Variable Rate Medium Term Notes	**52**	52
Other undated subordinated liabilities individually less than £50 million		**48**	60
		100	112

The undated subordinated loan capital of the bank has characteristics which render it similar in certain circumstances to preference shares. These borrowings are unsecured obligations of the bank. Claims in respect of principal and interest are subordinated to the claims of all creditors of the bank, other than claims of any creditors in respect of subordinated indebtedness ranking *pari passu* or junior to claims in respect of undated subordinated loan capital.

29 Subordinated liabilities *(continued)*

Dated subordinated loan capital

		2003 £m	2002 £m
bank			
US$400 million	8.625% Subordinated Notes 2004	**223**	248
£200 million	9% Subordinated Notes 2005	**200**	200
US$500 million	7.625% Subordinated Notes 2006	**280**	310
US$375 million	Subordinated Step-up Coupon Floating Rate Notes 2009	**209**	232
US$300 million	6.95% Subordinated Notes 2011	**168**	186
€600 million	4.25% Callable Subordinated Notes 2016	**424**	—
£350 million	Callable Subordinated Variable Coupon Notes 2017	**350**	350
£350 million	5% Callable Subordinated Notes 2023	**350**	—
£300 million	6.5% Subordinated Notes 2023	**298**	298
US$300 million	7.65% Subordinated Notes 2025	**168**	186
£500 million	5.375% Subordinated Notes 2033	**500**	—
£225 million	6.25% Subordinated Notes 2041	**223**	223
		3,393	2,233
Amounts owed to parent undertaking			
€250 million	Floating Rate Subordinated Loan 2015	**177**	163
		3,570	2,396
Amounts owed to subsidiary undertakings			
€1,000 million	Floating Rate Subordinated Loan 2012	**707**	651
€900 million	7.75% Non-cumulative Subordinated Notes 2040	**635**	586
£700 million	5.844% Fixed / Floating Rate Subordinated Note 2048	**700**	—
		5,612	3,633
subsidiary undertakings			
US$81 million	Subordinated Floating Rate Notes 2005	**45**	50
€152 million	Subordinated Callable Floating Rate Notes 2008	**107**	99
Other dated subordinated liabilities individually less than £50 million		**269**	311
		421	460

The dated subordinated loan capital of the bank represents unsecured obligations of the bank. Claims in respect of principal and interest are subordinated to the claims of all creditors of the bank, other than claims of any creditors in respect of subordinated indebtedness ranking *pari passu* or junior to claims in respect of dated subordinated loan capital.

Interest rates on floating rate subordinated loan capital are related to interbank offered rates. On the remaining subordinated loan capital, interest is payable at fixed rates up to 9.25 per cent.

Generally, subordinated loan capital is repayable at par on maturity, but some is repayable prior to maturity at the option of the borrower, subject to the prior consent of the Financial Services Authority. The US$300 million 7.65% Subordinated Notes 2025 are repayable in May 2007 at par at the option of the holders.

29 Subordinated liabilities *(continued)*

The interest rate on the 9.25% Step-up Undated Subordinated Notes changes in December 2006 to become, for each successive five-year period, the rate per annum which is the sum of the yield on the then five-year benchmark UK gilt plus 2.15 per cent. The interest rate on the 8.625% Step-up Undated Subordinated Notes changes in December 2007 to become, for each successive five-year period, the rate per annum which is the sum of the yield on the then five-year benchmark UK gilt plus 1.87 per cent. In both cases, the issues are then repayable at the option of the borrower, subject to the prior consent of the Financial Services Authority.

The interest rates on the Subordinated Step-up Coupon Floating Rate Notes 2009 and the Floating Rate Subordinated Loan 2015 increase by 0.50 per cent five years prior to their maturity dates. In both cases, the issues are then repayable at the option of the borrower, subject to the prior consent of the Financial Services Authority.

The interest rates on the Callable Subordinated Variable Coupon Notes 2017 and the 5% Callable Subordinated Notes 2023 change five years prior to their maturity date to become the rate per annum which is the sum of the yield on the then five-year benchmark UK gilt plus 1.70 per cent and 1.80 per cent respectively. The issues are then repayable at the option of the borrower, subject to the prior consent of the Financial Services Authority.

The interest rate on the 4.25% Callable Subordinated Notes 2016 changes to a floating rate plus a margin of 1.05 per cent five years prior to its maturity date. The issue is then repayable at the option of the borrower, subject to the prior consent of the Financial Services Authority.

30 Minority interests — non-equity

		2003 £m	2002 £m
€900 million	First capital contribution	**635**	586
€1,000 million	Second capital contribution	**707**	651
£700 million	5.844% Non-Cumulative Step-up Perpetual Preferred Securities	**700**	—
		2,042	1,237

Capital Contributions

HSBC Capital Funding 1 (UK) Limited Partnership was established by a subsidiary undertaking of the bank as General Partner, and a fellow subsidiary undertaking of HSBC Holdings plc, as Limited Partner.

The Limited Partner's first capital contribution of €900 million qualifies as innovative tier 1 capital for both the bank and the group on a consolidated basis. The proceeds of the first capital contribution were on-lent by the Limited Partnership to the bank's Paris branch by issue of 7.75% Non-cumulative Subordinated Notes 2040 (the 'Notes'). The Notes may be redeemed at the option of the bank's Paris branch on the interest payment date in October 2010, or any interest payment date thereafter, subject to the prior consent of the Financial Services Authority.

The Limited Partner made a second capital contribution to the Limited Partnership of €1,000 million by way of assignment to the Limited Partnership of a €1,000 million Floating Rate Subordinated Loan 2012 (the 'Loan') made by the Limited Partner to the bank's Paris branch. The Limited Partner's second capital contribution qualifies as tier 2 capital for both the bank and the group on a consolidated basis. The interest rate on the Loan is related to interbank offered rates and increases by 0.50 per cent from the interest payment date in October 2007. The Loan is repayable at par on maturity, and also at the option of the bank's Paris branch on the interest payment date in October 2007, or any interest payment date thereafter, subject to the prior consent of the Financial Services Authority.

The Limited Partner's profit share for each distribution period is calculated as i) the lower of a) the amount of interest received by the Limited Partnership in respect of the Loan and b) the profit of the Limited Partnership available for that distribution period, and ii) the lower of a) €69,750,000 and b) the profit of the Limited Partnership available for that distribution period less amounts paid under i).

30 Minority interests — non-equity *(continued)*

There are limitations on the payment of the Limited Partner's profit share if the bank is prohibited under UK banking regulations or other requirements from paying distributions on its Parity Obligations, or if the bank has insufficient distributable reserves.

The Limited Partnership will be dissolved only upon the occurrence of i) the redemption of the Notes, provided certain redemption conditions are satisfied, or ii) the passing of a resolution for the winding-up of the bank. In the event of a dissolution of the Limited Partnership, before any substitution event (see below), the Limited Partner shall be entitled to receive a) the Limited Partner's share of the Loan (if any) and b) the liquidating distribution to which the Limited Partner is entitled in respect of its €900 million capital contribution, which amount shall not exceed the amount per security that would have been paid as the liquidating distribution from the assets of the bank had the Limited Partner's interest in the Limited Partnership been substituted by the Substitute Securities (see below).

If i) the total capital ratio of the bank or the group on a consolidated basis has fallen below the regulatory minimum ratio required, or ii) in view of the bank's deteriorating financial condition, the bank's Board of Directors expect i) to occur in the near term, then the Limited Partner's interest in the Limited Partnership, in respect of its first €900 million capital contribution, shall be substituted with fully paid ordinary shares issued by the bank ('Substitute Securities') and, as to the remainder, with an appropriate portion of the Loan.

Step-up Perpetual Preferred Securities

The £700 million 5.844% Non-cumulative Step-up Perpetual Preferred Securities (the 'Preferred Securities') were issued by HSBC Bank Capital Funding (Sterling 1) L.P., a Jersey limited partnership, and are guaranteed, on a subordinated basis, by the bank. The proceeds of the issue were on-lent to the bank by the limited partnership by issue of a 5.844% fixed/floating subordinated note. The Preferred Securities qualify as innovative tier 1 capital for the bank and the group on a consolidated basis. The Preferred Securities, together with the guarantee, are intended to provide investors with rights to income and capital distributions and distributions upon liquidation of the bank that are equivalent to the rights they would have had if they had purchased non-cumulative perpetual preference shares of the bank.

