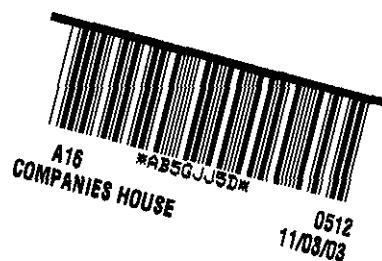


HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

ANNUAL REPORT AND ACCOUNTS

31 December 2002



Company Registration Number 1798474

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Annual report and accounts for the year ended 31 December 2002

	Page
Report of the directors	1
Report of the independent auditors	3
Profit and loss account	4
Balance sheet	5
Notes to the accounts	6

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the directors for the year ended 31 December 2002

Principal activities

The Company carries on the business of providing general insurance products to the customers of its parent, HSBC Bank plc.

Results and dividends

The Company's results for the year under review are as detailed in the statement of profit and loss shown in these accounts.

An interim dividend of £63,000,000 was paid on 30 August 2002 in respect of the year ended 31 December 2002 (2001: £53,000,000). The directors recommend the payment of a second interim dividend of £49,000,000 for the year ended 31 December 2002 on 28 February 2003 (2001: £52,000,000).

Business review

The improvement in turnover and pre-tax profit for the year is primarily due to income from loan, mortgage and credit card related protection sales. This has grown due to increases in bank lending and mortgage volumes together with an increase in the average loan / mortgage case size and improved card repayment protection penetration rate. Income has also increased on the Home Insurance product line.

During 2002, activity has focused on rolling out the new creditor protection infrastructure across the branch network, improving both the sales process and the customer experience, introducing customer pricing on home insurance and providing the infrastructure to purchase home insurance in the branch network.

Priorities for 2003 include further development of the pricing proposition to reflect individual banking relationships, increasing sales by providing products to support Banking propositions and customer segments and positioning the company to manage the impact of changing legislation.

Directors

The directors who served during the year were as follows:

	Appointed	Resigned
A J Ashford		
R G Hampton	30/08/2002	
R D Parker		
P J Sellers		
A M Tomlinson		
J T Walker		11/06/2002

Directors' interests

All the directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, required to be disclosed under the Companies Act 1985, are set out below:

	HSBC Holdings plc Ordinary shares of US\$0.50 each	
	31 December 2002	1 January 2002 (or appointment date)
A J Ashford	18,682	12,605
R G Hampton	814	780
R D Parker	2,436	3,425
P J Sellers	-	-
A M Tomlinson	73	-

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the directors for the year ended 31 December 2002

During the year options over HSBC Holdings plc ordinary shares of US\$0.50 each were granted/exercised as follows:

	Granted	Exercised
A J Ashford	-	-
R G Hampton	5,023	762
R D Parker	4,918	609
P J Sellers	4,000	-
A M Tomlinson	2,523	762

R D Parker had an interest in 324 11.69% HSBC Holdings plc subordinated bonds 2002 of £1 each until 31 July 2002, when the bonds were redeemed.

Supplier payment policy

The Company subscribes to the Better Payment Practice Code, 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 is available from: The Department of Trade and Industry, No. 1 Victoria Street, London SW1H 0ET.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc. The payment performance of this unit is incorporated within the results of that company.

Statement of directors' responsibilities in relation to financial statements

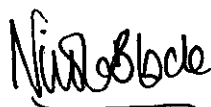
The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the directors are satisfied that the Company has 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, the Company has used appropriate accounting policies, consistently applied 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 Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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 Company and to prevent and detect fraud and other irregularities.

By order of the Board



N S Black
Secretary

Date: 21 February 2003

Registered Office:
8 Canada Square
London
E14 5HQ

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Independent auditors' report to the members of HSBC General Insurance Services (UK) Limited

We have audited the financial statements on pages 4 to 10.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members as a body, 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 2, 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 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 Company 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 Company is not disclosed.

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 Company'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 Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

21 February 2003

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Profit and loss account for the year ended 31 December 2002

	Note	2002 £'000	2001 £'000
TURNOVER	1	163,305	150,260
Administrative expenses		(5,314)	(8,104)
OPERATING PROFIT		<u>157,991</u>	<u>142,156</u>
Interest receivable		3,651	4,337
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	<u>161,642</u>	<u>146,493</u>
Tax on profit on ordinary activities	4	(48,480)	(43,947)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		<u>113,162</u>	<u>102,546</u>
Dividends	5	(112,000)	(105,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	11	<u><u>1,162</u></u>	<u><u>(2,454)</u></u>

All operating profits relate to continuing operations.

