



THOMAS MURRAY



HSBC Bank plc

Clients Covered: UK

Global Custody Rating: AA

Overall Assessment

HSBC Bank plc (HSBC) is a wholly owned subsidiary of HSBC Holdings plc, which has 253,000 employees in over 9,700 offices in 77 countries and territories. With listings on the London, Hong Kong, Bermuda and Paris stock exchanges and American Depository Receipts traded on the New York stock exchange, shares in HSBC Holdings plc are held by around 200,000 shareholders in some 100 countries and territories. The HSBC Group sees securities services as a core business and has created a unified global management structure for these businesses, under the umbrella of HSBC Securities Services (HSS). Institutional Fund Services (IFS) is a product line of HSS.

IFS offers global custody (IFS London), fund administration, performance consultancy and associated services (IFS Edinburgh) to the UK, Europe and the Middle East, for traditional funds. IFS is a combination of the previously separate Global Fund Services and Global Investor Services units. IFS London demonstrates a very strong global custody capability overall, offering all the core global custody services, as well as UK domestic sub-custody services. At the end of 2004, IFS employed 776 staff based in London and offered global custody capabilities in Europe, from Edinburgh, Dublin, Luxembourg, Guernsey and the Isle of Man in addition to London. Assets under custody totalled USD 1,139 billion at the end of 2002, and grew to USD 1,873 billion at the end of 2004. Of this total, USD 1,251 billion was cross-border and USD 622 billion was UK domestic. The new HSS global business has four global product lines: sub-custody and clearing, alternative fund services, corporate trust and loan agency and institutional fund services (including global custody, fund administration and performance measurement, focusing on traditional funds). For a global financial services organisation of the size of the HSBC Group, the securities services business is undersized in comparison with others, in terms of assets under custody. This is partly due to the lack of a US based custody business of any scale (which represents the bulk of the assets under custody of the largest competitors). The HSBC Group faces a significant task to build, a strong, unified, global management team to manage the business, integrate the relevant Bank of Bermuda activities, realise the synergies from bringing the separate business units together and fill the gaps in the product range but has made significant progress. During 2004, the overall HSS management structure and operating model was established and more depth added to the IFS management. In December 2004, IFS completed the lift-out of Gartmore Investment Management plc's (Gartmore) back office activities and in March 2005 IFS completed the insourcing of HSBC Investments UK Limited's (HSBC Investments) operations.

Financial, Asset Safety, Asset Servicing and Operational risk exposures are all low. HSBC is authorised and regulated in the UK by the Financial Services Authority. There have been no material issues reported as raised by the regulators. The external auditors are KPMG Audit plc, who conduct an audit of HSBC and produce a FRAG 21 report annually. In 2004, a combined IFS FRAG 21 report was produced for the first time, spanning both the Edinburgh and London operations, covering core custody and fund accounting, but not securities lending or trustee functions. There is a continuing programme of HSBC Group Internal Audit reviews of different areas of IFS London, with reporting back to senior management in the HSBC Group as well as IFS London. IFS Compliance undertake an on-going checking and review of operational procedures and controls including Regulatory matters, and Operational Risk and Control maintain a register of operational risks, with appropriate classification and ongoing actions to ameliorate them. The independent IFS Compliance function undertakes a rolling monitoring programme in respect of regulatory issues. There is a programme of operational risk reviews, which dovetails with the HSBC Group Internal Audit and Compliance reviews. Ongoing process improvement initiatives are supported by electronic control checklists and will be further reinforced by best practice culture using Six Sigma project methodology in the future. IFS London has business continuity and disaster recovery plans, including a business recovery site in another part of London and a back up in Liverpool. The main data centre is located in South Yorkshire. HSBC has had strong and stable/improving credit ratings for the last five years, with S&P at AA-, Fitch at AA and Moody's at Aa2. The 2004 results for HSBC Holdings plc show a tier 1 BIS capital adequacy ratio of 8.9% (unchanged from 31 December 2003) and total capital adequacy ratio of 12% (unchanged from 31 December 2003). HSBC Bank plc (the contracting party) reported a tier 1 ratio of 7.4% (unchanged from 31 December 2003) and a total capital ratio of 10.5% for 31 December 2004 (10.7% as at 31 December 2003).

| Global Custody Rating | Core Services | | | | | | | | | | | | |
|------------------------|----------------|-------------|-------------|--------------|-------------------|-------------------|----------------------|--------------------|------------------|----------|--------------------|---------------------|-------|
| | Overall Rating | Credentials | Settlements | Safeguarding | Income Collection | Corporate Actions | Corporate Governance | Cash/FX Management | Active Cash Mgmt | Taxation | Securities Lending | Internal Operations | Risks |
| HSBC Bank plc | AA | AA | AA | AA+ | AA | AA- | AA- | AA | AA | AA+ | AA | AA- | AA |
| Global Custody Rating: | AA | AA | AA | AA+ | AA | AA- | AA- | AA | AA | AA+ | AA | AA- | AA |