The Preferred Securities are perpetual, but redeemable in November 2031 or on each distribution date thereafter at the option of the General Partner of the Limited Partnership. If not redeemed the distributions payable step-up and change to a floating rate plus a margin of 1.76%. There are limitations on the payment of distributions if the bank is prohibited under UK banking regulations or other requirements, if a payment would cause a breach of the bank's capital adequacy requirements, or if the bank has insufficient distributable reserves (as defined in the Limited Partnership Agreement).

The bank has covenanted that if it has been prevented under certain circumstances from paying distributions on the Preferred Securities in full, it will not pay dividends or other distributions in respect of its ordinary shares, or effect repurchase or redemption of its ordinary shares, until after a distribution has been paid in full.

If i) any Preferred Securities are outstanding in November 2048, or ii) the total capital ratio of the bank and the group on a consolidated basis falls below the regulatory minimum ratio required, or iii) in view of the deteriorating financial condition of the bank, the Directors expect (ii) to occur in the near term, then the Preferred Securities will be substituted by Preference Shares of the bank having economic terms which are in all material respects equivalent to those of the Preferred Securities and the guarantee taken together.

Notes on the Accounts (continued)

31 Called up share capital

At 31 December 2002 and 2003	*Non-cumulative preference shares of £1 each*	*Non-cumulative preference shares of US$0.01 each*	*Ordinary shares of £1 each*	*Total*
	£m	£m	£m	£m
Authorised share capital	150	1	1,000	1,151
Allotted, called up and fully paid share capital	—	—	797	797

The issued, allotted and fully paid share capital of the bank comprises 796,969,095 ordinary shares of nominal value £1 each; 35,000,000 Third US$ non-cumulative preference shares of nominal value US$0.01 each; and one preferred ordinary share of nominal value £1.

Third preference shares are redeemable at the option of the bank, at any time after 5 years and 1 day from date of issue, at a redemption price of US$25 per share. Dividends on Third preference shares are payable annually on 31 October at a rate of 7.5 per cent per annum.

In the event of a winding-up, Third preference shareholders would receive, in priority to the ordinary shareholders of the bank, repayment of US$25 per share, plus an amount equal to any dividends declared but unpaid in respect of the previous dividend for the period and any accrued and unpaid dividends for the period to the date of the commencement of winding-up. With the exception of the above, the preference shares do not carry any right to participate in any surplus of assets on a winding-up.

Holders of Third preference shares are not entitled to vote at general meetings of the shareholders, except in certain limited circumstances, such as the variation of the rights attaching to those shares, or in the event of a reduction of the preference share capital. In addition, Third preference shareholders are entitled to vote at general meetings of the shareholders if any resolution is proposed for a winding-up or sale of the whole business of the bank, or in the event of a failure to pay in full the dividend payable on the Third preference shares for the most recent dividend period.

32 Reserves

	group	bank	Joint ventures and associates
	£m	£m	£m
Share premium account			
At 1 January 2003	12,208	12,208	
Exchange movements	(51)	(51)	
At 31 December 2003	12,157	12,157	
Revaluation reserves			
At 1 January 2003	121	685	
Realisation on disposal of properties	(1)	—	
Unrealised deficit on revaluation of freehold and long leasehold properties	(56)	(49)	
Net increase in attributable net assets of subsidiaries and associates	—	485	
Exchange and other movements	5	(6)	
At 31 December 2003	69	1,115	
Profit and loss account			
At 1 January 2003	3,329	2,765	8
Retained profit for the year	40	210	20
Realisation on disposal of properties	1	—	—
Realisation on disposal of subsidiary and associates	—	—	—
Exchange and other movements	671	20	(4)
At 31 December 2003	4,041	2,995	24

Cumulative goodwill amounting to £84 million (2002: £84 million) has been charged against reserves in respect of acquisitions prior to 1 January 1998.

The reserves of the bank include distributable reserves of £2,980 million (2002: £2,750 million).

Some of the group's banking subsidiary undertakings operate under local regulatory jurisdictions which could potentially restrict the amount of reserves that can be remitted to the bank in order to maintain local regulatory capital ratios.

Advantage has been taken of the exemptions applicable to Inland Revenue approved SAYE share option schemes and equivalent overseas schemes under Urgent Issues Task Force Abstract 17 (revised 2003) 'Employee share schemes'.

Notes on the Accounts (continued)

33 Analysis of total assets and total liabilities

a *Assets subject to sale and repurchase transactions*

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Total assets subject to sale and repurchase transactions	**5,179**	4,254	**878**	1,464

b *Assets leased to customers*

Amounts relating to assets leased to customers are included under the following balance sheet headings:

	2003	2002
	£m	£m
Loans and advances to customers		
— finance leases	**2,719**	2,525
— hire purchase contracts	**1,010**	984
Tangible fixed assets		
— equipment on operating leases	**2,255**	2,026
	5,984	5,535

The cost of assets acquired during 2003 for letting under finance leases and hire purchase contracts by the group amounted to £410 million (2002: £466 million) and £449 million (2002: £475 million), respectively.

c *Assets charged as security for liabilities*

Assets have been pledged as security for liabilities included under the following headings:

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Deposits by banks	**355**	910	**336**	892
Customer accounts	**932**	1,396	**932**	1,395
Debt securities in issue	**107**	158	**107**	111
Other liabilities	**480**	695	**347**	503
	1,874	3,159	**1,722**	2,901

The total assets pledged to secure the above liabilities are as follows:

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Assets pledged to secure liabilities	**12,441**	11,320	**11,488**	10,431

The above amounts are mainly made up of items included in 'Debt securities' of £11,478 million (2002: £9,675 million) for the group and £10,551 million (2002: £8,859 million) for the bank.

34 Risk management

All of the group's activities involve analysis, evaluation and management of some degree of risk or combination of risks. The most important types of risk are market risk (which includes foreign exchange, interest rate, equity and commodity price risks), liquidity risk, operational risk and credit risk (which includes cross-border risk).

a *Market Risk Management*

Market risk is the risk that interest rates, credit spreads, foreign exchange rates or equity and commodity prices will move and result in profits or losses to the group. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis). The main valuation sources are securities prices, foreign exchange rates, and interest rate yield curves and volatilities.

The group makes markets in interest rate, exchange rate and equity derivative instruments, as well as in debt, equities and other securities. Trading risks arise either from customer-related business or from position taking. Trading positions are valued on a mark-to-market basis.

The group manages market risk through risk limits approved by the HSBC Bank Executive Committee. Traded Markets Development and Risks, an independent unit within the Corporate, Investment Banking and Markets operation, develops risk management policies and measurement techniques and reviews limit utilisation on a daily basis.

Risk limits are determined for each location and, within location, for each portfolio. Limits are set by product and risk type, with market liquidity being a principal factor in determining the level of limits set. Only those offices which management deem to have sufficient derivative product expertise and appropriate control systems are authorised to trade derivative products. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as value at risk limits at a portfolio level. Similarly, option risks are controlled through full revaluation limits in conjunction with limits on the underlying variables that determine each option's value.

i Trading value at risk (VAR)

VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The group's VAR, predominantly calculated on a variance/co-variance basis, uses historical movements in market rates and prices, a 99 per cent confidence level, a 10-day holding period, generally takes account of correlations between different markets and rates, and is calculated daily. The movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

The group VAR should be viewed in the context of the limitations of the methodology used. These include:

- The model assumes that changes in risk factors follow a normal distribution. This may not be the case in reality and the probability of extreme market movements may be underestimated.
- The use of a 10-day holding period assumes that all positions can be liquidated or hedged in 10 days. This does not fully reflect the market risk arising from times of severe illiquidity, when a 10-day period may be insufficient to liquidate or hedge all positions fully.
- The use of a 99 per cent confidence level does not take account of any losses that might occur beyond this level of confidence.
- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The assumption of independence between risk types may not be accurate and VAR may not fully capture market risk where variables exhibit correlation.

Notes on the Accounts (continued)

34 Risk management *(continued)*

a *Market Risk Management (continued)*

i *Trading value at risk (VAR) (continued)*

- VAR is calculated at the close of business with intra-day exposures not being subject to intra-day VAR calculations on a group basis.
- VAR does not necessarily capture all of the higher-order market risks and may underestimate real market risk exposure.

The group recognises these limitations by augmenting the VAR limits with other position and sensitivity limit structures, as well as with stress testing both on individual portfolios and on a consolidated basis. The group's stress testing regime provides senior management with an assessment of the impact of extreme events on the market risk exposures of the group.

