

HSBC



HSBC Holdings plc

Annual Report and Accounts 1993

HSBC Holdings plc

*Incorporated in England with limited liability
Registered in England number 617987*

Registered Office and Group Head Office

10 Lower Thames Street
London EC3R 6AF
United Kingdom

Registrars

Principal Register

National Westminster Bank Plc
Registrar's Department
PO Box 82, Caxton House
Redcliffe Way
Bristol BS99 7NH
United Kingdom

Hong Kong Overseas Branch Register

Central Registration Hong Kong Limited
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Stockbrokers

Cazenove & Co.
12 Tokenhouse Yard
London EC2R 7AN
United Kingdom

James Capel & Co. Limited
Thames Exchange
10 Queen Street Place
London EC4R 1BL
United Kingdom

Financial Highlights

1992		1993	1993	1993
£m	For the year	£m	HK\$m	US\$m
1,714*	Profit before tax	2,584	29,509	3,819
1,221	Profit attributable to the shareholders	1,806	20,624	2,669
472	Dividends	594	6,783	878
At year-end				
8,011	Shareholders' funds	9,334	106,594	13,796
13,465*	Capital resources	16,087	183,714	23,777
140,356*	Customer accounts and deposits by banks	156,494	1,787,161	231,298
185,141*	Assets	206,050	2,353,091	304,542
105,677†	Risk-weighted assets	124,717	1,424,268	184,332
Pence	Per share	Pence	HK\$	US\$
62.07	Earnings	71.78	8.20	1.06 / 3
47.18	Headline earnings	69.40	7.92	1.03
19.00	Dividends	23.50	2.68‡	0.35
319.55	Net asset value	369.22	42.16	5.46
Number of ordinary shares in issue at year-end				
1,691,030,535	HK\$10	1,706,829,463		
815,917,578	75p	821,296,686		
%	Ratios	%		
19.0	Return on average shareholders' funds	20.8		
1.1	Post-tax return on average assets	1.1		
Capital ratios				
12.3†	— risk asset	13.2		
7.4†	— tier 1 capital	7.9		
59.5	Cost : income ratio	55.2		

* Figures have been restated to conform with the new reporting requirements applicable under the Companies Act 1985 (Bank Accounts) Regulations 1991, Financial Reporting Standard 3 'Reporting Financial Performance', and Financial Reporting Standard 4 'Capital Instruments'.

† Compiled on the basis of Hong Kong Monetary Authority rules.

‡ The dividends per share are translated at the year-end rate. Shareholders who receive dividends in Hong Kong dollars received an interim dividend of HK\$0.80 per share. The proposed final dividend of 16.5 pence per share will, where required, be converted into Hong Kong dollars at the exchange rate on 1 June 1994.

The HSBC Group

Headquartered in London, HSBC Holdings plc is the holding company of one of the largest and most strongly capitalised banking and financial services organisations in the world. The HSBC Group's international network comprises more than 3,000 offices in 65 countries, operating under well-established names in Europe, the Asia-Pacific region, the Middle East and the Americas. The Group is strongly represented in the United Kingdom and continental Europe, where it has some 1,900 offices in 20 countries, and in Asia with around 600 offices in 19 countries.

With a dual primary listing on the London and Hong Kong stock exchanges, shares in HSBC Holdings plc are held by some 170,000 shareholders in more than 90 countries. In the United States, HSBC Holdings plc offers investors a sponsored American Depositary Receipt programme.

Through a global network linked by advanced technology, the Group provides a comprehensive range of financial services: retail and corporate banking, trade services, private banking, investment banking, treasury and capital markets services, consumer and business finance, pension and investment fund management, trustee services, securities and custody services, and insurance.

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Sir William Purves, CBE, DSO Group Chairman
Age 62. Joined HongkongBank in 1954; an executive Director since 1982 and Chairman and Group Chief Executive Officer from 1986 to 1992. Chairman of The British Bank of the Middle East and a Director of HongkongBank, Midland Bank plc, Marine Midland Banks, Inc. and The 'Shell' Transport & Trading Company, plc.

* **Baroness Dunn, DBE Deputy Chairman**
Age 54. A Director of John Swire & Sons (H.K.) Limited, Cathay Pacific Airways Limited, Swire Pacific Limited and Hong Kong Seibu Enterprise Co., Limited. A non-executive Director of HongkongBank since 1981 and Deputy Chairman since 1992. Appointed non-executive Deputy Chairman in 1992.