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HSBC Bank plc, Profile

Company Structure and Ownership

HSBC Bank plc (HSBC) is a wholly owned subsidiary of HSBC Holdings plc, which has 253,000 employees in over 9,700 offices in 77 countries and territories. With listings on the London, Hong Kong, Bermuda and Paris stock exchanges and American Depository Receipts traded on the New York stock exchange, shares in HSBC Holdings plc are held by around 200,000 shareholders in some 100 countries and territories. HSBC Bank plc is a principal member of the HSBC Group providing products and services including global custody in the UK and Europe. Another principal member of the HSBC Group is The Hong Kong and Shanghai Banking Corporation Limited, which provides products and services in the Asia-Pacific region.

Major Business Units

The HSBC Group has five principal lines of business, one of which is *Corporate Investment Banking and Markets (CIBM)*. The other four principal lines of business are: *Commercial Banking, Private Banking, Personal Financial Services, and Consumer Finance*. CIBM includes Global Markets, Global Investment Banking, Global Research, Corporate and Institutional Banking, and Global Transaction Banking (GTB). GTB was established in April 2003 and covers the provision of securities services, payments and cash management, trade services and wholesale banknotes services, on a global basis, to large corporate and institutional clients. The securities services division of GTB is labelled HSBC Securities Services (HSS). Institutional Fund Services (IFS) is a product line of HSS, offering global custody, fund administration, performance consultancy and associated services to the UK, Europe and the Middle East, for traditional funds. It is a combination of the previously separate Global Fund Services and Global Investor Services units.

Group Strategy

The HSBC Group adopted a five year 'Managing for Growth' strategy in 2004. The strategy aims to build on the HSBC Group's record of profitable growth and services and will be measured by total shareholder return. The vision remains to be the world's leading financial services organisation and make HSBC and its Hexagon symbol one of the world's leading brands through several major initiatives; growing revenues through a world class, ethical sales and marketing culture, focusing on customers' needs, increasing productivity and controlling costs effectively and managing people in a way that encourages and rewards strong performance. On 16 February 2004, the acquisition by the HSBC Group of the Bank of Bermuda was finalised. This has added significant scale and geographical spread to HSBC's existing international fund administration, custody, private banking, trustee and asset management businesses. The relevant parts of Bank of Bermuda are being integrated into HSS as Alternative Fund Services, with the conventional custody being migrated, centre by centre from Bank of Bermuda into IFS.

Custody Strategy

The HSBC Group is implementing the global strategy for the securities services businesses world-wide. They are being united into a single global securities services business, as has been done for other businesses in the HSBC Group such as Payments and Cash Management. This global business has four global product lines: sub-custody and clearing, alternative fund services, corporate trust and loan agency and institutional fund services (including global custody, fund administration and performance consultancy, focusing on traditional funds). John Gubert is Global Head of HSS within the GTB division, with Nick Bryan heading the Asia-Pacific business and the sub-custody and clearing product globally; Paul Smith heading the Americas and the alternative fund services product globally; and Mike Martin heading Europe and having responsibility for the institutional fund services products on a global basis. The corporate trust and loan agency heads report to regional heads depending on client need at present, but it is intended to appoint a global head for this business. The European business (IFS) incorporates both London and Edinburgh operational centres and is increasingly integrating the two into a common management structure. The strategy for 2005 is developing a plan for Europe to extend the best practise culture, utilising the six sigma methodology, as part of the process re-engineering, implement further offshoring to Malaysia (manual trade input, CREST settlement and trade repair have already migrated), pursue operational outsourcing opportunities, such as Gartmore and HSBC Investments and continue to migrate information delivery for all clients onto the HSBC Group's web platform (HSBCnet) in 2005. In terms of client acquisition, it is hoped to develop the global custody customer base by leveraging existing HSBC Group relationships, in effect using other parts of the HSBC Group to "sell" global custody to existing HSBC Group clients. In January 2004, the outsourcing of the Gartmore (a fund management group with USD 90 billion) London back office activities to IFS was announced, with the lift out being implemented over 2004. Late in 2004, the intention to outsource the London operations of HSBC Investments to IFS was also announced and this was successfully completed in March 2005.

Clients

IFS has a good spread of clients by industry type, with 8% insurance companies, 7% corporate pension funds, 2% state and local authorities 21% fund managers, 10% offshore funds, 22% banks and 30% other financial institutions. Geographically, clients are concentrated in the UK with 60%, Continental Europe 20%, Far East and Australasia 2%, North America 2%, Japan 1% and 15% other.