Trading VAR for 2003 is set out below:

	At 31 December 2003	*Minimum during the year*	*Maximum during the year*	*Average for the year*
	£m	**£m**	**£m**	**£m**
Total trading activities	**26.5**	**20.3**	**44.4**	**28.1**
Foreign exchange trading positions	**4.9**	**2.9**	**14.2**	**6.3**
Interest rate trading positions	**22.6**	**14.3**	**42.8**	**24.5**
Equities trading positions	**7.4**	**3.7**	**12.1**	**6.6**

Trading VAR for 2002 is set out below:

	At 31 December 2002	*Minimum during the year*	*Maximum during the year*	*Average for the year*
	£m	£m	£m	£m
Total trading activities	25.5	17.0	41.9	28.1
Foreign exchange trading positions	7.0	3.5	22.4	9.9
Interest rate trading positions	22.9	15.9	36.4	22.7
Equities trading positions	3.8	0.8	5.3	2.1

The VAR noted for foreign exchange positions excludes structural foreign currency exposures, since related gains or losses are taken through reserves.

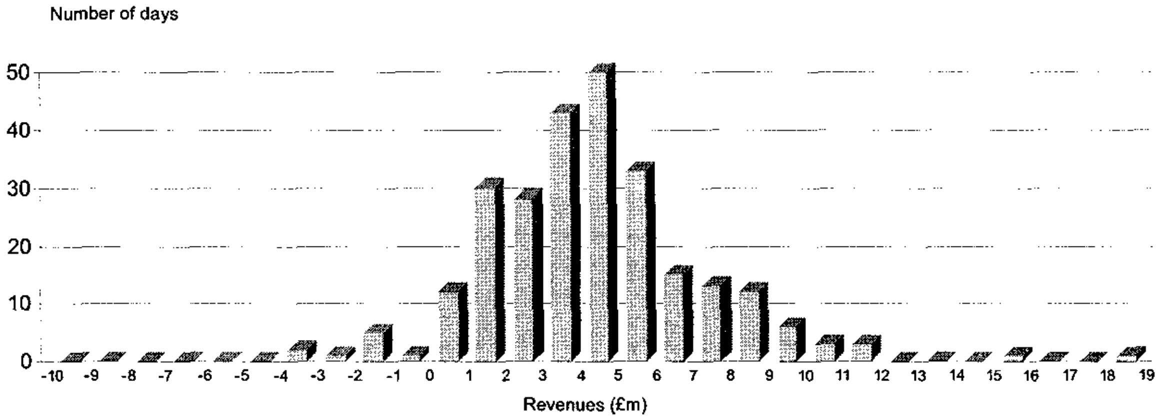
The group's equities exposure arises from equities and equity derivatives transactions.

34 Risk management *(continued)*

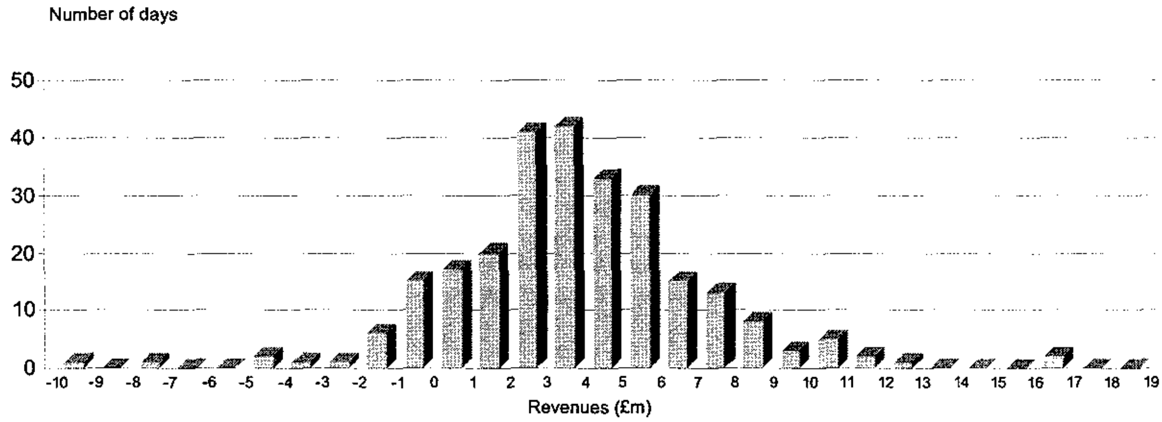
a *Market Risk Management (continued)*

i *Trading value at risk (VAR) (continued)*

Daily distribution of market risk revenues 2003



Daily distribution of market risk revenues 2002



The average daily revenue earned from market-risk-related treasury activities in 2003, including accrual book net interest income and funding related to dealing positions, was £4.3 million, (2002: £3.7 million). The standard deviation of this daily revenue was £2.9 million (2002: £3.3 million). An analysis of the frequency distribution of daily revenues shows that negative revenues were reported on only 9 days during 2003. The most frequent result was a daily revenue of between £4 million and £5 million, with 50 occurrences. The highest daily revenue was £18.6 million (2002: £16.7 million).

Foreign exchange exposure

The group's foreign exchange exposure comprises trading exposures and structural foreign currency translation exposure.

Notes on the Accounts (continued)

34 Risk management *(continued)*

a *Market Risk Management (continued)*

i Trading value at risk (VAR) (continued)

Trading value at risk

The foreign exchange exposures comprise those which arise from foreign exchange dealing within the group's treasury centres and currency exposures originated within the group's commercial banking businesses. The latter exposures are transferred to local treasury units where they are managed together with exposures which result from dealing within approved limits. VAR on foreign exchange trading positions is shown in the table on page 78.

ii Interest rate exposure

The group's interest rate exposures comprise those originating in its treasury trading activities and structural interest rate exposures; both are managed under limits described above. Interest rate risk arises on both trading positions and accrual books. The interest rate risk on interest rate trading positions is set out in the trading VAR table on page 78.

Structural interest rate risk

Structural interest rate risk arises from the differing repricing characteristics of commercial banking assets and liabilities, including non-interest-bearing liabilities such as shareholders' funds and some current accounts. The bank and each major subsidiary undertaking assess the structural interest rate risks which arise in their businesses and either transfer such risks to their local treasury unit for management or transfer the risks to separate books managed by their local Asset and Liability Management Committee (ALCO). ALCOs regularly monitor all such interest rate risk positions, subject to interest rate risk limits agreed with HSBC Holdings plc. In the course of managing interest rate risk, quantitative techniques and simulation models are used where appropriate to identify the potential net interest income and market value effects of these interest rate positions in different interest scenarios. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income.

In accordance with FRS 13, 'Derivatives and Other Financial Instruments: Disclosures', the table below discloses the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rate on a contractual basis, or, if earlier, the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of assets and liabilities. For these reasons, the group manages its interest rate risk on a different basis from that presented below, taking into account behavioural characteristics of the relevant assets and liabilities.

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within re-pricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. In this case, a negative gap position tends to benefit net interest income in a declining interest rate environment, but again the actual effect will depend on the same factors as for positive interest rate gaps, as described above.

34 Risk management *(continued)*

a *Market Risk Management (continued)*

ii *Interest rate sensitivity gap table*

2003	*Not more than three months* £m	*More than three months but not more than six months* £m	*More than six months but not more than one year* £m	*More than one year but not more than five years* £m	*More than five years* £m	*Non-interest bearing* £m	*Banking Book Total* £m	*Trading book* £m	*Total* £m
Assets									
Treasury bills and other eligible bills	1,562	181	47	208	—	—	1,998	199	2,197
Loans and advances to banks	20,061	939	663	163	157	571	22,554	11,088	33,642
Loans and advances to customers	76,178	4,025	4,318	14,127	5,764	1,893	106,305	9,993	116,298
Debt securities and equity shares	6,785	777	1,085	9,438	4,106	1,737	23,928	31,465	55,393
Other assets	644	—	—	—	—	26,322	26,966	11,608	38,574
Total assets	105,230	5,922	6,113	23,936	10,027	30,523	181,751	64,353	246,104
Liabilities									
Deposits by banks	(17,873)	(1,450)	(398)	(1,295)	(613)	(1,954)	(23,583)	(5,704)	(29,287)
Customer accounts	(120,363)	(1,784)	(824)	(1,530)	(421)	(13,438)	(138,360)	(7,743)	(146,103)
Debt securities in issue	(5,179)	(675)	(172)	(2,473)	(584)	(4)	(9,087)	(682)	(9,769)
Other liabilities	(133)	—	—	(144)	(19)	(14,610)	(14,906)	(21,323)	(36,229)
Loan capital and other subordinated liabilities	(887)	(630)	(332)	(552)	(2,858)	—	(5,259)	—	(5,259)
Minority interests and shareholders' funds	—	—	—	—	—	(19,457)	(19,457)	—	(19,457)
Internal funding of the trading book	27,515	1,050	129	342	(2)	(133)	28,901	(28,901)	—
Total liabilities	(116,920)	(3,489)	(1,597)	(5,652)	(4,497)	(49,596)	(181,751)	(64,353)	(246,104)
Net on-balance-sheet items	(11,690)	2,433	4,516	18,284	5,530	(19,073)	—	—	—
Off-balance-sheet items	(17,449)	1,772	4,309	12,601	(1,233)	—	—	—	—
Interest rate sensitivity gap	(29,139)	4,205	8,825	30,885	4,297	(19,073)	—	—	—
Cumulative interest rate sensitivity gap	(29,139)	(24,934)	(16,109)	14,776	19,073	—	—	—	—