Recognised gains and losses

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of £113,162,000 in the year ended 31 December 2002 and of £102,546,000 in the year ended 31 December 2001. A statement of recognised gains and losses has therefore not been presented.

The notes on pages 6 to 10 form an integral part of these financial statements.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Balance sheet at 31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Tangible assets	6	<u>74</u>	<u>50</u>
CURRENT ASSETS			
Debtors	7	40,186	35,816
Cash at bank and in hand		86,010	88,262
		<u>126,196</u>	<u>124,078</u>
CREDITORS – amounts falling due within one year	8	104,021	112,213
NET CURRENT ASSETS		<u>22,175</u>	<u>11,865</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		22,249	11,915
PROVISIONS FOR LIABILITIES AND CHARGES			
	9	20,712	11,540
		<u>1,537</u>	<u>375</u>
CAPITAL AND RESERVES			
Called up share capital	10	-	-
Profit and loss account	11	1,537	375
		<u>1,537</u>	<u>375</u>

The accounts were approved by the Board of directors on 21 February 2003 and were signed on its behalf by:



R G Hampton
Director

The notes on pages 6 to 10 form an integral part of these financial statements.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a. Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention.

In accordance with Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements', no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc, which publishes such a statement in its own publicly available accounts.

As the Company is a wholly owned subsidiary of HSBC Bank plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities that form part of the HSBC Bank Group (or investees of the Group qualifying as related parties). Note 13 details where the consolidated financial statements of HSBC Bank plc, within which this Company is included, can be obtained.

The Company has adopted the provisions of Financial Reporting Standard (FRS) 19 'Deferred Tax'.

b. Tangible fixed assets

The cost of tangible fixed assets includes incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The rates used for this purpose are:

Computer equipment	20%
Motor vehicles	20%

c. Deferred taxation

Deferred tax is recognised in full on timing differences between the accounting and taxation treatment of income and expenditure, subject to recoverability of deferred tax assets, in accordance with Financial Reporting Standard 19 'Deferred Tax'. The application of FRS 19 'Deferred Tax' this year does not have a material effect on either this year's or the prior year's results.

d. Turnover

Turnover comprises commission earned, net of provision for expected refunds, on general insurance scheme business and amounts earned under profit sharing arrangements with scheme underwriters, and arises in the UK. Commissions and amounts earned under profit sharing arrangements are accounted for in the profit and loss account on an accruals basis.

e. Provision for liabilities and charges

As a result of the Company's normal business risk, operational losses can arise and these are provided for when identified.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

This is stated after charging/(crediting) :	2002	2001
	£'000	£'000
Interest receivable:		
- from Group undertakings	(3,651)	(4,332)
- other	-	(5)
Depreciation charge for the year:		
Tangible fixed assets	21	21
Auditor's remuneration - audit services	17	16

The income and expenditure of the Company relates primarily to revenue and expenditure originated by HSBC Bank plc.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

3. DIRECTORS' REMUNERATION

Of the six directors who served during the year, two were remunerated by another Group undertaking which made no specific charge to this Company for their services. The emoluments of the other directors in respect of their services to the Company are shown below.

	2002 £'000	2001 £'000
Emoluments	221	191
Pension scheme contributions	8	8
	<u>229</u>	<u>199</u>
Highest paid director:		
Emoluments	123	119
Pension scheme contributions	8	8
	<u>131</u>	<u>127</u>

Details of directors who exercised share options during the year are given in the directors' report.

The Company does not have any direct employees. The directors and staff are all employees of HSBC Bank plc.