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CREDENTIALS

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|---|----|-----|---|----|-----|----|---|----|-----|-----------|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|-----------|-----|-----|

Commitment to Business

For a global financial services organisation the size of the HSBC Group, the securities services business is undersized in comparison with others, in terms of assets under custody. This is partly due to the lack of a US based custody business of any scale (which represents the bulk of the assets under custody of the largest competitors). However, the HSBC Group sees securities services as a core business and has created a unified global management structure under the umbrella of HSS, as discussed under custody strategy. The HSBC Group faces a significant task to build, a strong, unified, global management team to manage the business, integrate the relevant Bank of Bermuda activities, realise the synergies from bringing the separate business units together and fill the gaps in the product range but has made significant progress. During 2004, the overall HSS management structure and operating model was established and more depth added to the IFS management. In December 2004, IFS completed the lift-out of Gartmore's back office activities and in March 2005 IFS completed the insourcing of HSBC Investment's operations. In the UK, the HSBC Group has been extending the product range with the launch of the global fund services unit in Edinburgh in 1999, which is now part of IFS. As part of the development of the global business line, the management of the London and Edinburgh units in the UK has been unified under the banner of Institutional Fund Services (IFS). The outsourcing to IFS of the back office activities of Gartmore, and the operations of HSBC Investment's in London represents further steps in developing an outsourcing business in the securities services arena. In the Asian sub-custody business there has been continued investment in GHSS, the common systems platform for the business, which has been rolled out across the region. The earlier project to develop GHSS as a global custody system to replace the existing IFS London platform has been abandoned in favour of creating a more modern, loosely coupled set of modular sub-systems that will ultimately provide all future functionality for the HSS businesses. HSBCnet, as the proprietary client information delivery tool, is being rolled out to all HSS, and, in fact, all CIBM businesses on a world-wide basis and will provide a uniform delivery mechanism. HSBCnet offers a wide range of online capabilities including real time transaction reporting of cash and securities positions, file upload functionality for transactions and customised reports via Report Writer for cash payments. HSBCnet functionality is being further developed to enhance services and reporting currently provided by Hexagon for Windows (to be demised) and deliver securities transaction input and individual corporate event decision input later in 2005.

Experience

HSBC has been in the custody business since 1910, and in cash management since 1840. Assets under custody in IFS have increased from USD 579 billion in 1997 to USD 1,060 billion at the end of 2001, USD 1,139 billion at the end of 2002, USD 1,502 billion at the end of 2003 and USD 1,873 billion at the end of 2004, despite the volatility in market values over the last few years. Of the total at the end of 2004, USD 1,251 billion was cross-border and USD 622 billion was UK domestic. The HSBC Group is actively involved in industry bodies, such as Euroclear (Board and various Euroclear and CREST committees), G30 Monitoring Group, the Executive Board of ISSA, the SWIFT Securities Committee and various working groups, OMGEO, ISLA and ISITC in Europe.

Management

The management of Securities Services has changed to a global structure, as discussed under custody strategy. At the end of 2004, the custody business of IFS employed 776 staff based in London and offered global custody capabilities in Europe, from Edinburgh, Dublin, Luxembourg, Guernsey and the Isle of Man in addition to London. During 2004, further depth has been added to the IFS management team in London. The IFS management team has three levels, an Executive Management team of 9 covering London and Edinburgh, a senior management team of 84 in London, and a junior management/supervisory team of 208 in London. The senior management team has some 16 years of experience each on average, the junior management team 12 years and staff an average of 7 years experience. Looking at the various functional areas, Business Development has 41 staff (including Sales, Relationship Management, Sales Support, Market & Product strategy, Marketing and PR). Risk & Control (Risk Management, Compliance, Asset/Internal Control) has 31 staff. Business Systems and Support (Systems Strategy, Business Support, and Project Office) has 47 staff. The Custody Services area (Settlements, Income, Corporate Actions, Tax Services and Client Services) has 322 staff, including the Client Services Teams who deal with operational queries. The Income area merged with the Corporate actions area during 2005. Specialised Services (including Cash Management, FX, Treasury & Related Services, Trustee & Depository and Securities Lending) has 97 staff. Corporate Trust and Loan Agency has 88 staff. Middle Office Services (operational outsourcing) has 84 staff. Commercial & Resource management (including HR, Finance, MI and facilities) has 52 staff. There is an emphasis on training the junior staff, with in-house training modules covering core processes. Staff receive 3 to 4 days external training per year. Staff turnover has been on a par with UK industry standards historically, running at 9% in 2002, 7% in 2003, rising to 14% in 2004. Amongst the management team of IFS London there is a significant group of people with long service (20 years or more) in the HSBC Group, representing good continuity in service delivery.