34 Risk management *(continued)*

a *Market Risk Management (continued)*

ii Interest rate sensitivity gap table (continued)

2002	Not more than three months £m	More than three months but not more than six months £m	More than six months but not more than one year £m	More than one year but not more than five years £m	More than five years £m	Non-interest bearing £m	Banking Book Total £m	Trading book £m	Total £m
Assets									
Treasury bills and other eligible bills	1,257	93	60	168	—	—	1,578	469	2,047
Loans and advances to banks	16,037	960	956	202	157	326	18,638	7,989	26,627
Loans and advances to customers	74,940	3,665	3,633	10,812	3,863	1,843	98,756	6,151	104,907
Debt securities and equity shares	7,682	1,005	2,961	4,223	4,688	1,578	22,137	26,294	48,431
Other assets	1,377	—	—	—	—	25,083	26,460	9,906	36,366
Total assets	101,293	5,723	7,610	15,405	8,708	28,830	167,569	50,809	218,378
Liabilities									
Deposits by banks	(16,144)	(513)	(1,041)	(165)	(150)	(1,839)	(19,852)	(4,547)	(24,399)
Customer accounts	(104,899)	(1,811)	(979)	(254)	(364)	(16,245)	(124,552)	(6,283)	(130,835)
Debt securities in issue	(3,493)	(482)	(45)	(3,010)	(245)	(987)	(8,262)	(81)	(8,343)
Other liabilities	(146)	—	—	(147)	(19)	(13,528)	(13,840)	(18,697)	(32,537)
Loan capital and other subordinated liabilities	(554)	(841)	(323)	(1,179)	(1,333)	—	(4,230)	—	(4,230)
Minority interests and shareholders' funds	—	—	—	—	—	(18,034)	(18,034)	—	(18,034)
Internal funding of the trading book	17,764	1,817	546	1,234	37	(197)	21,201	(21,201)	—
Total liabilities	(107,472)	(1,830)	(1,842)	(3,521)	(2,074)	(50,830)	(167,569)	(50,809)	(218,378)
Net on-balance-sheet items	(6,179)	3,893	5,768	11,884	6,634	(22,000)	—	—	—
Off-balance-sheet items	(14,440)	(730)	3,260	13,049	(1,139)	—	—	—	—
Interest rate sensitivity gap	(20,619)	3,163	9,028	24,933	5,495	(22,000)	—	—	—
Cumulative interest rate sensitivity gap	(20,619)	(17,456)	(8,428)	16,505	22,000	—	—	—	—

34 Risk management *(continued)*

a *Market Risk Management (continued)*

iii Assets and liabilities denominated in foreign currency

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Denominated in sterling	**104,981**	94,820	**98,344**	90,152
Denominated in currencies other than sterling	**141,123**	123,558	**64,183**	51,173
Total assets	**246,104**	218,378	**162,527**	141,325
Denominated in sterling	**112,619**	101,134	**97,709**	89,224
Denominated in currencies other than sterling	**133,485**	117,244	**64,818**	52,101
Total liabilities	**246,104**	218,378	**162,527**	141,325

iv Structural currency exposures

The main operating (or functional) currencies of the group's subsidiaries are sterling, euros, US dollars, Swiss francs, Turkish lira and Maltese lira.

Since the currency in which the group prepares its consolidated financial statements is sterling, the group's consolidated balance sheet is affected by movements in the exchange rates between these functional currencies and sterling. These currency exposures are referred to as structural foreign currency exposures. Translation gains and losses arising from these exposures are recognised in the statement of total consolidated recognised gains and losses.

The group's structural foreign currency exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in its branches, subsidiary undertakings, joint ventures and associates. Gains or losses on structural foreign currency exposures are taken to reserves.

The group mitigates the effect of structural foreign currency exposures by financing a proportion of its net investment in its operations with borrowings in the same currencies as the functional currencies involved.

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. This is usually achieved by denominating tier 1 capital broadly in proportion to the corresponding foreign-currency-denominated risk-weighted assets at a subsidiary bank level. The group considers hedging structural foreign currency exposures only in limited circumstances, to protect the tier 1 capital ratio or the value of capital invested. Such hedging would be undertaken using forward foreign exchange contracts or by financing with borrowings in the same currencies as the functional currencies involved.

As subsidiaries are generally able to balance adequately foreign currency tier 1 capital with foreign currency risk-weighted assets, the group's structural foreign currency exposures are usually unhedged, including exposures due to foreign-currency-denominated profits arising during the year. There were no material effects from foreign currency exchange rate movements on group or subsidiary tier 1 capital ratios during the year.

34 Risk management *(continued)*

a *Market Risk Management (continued)*

iv *Structural currency exposure (continued)*

The group's structural currency exposures as at the year-end were as follows:

2003

Functional currency of the operation involved	*Net investments in operations*	*Borrowing taken out in the functional currencies of operations in order to hedge the net investment in such operations*	*Remaining structural currency exposures*
	£m	**£m**	**£m**
Euro	**9,751**	**1,341**	**8,410**
US dollars	**1,468**	**490**	**978**
Swiss francs	**1,410**	**415**	**995**
Turkish lira	**307**	**—**	**307**
Maltese lira	**142**	**—**	**142**
Other	**44**	**—**	**44**
Total	**13,122**	**(2,246)**	**10,876**

2002

Functional currency of the operation involved	*Net investments in operations*	*Borrowing taken out in the functional currencies of operations in order to hedge the net investment in such operations*	*Remaining structural currency exposures*
	£m	£m	£m
Euro	9,144	1,237	7,907
US dollars	1,555	549	1,006
Swiss francs	1,256	410	846
Turkish lira	274	—	274
Maltese lira	121	—	121
Other	38	—	38
Total	12,388	2,196	10,192

b *Liquidity Management*

The group's commercial banking operations generate a surplus of stable retail deposits over loans to its customers. Together with its capital resources, this surplus is placed with the treasury units where the group's funding and liquidity is managed by Global Markets in London, CCF in Paris and Private Banking in Geneva, ensuring this reflects the different local regulatory requirements. In addition, all sites operate within the HSBC Group's liquidity policy. This process includes:

- projecting cash flows by major currency and consideration of the level of liquid assets in relation thereto;
- maintenance of strong balance sheet liquidity ratios;
- monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors; and
- maintenance of liquidity contingency plans.

34 Risk management *(continued)*

b *Liquidity Management (continued)*

Core retail deposits (current accounts and savings deposits payable on demand or at short notice) form a significant part of the group's overall funding. Considerable importance is attached to this core deposit base which, over the years, has been stable and predictable. The HSBC Group prefers to grow its balance sheet through increasing core retail deposits where possible.

Global Markets is an important player in the money markets and debt capital markets. As a leading market maker in loans and deposits, the group routinely accepts deposits, often of a short-term nature, from banks and other institutions and makes advances to similar organisations. In addition, the funding of capital markets activities, by repo arrangements for example, will often result in funding directly in the wholesale market.

Approximately two thirds of the bank's asset base is sterling-based with the remainder mostly denominated in euros and US dollars. The non-sterling asset base is partially funded through currency-denominated capital issues and loan stock, supplemented by time deposits taken from the eurocurrency interbank market, from central banks, corporate customers and other financial institutions.