Retirement benefits are accruing to the directors under schemes operated by their employing company. Retirement benefits are accruing to four directors under defined benefits schemes and to one director under a money purchase scheme at 31 December 2002 (2001: four and one, respectively). The directors are members of retirement benefit schemes operated by HSBC Bank plc, details of which can be found in that company's Annual Report and Accounts. The Company does not receive explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff. It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) Analysis of charge in period

	2002 £'000	2001 £'000
<i>Current tax:</i>		
UK corporation tax on profits of the period	48,492	43,947
Adjustments in respect of previous periods	(1)	-
Total current tax (note 4(b))	<u>48,491</u>	<u>43,947</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(11)	-
Total deferred tax (note 7)	<u>(11)</u>	<u>-</u>
Tax on profit on ordinary activities	<u>48,480</u>	<u>43,947</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

4. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

(b) Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30 per cent). The differences are explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	<u>161,642</u>	<u>146,493</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	48,493	43,948
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1	1
Capital allowances for period in excess of depreciation	(2)	(2)
Adjustments to tax charge in respect of previous periods	(1)	-
Current tax charge for period	<u>48,491</u>	<u>43,947</u>

5. DIVIDENDS

	2002 £'000	2001 £'000
First interim paid -£630,000 per share (2001 - £530,000 per share)	63,000	53,000
Second interim payable - £490,000 per share (2001 - £520,000 per share)	49,000	52,000
	<u>112,000</u>	<u>105,000</u>

6. TANGIBLE FIXED ASSETS

	Motor Vehicles £'000	Equipment £'000	Total £'000
COST			
At 1 January 2002	67	45	112
Additions	45	-	45
At 31 December 2002	<u>112</u>	<u>45</u>	<u>157</u>
DEPRECIATION			
At 1 January 2002	38	24	62
Charge for year	15	6	21
At 31 December 2002	<u>53</u>	<u>30</u>	<u>83</u>
NET BOOK VALUE			
At 31 December 2002	<u>59</u>	<u>15</u>	<u>74</u>
At 31 December 2001	<u>29</u>	<u>21</u>	<u>50</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

7. DEBTORS

	2002 £'000	2001 £'000
Amounts falling due within one year :		
Other debtors	600	665
Prepayments and accrued income	39,575	35,151
Deferred taxation	11	-
	<u>40,186</u>	<u>35,816</u>

Deferred taxation:

The deferred taxation balances relate to accelerated capital allowances:

	£'000
Deferred tax asset at start of period	-
Deferred tax credit in profit and loss account for period (note 4)	11
Deferred tax asset at end of period	<u>11</u>

8. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002 £'000	2001 £'000
Trade creditors	21,677	27,128
Amounts owed to group undertakings	430	537
Dividend payable	49,000	52,000
Other creditors including taxation and social security	23,174	24,342
Accruals and deferred income	9,740	8,206
	<u>104,021</u>	<u>112,213</u>

9. PROVISIONS FOR LIABILITIES AND CHARGES

	Returnable commission £'000	Other provisions £'000	Total £'000
As at 1 January 2002	11,514	26	11,540
Charged to Profit & Loss	23,515	44	23,559
Amount utilised	(14,387)	-	(14,387)
As at 31 December 2002	<u>20,642</u>	<u>70</u>	<u>20,712</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

9. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Returnable commission

Commission receivable in respect of sales of the Company's lending protection products is paid in the form of an up-front single premium. Should the policy be cancelled at any point during its term, a refund of commission will be paid to the customer equivalent to the proportion of risk not yet covered. The provision relates to the total amount of commission already received that is potentially returnable to customers as at the balance sheet date. The provision will be utilised over the unexpired period of the policy term up to a maximum of 8 or 10 years for personal lending protection or business lending protection policies respectively. The main uncertainty over the eventual cost arises from the underlying assumption that historical policy cancellation behaviour will be repeated in the future.

10. SHARE CAPITAL

	2002 £	2001 £
Authorised : 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid : 100 ordinary shares of £1 each	<u>100</u>	<u>100</u>

11. PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 2002	375
Retained profit for the year	1,162
At 31 December 2002	<u>1,537</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUND

	£'000
At 1 January 2002	375
Profit for the financial year	113,162
Dividends	(112,000)
At 31 December 2002	<u>1,537</u>

13. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING

The Company's immediate parent company is HSBC Bank plc and its ultimate parent company is HSBC Holdings plc.

The largest group in which the results of the Company are consolidated is that headed by HSBC Holdings plc. The smallest group in which they are consolidated is that headed by HSBC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from the registered office at:

8 Canada Square
London E14 5HQ