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Settlements

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|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

There has been a gradual migration of routine settlement activity from IFS London to Malaysia as part of an offshoring process. Manual trade input, CREST settlement and all settlement repairs have been migrated so far. IFS London offers contractual settlement date accounting (CSDA) in 60 out of 73 markets supported, with contractual settlement proceeds credited to client accounts at the start of each day. In the UK, both actual and contractual settlement are offered. CSDA will be offered provided that trade instructions are received within agreed deadlines. A trade will be reversed if, after matching, it does not actually settle within 28 days, with 3 days notice given to clients. Unmatched trades in CREST will be reversed 15 days after settlement date. Automated pre-matching is carried out in most markets, with the results available via SWIFT. Partial settlement is supported in most markets where permitted, with client consent being sought for partial settlement outside the UK. For UK trades, some 0.3% of trades settle after the value date on CREST. IFS London actively manages failed trades by providing information via SWIFT and contacting the client or counter-party until resolution. STP rates are around 95% overall on transaction volumes of 110,000 to 160,000 per month in 2004. Interest claims from late settlements are generated and managed by IFS London.

Safekeeping

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|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

Outside the UK, IFS London holds client securities predominantly in omnibus accounts with its sub-custodians, separate from both HSBC and the sub-custodian's own proprietary assets, unless the country's regulations or laws require segregated accounts. The breakdown of records to client level is in IFS London books. In the UK, client securities are held by a nominee company, with a client designation. In CREST, the securities are held in designated client accounts. There is a daily transaction reconciliation with the sub-custodians and a monthly holdings reconciliation. The intra-day transaction rejection reports from CREST provide IFS London with a daily transaction reconciliation. Clients are informed of registration status via SWIFT, HSBCnet and Hexagon. IFS London will only hold securities in street names upon request from the client. Registered share certificates are held in a separate certificates office, with controlled access. Bearer securities are deposited in IFS London's vault and are subject to standard banking controls, including dual key access.

Income Collection

| | | | | | | | | | | | | |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

In 2004, the Income area of IFS London was merged with the Corporate Actions area. IFS London offers clients contractual income on payment date in 67 out of the active 73 markets, with 28 as soon as received but no later than a fixed period after pay date. IFS London is able to pay income in the client's chosen currency in all markets. IFS London uses FT Interactive, uploaded on the day of receipt, for collating income information. This information is then automatically verified against another third party vendor (Telekurs) and is cross-checked manually to the Stock Exchange Weekly Intelligence list for the UK and automatically against the sub-custodians SWIFT messages overseas, while bond coupons and redemptions are checked with the paying agent. The information loaded onto the IFS London system is used as the pre-advise for the client. Income is paid on the settled position, and IFS London automatically initiates market claims, with a policy of reversing unpaid claims after a period of 180 days. If a contractual dividend or interest payment is not actually received by IFS London within 28 days of the pay date the payment will be reversed upon 3 days notice to the client.

Corporate Actions

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|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

IFS merged the Income and Corporate Actions Operations in August 2004. Since August 2004, the London Stock Exchange (LSE) has been able to broadcast corporate actions by SWIFT MT564. Corporate action notifications from sub-custodians via SWIFT MT564/8 are uploaded automatically into the custody system by IFS. These are used as the primary information source, with checking against Telekurs automatically and using FT Interactive as a back up information source before releasing the information to clients. All information received by noon is now sent out to clients the same day. IFS London has the capability to accept standing instructions, and will be automating standing instruction processing in 2005. HSBC can take one instruction covering all of a client's holdings, and will accept standing instructions for optional stock dividends and to convert dividends to a base currency. IFS provides corporate actions notices via SWIFT and Hexagon and will also accept instructions via fax on an exceptional basis. HSBC require instructions 48 hours before market deadline globally. Confirmations for for all corporate action instructions received are auto-created (MT599) and sent in overnight batch. It is intended to replace them with real time MT567 in Q3 2005. There are automatic chase ups for instructions not received 2 days and 1 day before the deadline, then clients are told that processing is on a "reasonable endeavours" basis 0.5 hours after the deadline has passed. There is a weekly bulletin to clients of all upcoming corporate actions, with deadlines shown. All corporate action events are recorded and monitored on an electronic diary system.

Corporate Governance

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|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

IFS London provides a proxy voting service via ADP in all markets. IFS London provide ADP with client holdings daily, information is provided to clients by ADP via email or their web-based ProxyEdge service, and clients send their voting instructions to ADP by the same media. The ProxyEdge software also provides clients with historic records of vote decisions, reporting functionality and client standing instructions. ADP offers voting services across all IFS London markets, and unlike other services ADP also deals with client enquiries direct. (Continued on next page)



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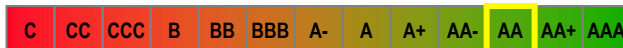
HSBC Bank plc

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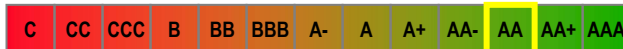
At least two data sources are used from each market and cross-checked by ADP prior to information being released to clients. There is no follow up for votes, but standing instructions to vote and voting on partial holdings are accepted where it is permitted. On request, ADP can arrange for clients to vote in person where permitted. Reporting of voting results is available upon request, but is manual. In 2004, 61% of UK votes were cast. The website of ADP is being enhanced to simplify voting processes and to provide more flexible reporting.