The sources of such deposits, by type of institution and country, are monitored in order to avoid an undesirable dependence on any particular institution or category of depositor.

Global Markets in London has, for some years, operated a liquidity management policy based on consolidated net cash flows that conforms to the FSA's arrangements for the supervision of major UK banks' sterling liquidity. Central to these arrangements is the requirement for banks to be able to survive five working days without the renewal of any maturing net wholesale liabilities, and after the leakage of 5 per cent of the gross retail deposit base, for which purpose a minimum coverage ratio of specified liquid assets must be maintained. This ratio is computed daily, with the position being managed so as to exceed the minimum ratio. In addition to complying with these FSA requirements on sterling liquidity, the bank also adopts the same consolidated cash flow methodology for managing its all-currency 0-5 working day liquidity exposures.

It is, however, the HSBC Group's policy that on an all-currency basis all professional deposits with residual maturities up to 30 days, plus 5 per cent of deposit liabilities should be backed by liquid assets. This means that, in a crisis, the group would be able to meet its obligations as they fall due for at least 30 days without recourse to the wholesale markets. This requirement is significantly more stringent than the regulatory requirement.

In France, CCF complies with the regulatory liquidity ratio requirements of the Banque de France, overseen and monitored by the Commission Bancaire. Banks are required to submit quarterly returns which are used to compute a liquidity ratio for the coming month, and for the following two months. Banks simultaneously submit a future forecast of liquidity positions called 'observation ratios'. The ratios are derived by dividing liquid assets (which are subject to discount factors) by liabilities (which include a proportion of customer accounts, 5 per cent of off-balance-sheet commitments and all borrowings and subordinated loan stock maturing within one month). Banks are required to maintain, at all times, a ratio in excess of 100 per cent.

In Switzerland, Private Banking complies with the liquidity ratio requirements of the Swiss Federal Banking Commission. 'Liquidity I' applies to Swiss currency only and is calculated monthly, based on monthly averages. 'Liquidity II' embraces all currencies and requires that liquid and easily realisable assets are above one third of the difference between amounts due to banks/clients maturing within 30 days and amounts due from banks/clients maturing within 30 days. This ratio is calculated daily.

Other non-UK units maintain sufficient liquidity to meet their day-to-day needs and local regulatory requirements unless specific arrangements are made for Global Markets in London to provide the necessary support. Both CCF and Private Banking are required to maintain high-quality liquid assets at least equal to 0-30 days' cumulative refinancing exposures on an all-currency basis for HSBC Group liquidity management purposes.

34 Risk management *(continued)*

c *Operational Risk Management*

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organisation and covers a wide spectrum of issues.

The HSBC Group manages this risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensures that the HSBC Group stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

The HSBC Group codified its operational risk management process by issuing a high level standard in May 2002. This explains how the HSBC Group manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The processes undertaken to manage operational risk are determined by reference to the scale and nature of each HSBC Group operation. The HSBC Group standard covers the following.

- Operational risk management responsibility is assigned at a senior management level within the business operation.
- Information systems are used to record the identification and assessment of operational risks and generate appropriate, regular management reporting.
- Operational risks are identified by risk assessments covering operational risks facing each business and risks inherent in processes, activities and products. Risk assessment incorporates a regular review of risks identified to monitor significant changes.
- Operational risk loss data is collected and reported to senior management. This report covers aggregate operational risk losses and details of incidents above a materiality threshold.
- Risk mitigation, including insurance, is considered where this is cost-effective.

Local management within the group is responsible for implementation of the HSBC Group standard on operational risk, throughout their operations, within a reasonable timeframe.

The HSBC Group maintains and tests contingency facilities to support operations in the event of disasters. Additional reviews and tests were conducted following the terrorist events of 11 September 2001 and more recently, the two bomb blasts in Istanbul, to incorporate lessons learned in the operational recovery from those circumstances.

d *Credit Risk Management*

Credit risk is the risk that a customer or counterparty of the group will be unable or unwilling to meet a commitment into which it has entered with a member of the group. It arises from lending, trade finance, treasury and other activities. The group has in place standards, policies and procedures for the control and monitoring of all such risks.

HSBC Holdings plc is responsible for the formulation of high-level credit policies. It also reviews the application of the HSBC Group's universal facility grading system. The HSBC Group's credit risk limits to counterparties in the financial and government sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. Cross-border risk is controlled through the imposition of country limits, which are determined by taking into account economic and political factors, and local business knowledge, with sub-limits by maturity and type of business. Transactions with counterparties in higher risk countries are considered on a case-by-case basis.

34 Risk management *(continued)*

d *Credit Risk Management (continued)*

Within the overall framework of the HSBC Group policy, the bank has an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. Local management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products.

Special attention is paid to the management of problem loans. Where deemed appropriate, specialist units are established to provide intensive management and control to maximise recoveries of doubtful debts.

Geographical concentrations of credit risk

The group restricts its exposure to the risk of payment difficulties arising with respect to individual countries and regions through a central HSBC Group system of internally determined country limits that relate to both economic and political risks. Exposures to individual countries and cross-border exposures in aggregate are kept under continuous review.

The following table shows total outstandings to counterparties in countries and regions which individually represent in excess of 5 per cent of total outstandings. Classification is based upon the country of residence of the borrower but recognises the transfer of country risk in respect of third party guarantees or residence of the head office where the borrower is a branch. In accordance with the Bank of England Country Exposure Report (Form C1) guidelines, outstandings comprise loans and advances (excluding settlement accounts), amounts receivable under finance leases, acceptances, commercial bills, certificates of deposit, and debt and equity securities (net of short positions), and exclude accrued interest and intra group exposures. Outstandings to counterparties in the United Kingdom, the bank's country of domicile, are not recorded on Form C1 but, for 2003, were collected separately on a comparable basis. In 2002, these amounts were computed on the basis of total group outstandings for classes of asset specified in the Form C1 guidelines less amounts reported on Form C1.

As shown in the table below, the group's credit risk exposures are predominantly with countries and regions with developed economies.

	2003	2002
	%	%
United Kingdom	**47**	45
France	**15**	18
Germany	**8**	7
Rest of Continental Europe	**16**	16
Continental Europe	**39**	41
United States	**5**	5
Rest of world	**9**	9
	100	100

Concentrations of credit risk

Information relating to industry concentrations, gross of specific provisions, is given within Note 15 'Concentrations of exposure' in the Notes on the Accounts.

The group provides a diverse range of financial services both in the United Kingdom and internationally. As a result, its portfolio of financial instruments with credit risk is highly diversified with no exposures to individual industries or economic groupings totalling more than 10 per cent of consolidated total assets, except as follows:

34 Risk management *(continued)*

d *Credit Risk Management (continued)*

- the bank's position as one of the principal UK clearing banks means that the majority of the group's exposure to credit risk is concentrated in the United Kingdom. Within the United Kingdom, the group's credit risk is diversified over a wide range of industrial and economic groupings; and
- the group's position as part of a major international banking group means, that it has a significant concentration of exposure to banking counterparties. The majority of credit risk to the banking industry at 31 December 2003 and 31 December 2002 was concentrated in Europe (including the United Kingdom). Concentrations of credit risk arising from off-balance-sheet transactions are discussed in Note 35(a).

There are no special collateral requirements relating to industrial concentrations, with the exception of exposures to the property sector. The majority of exposures to the property and construction industry and the residential mortgage market are secured on the underlying property.

35 Financial instruments

a *Derivatives*

Off-balance-sheet financial instruments, commonly referred to as derivatives, are contracts the characteristics of which are derived from those of the underlying assets, interest and exchange rates, credit spreads, equity indices or commodity prices. They include futures, forwards, swap and options transactions in the foreign exchange, interest rate, equity, credit and commodity markets. Transactions are negotiated directly with customers, with the group acting as a counterparty, or can be dealt through exchanges.

Users of derivatives typically want to convert an unwanted risk generated by their business to a more acceptable risk, or cash. Derivatives provide an effective tool for companies to manage the financial risks associated with their business and, as a consequence, there has been a significant growth in derivatives transactions in recent years.

The group, through its dealing operations, takes positions in the market and acts as an intermediary between a broad range of users, structuring deals to produce risk management products to suit individual customer needs. As a result, the group can accumulate significant open positions in derivatives portfolios. These positions are managed constantly to ensure that they are within acceptable risk levels, with offsetting deals being undertaken to achieve this where necessary. As well as acting as a dealer, the group also uses derivatives (principally interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

Risks associated with derivatives

Derivative instruments are subject to both market risk and credit risk, discussed in Note 34.