Cash/FX Management



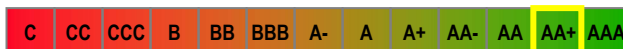
Interest rates are set based on prevailing money market rates for each currency, tiered according to cash balance. Where local regulations permit, currency cash accounts are offered from London on the HSBC Bank plc balance sheet. Market benchmarks are available. Interest is paid on a monthly basis as standard, on balances in excess of GBP 25,000. Changes to interest rates will be advised to clients if requested but are available for enquiry on HSBCnet. HSBCnet provides cash functionalities including real time securities movements, clean cash payments, posting information and historical enquiry capabilities. There is a specialist treasury area within IFS, HSS Treasury, who offer a full treasury service with particular emphasis on Foreign exchange. The HSS treasury team can support FX requirements in a number of ways including the provision of fixed margin pricing and netting. An Agency FX service is available to clients and supports outsourced treasury activities. In 2004 the range of currencies supported was extended to 78, some payment deadlines were improved, and the capability to accept MT304 and MT321 messages was implemented. IFS London also provides an agency FX programme with pre-agreed spreads, covering over 60 currencies.

Strategic Cash Management



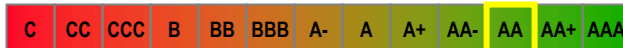
IFS London offers various services whereby clients can improve the interest that can be earned across cash accounts. A cash pooling and sweeping facility is available and sweeping can be cross-currency. There is a cash forecasting service, which calculates projected end of day balances. Cash can be invested for the client in short term deposits on an agency basis, or in AAA credit rated Short Term Investment Funds (STIFs) from the HSBC Group (In GBP, USD or EUR, minimum investment 1 million) or third parties STIFs can be utilised. The HSBC Group offers STIFs with different risk characteristics (minimum A1/P1 or A2/P2 credit quality) and returns, depending on the client's risk appetite. From the end of May 2005, an automated sweep to the HSBC STIFs should be available.

Taxation



IFS London introduced a contractual tax reclamation service in April 2005. The contractual tax reclaim service covers; Austria, Belgium, Denmark, France Germany, Ireland, Netherlands and Switzerland. IFS London's tax department is divided into three areas: Reclaims, Documentation and Services. It uses a standard industry package, Tax Manager, enhanced to IFS requirements, to manage the tax claims process, with a daily download of income events to it from the custody system. The Reclaims area uses electronic forms to collate clients' details, with hard copies being printed to originate claims. Reclaims will usually be originated within 48 hours of the income event and are typically filed for each event individually, unless the tax authorities request periodic filings. Refunds of tax will be advised to the client within 24 hours of receipt. There is a monthly report to clients of the status of all tax reclaims. The Documentation department maintains control over client documentation and obtains relief at source where possible; IFS London has a power of attorney for over 75% of its clients. IFS London uses Tax Manager to track the status of claims and chases up overdue claims on a monthly basis. The Services department monitors changes in tax legislation in markets which IFS London support. Clients are notified of changes in taxation laws, rates or other relevant factors, within 24 hours of IFS London being notified. The main sources of information are Ernst & Young, IBFD, CCH Editions, the Inland Revenue and overseas tax authorities web sites. IFS London has also introduced a client tax-training programme which provides information on taxation issues in multiple markets. This is to be extended in 2005.

Securities Lending



IFS London uses the Global-1 system as it's master securities lending platform and has implemented the fair distribution algorithm component to ensure fair allocation of loans across it's discretionary lending client base. Principal lending is available via HSBC Bank plc's Securities Finance division as well as HSBC in Paris and Hong Kong. Competitive and flexible levels of indemnification covering both borrower and collateral default are offered to meet differing client risk appetites with the indemnification being supported by HSBC Bank plc's balance sheet. Unindemnified agency lending is also offered, as is back-office support to cater for client directed programmes. Third-party lending is offered through the HSBC Group's London and New York offices. As a result of the IFS 'non-pooled' lending policy, in all programmes, clients have full control of their individual mandate including authorised borrowers, collateral types and limits. These are all monitored on a real-time basis (typically pooled arrangements are monitored retrospectively). All loan and collateral positions are marked to market daily and the widely used web based 'SBLREX' product (offered by Pirum Systems) is used to reconcile positions with borrowers daily. All lending fees are collected on a monthly basis with clients typically receiving their percentage from the fifth working day onwards. Transparency of performance is provided by the Data Explorers 'Performance Explorer' benchmarking product. The 'Risk Explorer' product will also be introduced and rolled out to clients in 2005. IFS supports the lending related range of SWIFT message types and offers internet based, flexible reporting and instruction options.