The market risk associated with derivatives can be significant since large positions can be accumulated with a substantially smaller initial outlay than required in cash markets. Recognising this, only certain offices with sufficient derivative product expertise and appropriate control systems are authorised to trade derivative products. The management of market risk arising from derivatives business is monitored daily by the market risk control unit in each office and on a regular basis by Traded Markets Development and Risk, in combination with market risks arising from on-balance-sheet instruments, discussed in Note 34(a).

Unlike assets recorded on the balance sheet, where the credit risk is typically the full amount of the principal value, together with any unrealised interest accrued or mark-to-market gain ('Credit risk management' in the Note 34(d), the credit risk relative to a derivative is principally the replacement cost of any contract with a positive mark-to-market gain and an estimate for the potential future change in value, reflecting the volatilities affecting the contract. Credit risk on contracts having a negative mark-to-market value is restricted to the potential future change in value. Credit risk on derivatives is, therefore, small in relation to a comparable balance sheet risk. In addition, credit exposure with individual counterparties can be reduced by the receipt of collateral and close-out netting agreements, which allow for positive and negative mark-to-market values on different transactions to be offset and settled by a single payment in the event of default by either party. Such agreements are enforceable in the jurisdictions of the major market makers and the group has executed close-out netting agreements with the majority of its significant counterparties, notwithstanding the fact that the group deals only with the most creditworthy counterparties.

35 Financial instruments *(continued)*

a *Derivatives (continued)*

To reduce credit risk, management may deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but will generally be in the form of liquid securities or cash.

The credit risk profile generated by the use of credit derivatives has an additional dimension. Where the group purchases protection, credit risk arises through the cost of replacing the contract and it is managed and reduced in the same way as for other derivative contracts. Selling protection through credit derivatives gives rise to additional credit risk. This credit risk arises as a direct consequence of the obligation of the group as the protection seller to make a payment to the protection buyer following a credit event on a reference name. The group manages the credit risk with regards to reference names by including any such exposures arising from credit derivatives with its overall credit limits structure. In addition the trading of credit derivatives is restricted to a number of small offices within the major centres which have the control infrastructure and market skills to manage effectively the credit risk inherent in the products.

The following table analyses the replacement cost of all third-party exchange rate, interest rate and equities contracts with positive mark-to-market gains, after netting where available, by maturity and by category of counterparty at 31 December 2003 and 31 December 2002. The table shows that the replacement cost of derivatives is predominately with banks and under five years.

Replacement cost	*Residual maturity*					
	Less than one year	*One to five years*	*Over five years*	*Netting*	*Total 2003*	*Total 2002*
	£m	£m	£m	£m	**£m**	£m
Government	**22**	**50**	**93**	**(150)**	**15**	20
Banks	**6,196**	**5,734**	**3,011**	**(7,496)**	**7,445**	6,577
Non-bank financial institutions						
Exchanges*	**46**	**83**	**—**	**—**	**129**	141
Other	**1,123**	**903**	**502**	**(593)**	**1,935**	1,837
Other sectors	**896**	**924**	**269**	**(771)**	**1,318**	823
Total 2003	**8,283**	**7,694**	**3,875**	**(9,010)**	**10,842**	
Total 2002	6,123	8,532	4,065	(9,322)		9,398

** Exchanges with margining requirement.*

The following table analyses the maturity profile of the contract amounts of third-party derivative contracts outstanding at 31 December 2003 and 31 December 2002. This shows that the majority of contracts are executed over the counter and mature within one year.

Contract amount	*Residual maturity*				
	Less than one year	*One to five years*	*Over five years*	*Total 2003*	*Total 2002*
	£m	£m	£m	**£m**	£m
Exchange rate, interest rate and equities contracts					
Exchanges*	**99,537**	**47,489**	**—**	**147,026**	75,914
Other	**627,067**	**353,708**	**193,495**	**1,174,270**	971,327
Total 2003	**726,604**	**401,197**	**193,495**	**1,321,296**	
Total 2002	604,454	324,213	118,574		1,047,241

** Exchanges with margining requirement.*

35 Financial instruments *(continued)*

a *Derivatives (continued)*

i Derivatives used for trading purposes

Contracts for trading purposes are undertaken both for the group's own account and to service its corporate customer base, including designing structured products to meet the specific requirements of customers. Derivatives are used for trading purposes in order to generate income from customer-driven business and dealing income from market fluctuations.

Trading positions are valued on a mark-to-market basis.

In liquid portfolios, the market values are determined by reference to independently sourced mid-market prices where it is reasonable to assume the positions could be sold at that price. In those instances where markets are less liquid and/or where positions have been held for extended periods, portfolios will be valued by reference to bid or offer prices as appropriate.

In relation to certain products, such as over-the-counter derivative instruments, there are no independent prices quoted in the markets. In these circumstances market values are determined by reference to standard industry models, which typically utilise discounted cash flow techniques to derive the market value. The models may be in-house developed or software vendor packages.

In valuing transactions, prices may be amended in respect of those positions considered illiquid, having recognition of the size of the position *vis à vis* the normal market trading volumes in that product.

The main valuation sources are volatilities, securities prices, foreign exchange rates, and interest rate yield curves.

The group's derivative transactions are predominantly in plain vanilla instruments, primarily comprising interest rate and foreign exchange contracts, where the marked-to-market values are readily determinable by reference to independent prices and valuation quotes, as described above.

There are a limited number of structured transactions which have been performed, primarily to meet specific customer demand, where standard industry models are not routinely available, and where there is no market quotation. For these products, the group has developed its own proprietary models for the purposes of performing valuations. These models are rigorously checked by Finance and Operations departments on an ongoing basis to ensure that the model assumptions are, and remain, valid over the transaction life, which is generally less than five years.

The average mark-to-market values for the years ended 31 December 2003 and 31 December 2002 are analysed in the following table. Positive amounts represent replacement cost values, while negative amounts represent current mark-to-market losses.

	2003	2002
	Average Mark-to-market values	*Average Mark-to-market values*
	£m	£m
Exchange rate contracts		
— assets	**7,473**	5,495
— liabilities	**(7,869)**	(5,700)
Interest rate contracts		
— assets	**12,301**	8,363
— liabilities	**(11,914)**	(8,442)
Equities		
— assets	**1,142**	897
— liabilities	**(1,498)**	(1,011)

Asset and liability balances arising from derivative contracts are not netted, except where a legal right of set-off exists.

35 **Financial instruments** *(continued)*

a *Derivatives (continued)*

i Derivatives used for trading purposes (continued)

Assets, including gains, resulting from derivatives that are marked to market, are included within 'Other assets' in the consolidated balance sheet. Liabilities, including losses, resulting from such contracts, are included in 'Other liabilities'.

The following tables summarise the contract amount, replacement cost and mark-to-market values of third-party and internal trading derivatives by product type. The replacement cost shown is the positive mark-to-market value and represents the accounting loss the group would incur if the counterparty to a derivative contract failed to perform according to the terms of the contract and the collateral, if any, for the amount due proved to be of no value.

Because all derivative instruments used for trading purposes are marked-to-market, carrying values are equal to market values. Mark-to-market values are determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows and include netted internal positions, except where otherwise indicated.

The notional or contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Netting is applied where a legal right of set-off exists. Mark-to-market assets and liabilities are presented gross, with allowable netting shown separately.

	2003		2002	
	Contract amount	*Replacement cost*[1]	*Contract amount*	*Replacement cost*[1]
	£m	£m	£m	£m
Spot and forward foreign exchange	**235,702**	**5,823**	217,951	4,455
Currency swaps, futures and options purchased	**98,499**	**3,036**	72,079	1,729
Currency options written	**49,622**	**—**	33,122	—
Credit derivatives	**10,846**	**102**	3,850	70
Commodity contracts	**521**	**3**	120	1
Total exchange rate contracts	**395,190**	**8,964**	327,122	6,255
Interest rate swaps	**734,452**	**7,957**	590,756	10,358
Interest rate futures, forward rate agreements, and options purchased	**186,155**	**1,104**	126,446	761
Interest rate options written	**64,956**	**—**	42,448	—
Total interest rate contracts	**985,563**	**9,061**	759,650	11,119
Equities, futures and options purchased	**17,302**	**1,507**	16,764	1,007
Equities options written	**7,837**	**—**	11,741	—
Total equities contracts	**25,139**	**1,507**	28,505	1,007
Netting		**(9,010)**		(9,322)
Total	**1,405,892**	**10,522**	1,115,277	9,059

[1] *Third-party contracts only*

35 Financial instruments *(continued)*

a *Derivatives (continued)*

i Derivatives used for trading purposes (continued)

	2003	2002
	Mark-to-market values	*Mark-to-market values*
	£m	£m
Exchange rate		
— assets	**9,556**	6,646
— liabilities	**(9,908)**	(6,987)
Interest rate		
— assets	**9,066**	11,199
— liabilities	**(9,164)**	(11,716)
Equities		
— assets	**1,507**	1,007
— liabilities	**(1,211)**	(1,342)
Total		
— assets	**20,129**	18,852
— liabilities	**(20,283)**	(20,045)
Netting	**(9,010)**	(9,322)

Included in the amounts in the previous table is cash collateral meeting the offset criteria of FRS 5 as follows:

	2003	2002
	£m	£m
Offset against assets	**427**	709
Offset against liabilities	**281**	28

ii Derivatives used for risk management purposes

The majority of the transactions undertaken for risk management purposes are between business units within the group, one of which is a trading desk, which may then lay off the resulting position by trading in the external market. Internal positions are integral to the group's asset and liability management and are included within analyses of non-trading positions in the tables on page 93.

35 Financial instruments *(continued)*

a *Derivatives (continued)*

ii *Derivatives used for risk management purposes (continued)*

The table below summarises the contract amount and replacement cost of derivatives used for risk management purposes by product type. The replacement cost shown represents the accounting loss the group would incur if the counterparty to a derivative contract failed to perform according to the terms of the contract and the collateral, if any, for the amount due proved to be of no value.

	2003		2002	
	Contract amount	*Replacement cost*[1]	*Contract amount*	*Replacement cost*[1]
	£m	**£m**	£m	£m
Spot and forward foreign exchange	**3,961**	**3**	11,913	1
Currency swaps, futures and options purchased	**6,676**	**111**	4,772	24
Total exchange rate contracts	**10,637**	**114**	16,685	25
Interest rate swaps	**137,226**	**206**	125,381	313
Interest rate futures, forward rate agreements and options purchased	**1,141**	**—**	1,355	1
Total interest rate contracts	**138,367**	**206**	126,736	314

[1] *Third-party contracts only*

The table below summarises the carrying value and mark-to-market value of derivative contracts held for risk management purposes. Mark-to-market values for assets and liabilities arising from derivatives held for non-trading purposes are determined in the same way as those set out for trading derivatives above including internal positions.

	2003		2002	
	Carrying value	*Mark-to-market values*	*Carrying value*	*Mark-to-market values*
	£m	**£m**	£m	£m
Exchange rate				
— assets	**87**	**164**	7	40
— liabilities	**(792)**	**(1,078)**	(298)	(558)
Interest rate				
— assets	**528**	**2,298**	610	2,710
— liabilities	**(138)**	**(1,671)**	(268)	(1,900)

Notes on the Accounts (continued)

35 Financial instruments *(continued)*

b *Other financial instruments*

i *Financial instruments held for trading purposes*

	2003	2002
	Mark-to-market values	*Mark-to-market values*
	£m	£m
Assets		
Treasury bills and other eligible bills	**199**	469
Loans and advances to banks and customers	**21,081**	14,140
Debt securities	**27,347**	24,377
Equity shares	**4,118**	1,917
	52,745	40,903
Liabilities		
Short positions in securities	**9,939**	7,831
Debt securities in issue	**682**	81
Deposits by banks and customer accounts	**13,447**	10,830
	24,068	18,742

The net trading assets above are funded by liabilities whose fair value is not materially different from their carrying value.

ii *Financial instruments not held for trading purposes and for which a liquid and active market exists*

	2003		2002	
	Carrying value	*Mark-to-market values*	*Carrying value*	*Mark-to-market values*
	£m	**£m**	£m	£m
Assets				
Treasury bills and other eligible bills	**1,998**	**2,000**	1,578	1,582
Debt securities	**22,209**	**22,676**	20,571	21,053
Equity shares	**1,719**	**2,046**	1,566	1,763
	25,926	**26,722**	23,715	24,398
Liabilities				
Debt securities in issue	**4,356**	**4,362**	3,223	3,202
Subordinated liabilities	**4,765**	**4,856**	3,847	3,903
Non-equity minority interest	**700**	**700**	—	—
	9,821	**9,918**	7,070	7,105

35 Financial instruments *(continued)*

b *Other financial instruments (continued)*

ii Financial instruments not held for trading purposes and for which a liquid and active market exists (continued)

Where possible, mark-to-market values have been estimated using market prices for these financial instruments. Where market prices are not available, values have been estimated using quoted prices for financial instruments with similar characteristics, or otherwise using a suitable valuation technique where practicable to do so.

The valuation techniques used are:

— *Treasury bills and other eligible bills*

The mark-to-market value approximates to carrying value because these are mainly short-term in maturity with a carrying value not materially different from mark-to-market value.

— *Loans and advances to banks and customers*

For variable rate loans and advances with no significant change in credit risk, the carrying value is considered to represent mark-to-market value. The mark-to-market values of other loans and advances are estimated by discounting future cash flows using market interest rates.

— *Debt securities and equity shares*

Listed securities are valued at middle-market prices and unlisted securities at management's valuation, which takes into consideration future earnings streams, valuations of equivalent quoted securities and other relevant techniques.

— *Debt securities in issue, short positions in securities, subordinated liabilities and preference shares*

Mark-to-market values are estimated using quoted market prices at the balance sheet date.

— *Deposits by banks and customer accounts*

Deposits by banks and customer accounts that mature or re-price after six months are grouped by residual maturity. Fair value is estimated using discounted cash flows, applying either market rates, where applicable, or current rates offered for deposits of similar repricing maturities.

c *Gains and losses on hedges*

Gains and losses on instruments used for hedging are recognised in line with the underlying items that are being hedged. The unrecognised gains on instruments used for hedging as at 31 December 2003 were £1,638 million (2002: £1,814 million) and the unrecognised losses were £1,610 million (2002: £1,573 million).

Unrecognised gains of £799 million and unrecognised losses of £703 million are expected to be recognised in 2004.

Of the gains and losses included in the profit and loss account in 2003, £784 million gains and £648 million losses were unrecognised at 1 January 2003.

Notes on the Accounts (continued)

36 Memorandum items

a *Contingent liabilities and commitments*

	2003			2002		
	Contract amount	*Credit equivalent amount*	*Risk-weighted amount*	*Contract amount*	*Credit equivalent amount*	*Risk-weighted amount*
	£m	**£m**	**£m**	£m	£m	£m
group						
Contingent liabilities						
Acceptances and endorsements	**455**	**197**	**137**	742	502	391
Guarantees and assets pledged as collateral security						
— guarantees and irrevocable letters of credit	**15,364**	**11,338**	**9,374**	14,353	10,477	8,774
— other	**4**	**4**	**4**	6	6	6
	15,823	**11,539**	**9,515**	15,101	10,985	9,171
Commitments						
Documentary credits and short-term trade-related transactions	**1,550**	**730**	**379**	1,515	782	293
Forward asset purchases and forward forward deposits placed	**130**	**130**	**116**	70	70	77
Undrawn note issuance and revolving underwriting facilities	**59**	**30**	**30**	36	18	18
Undrawn formal standby facilities, credit lines and other commitments to lend						
— over 1 year	**19,568**	**9,781**	**8,710**	14,825	7,412	6,609
— 1 year or less	**52,274**	**—**	**—**	44,931	—	—
	73,581	**10,671**	**9,235**	61,377	8,282	6,997

	2003	2002
	£m	£m
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)		
— contingent liabilities	**147**	158

36 Memorandum items *(continued)*

a *Contingent liabilities and commitments (continued)*

	2003			2002		
	Contract amount	*Credit equivalent amount*	*Risk-weighted amount*	*Contract amount*	*Credit equivalent amount*	*Risk-weighted amount*
	£m	**£m**	**£m**	£m	£m	£m
bank						
Contingent liabilities						
Acceptances and endorsements	**328**	**67**	**44**	631	387	307
Guarantees and assets pledged as collateral security						
— guarantees and irrevocable letters of credit	**9,242**	**7,326**	**5,574**	8,423	6,500	5,073
	9,570	**7,393**	**5,618**	9,054	6,887	5,380
Commitments						
Documentary credits and short-term trade-related transactions	**1,006**	**433**	**214**	1,081	590	213
Forward asset purchases and forward forward deposits placed	**23**	**23**	**19**	16	16	12
Undrawn note issuance and revolving underwriting facilities	**21**	**10**	**10**	—	—	—
Undrawn formal standby facilities, credit lines and other commitments to lend						
— over 1 year	**11,961**	**5,978**	**5,133**	9,938	4,969	4,366
— 1 year or less	**46,014**	**—**	**—**	39,434	—	—
	59,025	**6,444**	**5,376**	50,469	5,575	4,591

	2003	2002
	£m	£m
Incurred on behalf of subsidiary undertakings (contract amount)		
— contingent liabilities	**7**	46
Incurred on behalf of parent and fellow subsidiary undertakings (contract amount)		
— contingent liabilities	**—**	19

The preceding tables give the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Financial Services Authority's guidelines, which implement the 1988 Basel Capital Accord on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

Contingent liabilities and commitments are credit-related instruments that 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.