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INTERNAL OPERATIONS

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|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|----|-----|-----|

Operational Reporting

Reporting is available via SWIFT, HSBCnet (the internet product for corporate and institutional clients of HSBC), Hexagon for Windows (the HSBC proprietary securities system) OLAM (On Line Account Manager, for cash information only), email, (auto)fax and hard copy. HSBCnet currently provides users access to portfolio holdings, cash and transaction enquiry, together with file upload capabilities for payments, trades and corporate actions decisions (MT565). It also provides access to reports and automated file download of these reports. Future HSBCnet 2005 releases include on screen individual trade input and individual corporate action decisions entry (MT565), enhanced corporate event information, cash forecasting and Report Writer capabilities for customised reporting. Ultimately, all operational reporting, including taxation, cash forecasting and securities lending, will be available on the new e-platform and Hexagon for Windows will be retired.

HSBCnet provides clients with 24 hour access to a real-time portfolio and transaction reporting system. Clients are able to enquire into holdings details, where stock is held, and availability. Additionally HSBCnet has the functionality to enable clients to enquire on trade status, such as aged transactions by matched, unmatched and fails. In addition to password security, HSBCnet has 128 bit encryption using Smartcard technology.

Systems and Communications

The IT function is centralised in HSBC, and is moving towards a service company concept. There is a specific unit facing off to HSS which was created in 2004. There are 340 IT development and systems integration professionals supporting HSS back office systems with a project office organisation and user committee governance framework to keep activity aligned with business priorities. The IT infrastructure (networks, data centres etc) are all managed on an HSBC Group basis. IFS London uses two main systems, GCS (Global Custody System) for securities, and HUB (HSBC Universal Banking system) for cash, with HSBCnet as the proprietary client information delivery tool and Hexagon for Windows (to be retired in early 2006). GCS is IFS London's securities movement and control system, which was built by Vista. It has been in use since 1990. IFS London have modified it extensively to improve STP rates, integrate with other HSBC systems, including real time update of HUB for transactions, SWIFT ISO 15022 and to extend the working day to 10pm. HUB is the HSBC Group standard banking platform, on which all the cash accounts and cash information resides. There are other specialist systems such as Treats (FX), Tax Manager and Global One (securities lending) which are linked to GCS. For management reporting purposes, there are daily downloads into PRECIS (an in-house developed database system) from GCS, which produces reports on the amount of automatically processed SWIFT traffic, for example, by client, error code, and message type. There is also an internal electronic message distribution system used, Typhoon, to manage the distribution of non-STP SWIFT and fax messages to processing queues in the securities, income and cash processing operations. The current systems strategy is to create a more modern, loosely coupled modular set of sub-systems that can be shared by all HSS businesses, based on a five tier architecture. This architecture separates the core functionality, data, business processing, presentation and delivery into different layers, that can be developed separately. This, amongst other things will facilitate the progressive integration of the operational outsourcing activities and producing consistent reporting to clients of activities spread across HSS.

Network Management

HSBC now has a single network management team covering IFS, Alternative Fund Services, Private Banking and HSBC's Investment Banking division. The team is in the process of organising the migration of assets from The Bank of Bermuda's legacy agent bank network to that of IFS where possible. IFS uses the HSBC Group network in 32 countries in Asia and the Middle East, predominantly, with third-party sub-custodians utilised in 41 markets and direct connection to CREST for the UK and Ireland. There are a further 7 markets ready for client use, including Iceland. Network management use an RFP process and site visits in order to evaluate potential sub-custodians, looking at financial strength, quality of service, commitment to the custody business and fees as the main criteria. Sub-custodians are monitored formally on a quarterly basis using a score-card approach across the main operational areas to gather feedback. Ongoing performance and issues are monitored using X-trac (the reconciliation system which shows sub-custodian errors) and E-trac (which is the client query tracking system). Due Diligence visits are conducted on a biennial basis, with the exception of Euroclear, CREST and Clearstream, where visits are annual. There are no markets in the network for which a risk exclusion letter from clients is required. Market information such as market updates, country profiles, depository risk reviews is managed by the Network team and provided to clients via HSBCnet. News flashes are emailed directly to clients. Legal opinions on all markets with assets under custody in excess of USD 1 million are obtained from Baker & Mckenzie.

Client Relationship Management

Client relationship management is organised into two tiers, overall Relationship Management and Client Service Managers who are more operationally focused. For the largest clients, there is also an HSBC Group level Global Relationship Manager. Each Client Service Manager, has a named alternate who is also familiar with the client account in order to ensure continuity. The Client Service Managers conduct client review meetings at a frequency agreed with the clients. The review meetings are used to discuss service levels and performance against benchmarks. Call reports are compiled by the Client Service Manager subsequent to each meeting and circulated to the IFS London business heads. Client feedback is used to prioritise service improvements. Within Settlements, Income, Corporate Actions and Cash Management there are dedicated Client Service teams who deal with operational queries from clients. Relationship Management is divided into Asset Managers, Pensions, Trustee and Depository Services, Banks and Agencies and Corporate Trust and Loan Agency. For tracking client queries, IFS London uses e-trac, an internal query tracking system. e-trac is also used for internal Management Information (MI) reporting, and problem analysis. IFS aims to resolve all enquiries at the first point of contact, or within 10 hours for 90% of enquiries raised with 20 days of the related event. IFS London produces a comprehensive monthly MI pack for all clients who require it. In 2005, the goal is to deploy client relationship management and client services on a pan-European basis covering all the IFS services including fund administration and offshore products.



THOMAS MURRAY



HSBC Bank plc

Clients Covered: UK

Global Custody Rating: AA

RISKS

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|---|----|-----|---|----|-----|----|---|----|-----|-----------|-----|-----|
| C | CC | CCC | B | BB | BBB | A- | A | A+ | AA- | AA | AA+ | AAA |
|---|----|-----|---|----|-----|----|---|----|-----|-----------|-----|-----|

Financial

Financial risk is low. The 2004 Results for HSBC Holdings plc show a tier 1 BIS capital adequacy ratio of 8.9% (unchanged from 31 December 2003) and total capital adequacy ratio of 12% (unchanged from 31 December 2003). HSBC Bank plc (the contracting party) reported a tier 1 ratio of 7.4% (unchanged from 31 December 2003) and a total capital ratio of 10.5% for 31 December 2004 (10.7% as at 31 December 2003). There is extensive insurance coverage, with USD 510 million against alleged or actual breach of responsibilities, physical loss of securities or loss of money at HSBC or third parties and USD 150 million for professional liability. The insurance is with HSBC Insurance (Guernsey) Limited and third parties (including Lloyds of London). The long term credit ratings for HSBC Bank plc have been stable/improving over the last 5 years, with an upgrade from S&P from A+ to AA- in 2000, Moody's stable at Aa2 and Fitch stable at AA. The parent, HSBC Holdings plc has long term credit ratings of A+ from S&P, Aa2 (upgrade in 2004) from Moody's and AA (upgrade in 2004) from Fitch. The ratings have clearly not been impacted adversely by the acquisition of Household Financial in the US, or the acquisition of Bank of Bermuda.

Asset Safety

Asset safety risk is low. Outside the UK, IFS London holds clients' securities predominantly in omnibus accounts with its sub-custodians, separate from both HSBC's and the sub-custodian's own proprietary assets, unless the country's regulations or laws require segregated accounts. In the UK, client securities are held by one of the HSBC nominee companies, with a client designation. CREST eligible assets are held in designated client accounts. IFS London indemnifies clients against direct losses and accepts liability for operational losses arising out of its or its sub-custodians' negligence, fraud or wilful default. It does not take responsibility for losses arising at CSDs or ICSDs. IFS London takes a lien over client securities and cash for any sums owing under the custody agreement. All the CREST accounts are reconciled every 10 working days except the undesignated CREST account for IFS London (into which securities can be deposited without advice to IFS London) which is reconciled daily. Physical stock held in the vault at IFS London is reconciled on a rolling basis every six months. Uncertificated holdings, such as units in fund managers pooled vehicles, are reconciled to the fund manager positions on a monthly basis. Securities positions are reconciled to sub-custodians on a monthly, and transactions are reconciled daily. Stock reconciliations are performed by the Asset Integrity Unit, independent of the operational teams. The sub-custodians are required to reconcile with the underlying depositories on a daily or weekly basis (depending on sub-custodian) and vault positions are reconciled to their records every six months where appropriate. Cash held within IFS London bank accounts and sub-custodian nostro accounts is reconciled on a daily basis. For securities lending, IFS London offers clients the choice of a principal programme through HSBC's Investment Banking division, indemnified agent programmes with various indemnification options (indemnification against losses due to borrower default and collateral inadequacy) or an agency programme with no indemnification.

Asset Servicing

Asset servicing risk is low. IFS London undertakes to obtain in a timely manner through its sources all corporate actions, income and voting information that is publicly announced and to advise the client in a timely manner of such corporate actions information in accordance with the Operational Service Standards. HSBC warrants that publicly announced corporate action information will be accurately advised after it has undertaken its verification checks, but accepts no responsibility if any public announcement subsequently proves to be inaccurate. For corporate governance, IFS London takes responsibility for the errors and omissions of ADP in all markets. For all services, IFS London indemnifies clients against direct losses arising out of its or its sub-custodians' negligence, fraud or wilful default.