36 Memorandum items *(continued)*

b *Concentrations of contingent liabilities and commitments*

The group has the following concentration of exposure to contingent liabilities and commitments, based on the location of the office recording the transaction:

	United Kingdom	*Continental Europe*	*Rest of the world*	*Total*
	£m	£m	£m	£m
Contract amounts				
Contingent liabilities				
2003	**8,216**	**7,259**	**348**	**15,823**
2002	7,602	7,204	295	15,101
Commitments				
2003	**55,871**	**13,288**	**4,422**	**73,581**
2002	47,891	9,219	4,267	61,377

37 Litigation

The bank and certain subsidiary undertakings are named in, and are defending, legal actions in various jurisdictions arising from their normal business. No material adverse impact on the financial position of the group is expected to arise from these proceedings.

38 Capital commitments

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Expenditure contracted for	**708**	662	**131**	117

39 Lease commitments

The group was committed to various non-cancellable operating leases on Leasehold land and buildings, which require aggregate future rental payments as follows:

	2003	2002
	£m	£m
Payable within 1 year	**86**	98
Payable between 1 and 2 years	**79**	90
Payable between 2 and 3 years	**75**	84
Payable between 3 and 4 years	**69**	80
Payable between 4 and 5 years	**63**	74
Payable in over 5 years	**372**	568
	744	994

At the year-end, annual commitments under non-cancellable operating leases were:

	group		*bank*	
	2003	2002	**2003**	2002
	£m	£m	**£m**	£m
Leasehold land and buildings				
Operating leases which expire				
— within 1 year	**3**	2	**2**	1
— between 1 and 5 years	**20**	19	**13**	12
— in over 5 years	**62**	77	**57**	74
	85	98	**72**	87

40 Segmental analysis

As the group is not required to disclose turnover, no segmental analysis of turnover is included. Turnover of non-banking businesses is included in other operating income in the table below. The allocation of earnings reflects the benefit of shareholders' funds to the extent that these costs are actually allocated to businesses in the segment by way of intra-group capital and funding structures. Common costs are included in segments on the basis of the actual recharges made.

a *By geographical region*

In the analysis set out below, net assets include an appropriate amount of shareholders' funds, based on the proportion of risk-weighted assets in each segment. Geographical information has been classified by the location of the principal operations of the subsidiary undertaking or, in the case of the bank, by the location of the branch responsible for reporting the results or for advancing the funds.

	United Kingdom	*Continental Europe*	*Rest of the world*	*Total*
2003	**£m**	**£m**	**£m**	**£m**
Gross income				
Interest receivable	**5,395**	**2,636**	**236**	**8,267**
Dividend income	**60**	**28**	**—**	**88**
Fees and commissions receivable	**2,338**	**1,241**	**78**	**3,657**
Dealing profits	**374**	**219**	**87**	**680**
Other operating income	**446**	**56**	**6**	**508**
Total gross income	**8,613**	**4,180**	**407**	**13,200**
Profit on ordinary activities before tax	**1,896**	**304**	**44**	**2,244**
Attributable profit/(loss)	**1,469**	**(17)**	**28**	**1,480**
Net assets	**10,804**	**5,699**	**561**	**17,064**
Total assets	**145,869**	**90,552**	**9,683**	**246,104**
2002	£m	£m	£m	£m
Gross income				
Interest receivable	5,366	2,539	379	8,284
Dividend income	94	20	—	114
Fees and commissions receivable	2,075	1,034	52	3,161
Dealing profits	191	135	62	388
Other operating income	464	68	18	550
Total gross income	8,190	3,796	511	12,497
Profit/(loss) on ordinary activities before tax	2,190	(52)	147	2,285
Attributable profit/(loss)	1,551	(309)	137	1,379
Net assets	10,393	5,895	167	16,455
Total assets	123,799	86,356	8,223	218,378

40 Segmental analysis *(continued)*

b *By class of business*

	2003	2002
	£m	£m
Profit/(loss) on ordinary activities before tax		
UK Personal Banking	**602**	555
UK Commercial Banking	**539**	627
UK Corporate and Institutional Banking	**369**	312
Global Markets UK	**458**	467
Investment Banking	**(82)**	(2)
International Banking	**202**	208
CCF	**382**	365
Private Banking	**290**	225
HSBC Trinkaus & Burkhardt	**50**	16
Amortisation of goodwill	**(566)**	(488)
	2,244	2,285
Net assets		
UK Personal Banking	**1,287**	1,366
UK Commercial Banking	**1,025**	1,081
UK Corporate and Institutional Banking	**1,161**	1,307
Global Markets UK	**566**	509
Investment Banking	**509**	346
International Banking	**846**	969
CCF	**7,732**	6,822
Private Banking	**3,707**	3,882
HSBC Trinkaus & Burkhardt	**231**	173
	17,064	16,455
Total assets		
UK Personal Banking	**40,863**	35,579
UK Commercial Banking	**21,900**	19,272
UK Corporate and Institutional Banking	**17,685**	19,107
Global Markets UK	**56,393**	45,681
Investment Banking	**2,249**	2,798
International Banking	**16,633**	13,489
CCF	**55,667**	49,220
Private Banking	**26,980**	26,122
HSBC Trinkaus & Burkhardt	**7,734**	7,110
	246,104	218,378

The amortisation of goodwill includes £417 million (2002: £309 million) in respect of CCF of which £83 million relates to goodwill on joint ventures (2002: £6 million) and £173 million (2002: £169 million) in respect of Private Banking.

Notes on the Accounts (continued)

41 Related party transactions

a *Transactions, arrangements and agreements involving Directors and others*

Particulars of transactions, arrangements and agreements entered into by subsidiary undertakings of the bank with Directors and connected persons and companies controlled by them and with officers of the bank disclosed pursuant to section 232 of the Companies Act 1985 are as follows:

	2003		2002	
	Number	*£000*	*Number*	*£000*
Directors and connected persons and companies controlled by them:				
Loans and credit card transactions (including £94,000 in credit card transactions (2002: £64,000))	**19**	**210,457**	18	91,465
Officers:				
Loans and credit card transactions (including £136,000 in credit card transactions (2002: £78,000))	**27**	**7,823**	22	6,986

b *Joint ventures and associates*

Information relating to joint ventures and associates can be found in the Notes on the Accounts, where the following are disclosed:

— Note 13: amounts due from joint ventures

— Note 18: interests in joint ventures

— Note 19: interests in associates

— Note 25: amounts due to joint ventures and associates

c *Transactions with other related parties of the group*

Pension funds

At 31 December 2003, the HSBC Bank (UK) Pension Scheme had deposits of £103 million (2002: £150 million) with the bank.

42 Approval of the accounts

These accounts were approved by the Board of Directors on 1 March 2004.

43 Ultimate parent company

The ultimate parent company of the group is HSBC Holdings plc, which is incorporated in England.

HSBC Holdings plc is the only undertaking for which consolidated accounts that include the consolidated accounts of the group are drawn up.

HSBC Holdings plc is HSBC Bank plc's direct and ultimate controlling party as defined under Financial Reporting Standard 8, 'Related Party Disclosures'.

Copies of HSBC Holdings plc's *Annual Review 2003* and *Annual Report and Accounts 2003* can be obtained from its registered office at 8 Canada Square, London E14 5HQ, or on the HSBC Group's web site, www.hsbc.com.

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