Operational

Operational risk is low. In the UK, HSBC is regulated by the Financial Services Authority. There have been no material issues reported as raised in relation to IFS London. Outside the US, the HSBC Group is adopting the standardised approach to Basle II initially and will be explicitly allocating capital to the business lines such as HSS from 2006. The external auditors are KPMG Audit plc, who conduct an annual audit and prepare an annual FRAG 21 report. For 2004, a combined IFS FRAG 21 report was produced for the first time, spanning both the Edinburgh and London operations, covering core custody and fund accounting, but not securities lending or Trustee functions. This has some direct testing of the control environment and places reliance on the control areas within IFS London (Compliance, for example) and control mechanisms such as the Interactive Management Control Files (iMCFs), which are, in effect, automated control checklists. There is a continuing programme of HSBC Group Internal Audit reviews of different areas of IFS, with reporting back to senior management in the HSBC Group as well as IFS. As part of the Compliance function, there is also on-going checking and reviews of operational procedures and controls in regards to Regulatory matters, Operational Risk and Control maintains a register of operational risks, with appropriate classification and ongoing actions to ameliorate them. There is a programme of operational risk reviews, which dovetails with the Group Internal Audit reviews and compliance reviews. Ongoing process improvement initiatives are supported by the screen-based iMCFs that provide automated reminders and escalation paths relating to the key tasks, processes and controls within the business and will be further reinforced by best practice culture using Six Sigma project methodology in the future. These internal checks and control mechanisms, the FRAG 21 and the operational review conducted by Thomas Murray, all provide significant evidence of the strong internal control culture of IFS London. There are business continuity and disaster recovery plans in place, including a business recovery site in another part of London and a back up in Liverpool for the main data centre, which is located in South Yorkshire. The servers previously housed within IFS London have been relocated to a central server farm, to improve resilience. The disaster recovery plans are tested annually, the last test being in October 2004. There is an annual certification process internal to the HSBC Group for business heads to sign off that their business continuity and disaster recovery plans meet HSBC Group standards.



THOMAS MURRAY



HSBC Bank plc

Clients Covered: UK

Global Custody Rating: AA

RATING SCALE - The scale indicates that the custodians ability to deliver core global custody services is

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|---|-----|-----|----|-----|----|---|----|---|---|-----|----|---|-----|----|---|-----|--|
| <table border="0"> <tr><td style="background-color: green; color: white; padding: 2px;">AAA</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">AA+</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">AA</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">AA-</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">A+</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">A</td></tr> <tr><td style="background-color: green; color: white; padding: 2px;">A-</td></tr> </table> | AAA | AA+ | AA | AA- | A+ | A | A- | } extremely strong } very strong } strong | <table border="0"> <tr><td style="background-color: green; color: white; padding: 2px;">BBB</td></tr> <tr><td style="background-color: red; color: white; padding: 2px;">BB</td></tr> <tr><td style="background-color: red; color: white; padding: 2px;">B</td></tr> <tr><td style="background-color: red; color: white; padding: 2px;">CCC</td></tr> <tr><td style="background-color: red; color: white; padding: 2px;">CC</td></tr> <tr><td style="background-color: red; color: white; padding: 2px;">C</td></tr> <tr><td style="background-color: blue; color: white; padding: 2px;">N/A</td></tr> </table> | BBB | BB | B | CCC | CC | C | N/A | adequate less than adequate quite weak weak very weak unable to deliver at even a minimally acceptable level service unavailable in the market |
| AAA | | | | | | | | | | | | | | | | | |
| AA+ | | | | | | | | | | | | | | | | | |
| AA | | | | | | | | | | | | | | | | | |
| AA- | | | | | | | | | | | | | | | | | |
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| N/A | | | | | | | | | | | | | | | | | |

RISK DEFINITIONS

Financial

The financial viability and stability of the global custodian and its ability to support long term investment in its business and withstand operational losses. Factors considered include the credit ratings, size of balance sheet, regulatory capital, stability of earnings and the proportion of non-interest income. The external auditors and supervisory bodies that oversee and regulate the bank are also considered.

Asset Safety

This is made up of two parts, securities risk and cash risk.

Securities risk: This is the risk that, in the event of default by either the global custodian, or the domestic sub-custodian, client securities are treated as being part of the assets of the bank which has gone into default, and therefore available to its creditors, rather than belonging to clients. It should be noted that investors are directly exposed to the market infrastructure in each market.

Cash risk: This is the risk that, in the event of default by the global custodian or a domestic sub-custodian, clients are exposed to losses of cash placed with the bank.

Asset Servicing

This is the risk that the client is exposed to a loss due to weaknesses in the global custodian's operational infrastructure to which the client is exposed. There is the level of responsibility taken by the global custodian for information provision on asset servicing events generally, whether the service or information provision is in-house or outsourced. There is the level of responsibility accepted by the global custodian for carrying out correctly all client instructions given within deadline.

Operational

This is the risk that deficiencies in information systems or internal controls, human failures or management errors will result in unexpected losses. Essentially, this is the risk of client loss due to breakdowns or weaknesses in internal controls or procedures at the global custodian. Factors to be considered are the level of internal audit, compliance, external audit, external regulatory activity, coverage of the global custody operations, and the level of business continuity planning.

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