* **Sir Peter Walters, Deputy Chairman**
Age 63. Chairman of Midland Bank plc. Deputy Chairman of Thorn EMI plc, non-executive Chairman of Blue Circle Industries plc, Chairman designate of SmithKline Beecham plc and a non-executive Director of Saatchi & Saatchi Company Plc. Appointed a non-executive Director in 1992 and non-executive Deputy Chairman in January 1993.

B H Asher
Age 58. Executive Director Investment Banking, Executive Chairman of James Capel & Co. Limited and Chairman of Samuel Montagu & Co. Limited and Wardley Holdings Limited. A Director of HongkongBank from 1989 to 1992.

J R H Bond
Age 52. Group Chief Executive. Joined HongkongBank in 1961; an executive Director since 1988. President and Chief Executive Officer of Marine Midland Banks, Inc. from 1991 to 1992. Chairman of Hongkong Bank of Canada and a Director of HongkongBank, Midland Bank plc, Hang Seng Bank Limited, the London Stock Exchange and British Steel plc.

* **D E Connolly, OBE**
Age 62. Chartered Accountant. A Director of Kowloon-Canton Railway Corporation. A non-executive Director of HongkongBank since 1985.

R Delbridge
Age 51. Group Finance Director. Appointed an executive Director in January 1993. A Director of Midland Bank plc since 1989.

J M Gray
Age 59. Chairman of HongkongBank. Joined HongkongBank in 1952; appointed Executive Director Finance in 1986, Deputy Chairman in 1990, Chief Executive Officer in 1992 and Chairman in January 1993. A Director of Hang Seng Bank Limited, Swire Pacific Limited and Wardley Holdings Limited. A member of the Executive Council of Hong Kong and of the Governor's Business Council. Chairman of the Hong Kong Port Development Board and a member of the Provisional Airport Authority.

* **Sir Joseph Hotung**
Age 63. A Director of China & Eastern Investment Company Limited and Hongkong Electric Holdings Limited. Appointed a non-executive Director of the Company and HongkongBank in 1991.

* **N R Knox**
Age 65. Chairman of Marine Midland Banks, Inc. and a Director of Hongkong Bank of Canada. A non-executive Director of HongkongBank from 1988 to 1992.

* **D P H Liao, CBE**
Age 64. Architect. Former Chairman of the Hong Kong Housing Authority, Secretary for District Administration and Secretary for Home Affairs. A Director of CNT Group Limited, Kumagai Gumi (H.K.) Limited, The Morgan Crucible Company plc and Shun Hing Electronic Trading Co., Limited. A member of the Council of The Stock Exchange of Hong Kong Limited. A non-executive Director of HongkongBank since 1990.

* **C D Mackay**
Age 53. Chief Executive of Inchcape plc. A non-executive Director of British Airways Plc and of HongkongBank from 1986 to 1992. Appointed a non-executive Director in 1990.

* **G Maitland Smith**
Age 61. Chairman of Sears plc. Non-executive Deputy Chairman of Midland Bank plc and non-executive Chairman of The Hammerson Property Investment and Development Corporation plc. Appointed a non-executive Director in January 1993.

* **Sir Colin Marshall**
Age 60. Chairman of British Airways Plc. A non-executive Director of Midland Bank plc since 1989; a Director of USAir Group Inc., Qantas Airways Limited, Grand Metropolitan Plc and IBM United Kingdom Holdings Limited. Appointed a non-executive Director in January 1993.

* **M Murofushi**
Age 62. President and Chief Executive Officer of ITOCHU Corporation. Chairman of the International Affairs Committee of the Tokyo Chamber of Commerce and Industry and of the Committee on Corporate Laws and Regulations of the Keizai Doyukai (Japan Association of Corporate Executives). A member of the Executive Committee of the Trilateral Commission. Appointed a non-executive Director in 1992.

* **Sir Wilfrid Newton, CBE**
Age 65. Chairman of London Regional Transport. A non-executive Director of Sketchley plc and MetroPower Limited. Former Chairman of Mass Transit Railway Corporation and a non-executive Director of HongkongBank from 1986 to 1992. A Director of Midland Bank plc since 1992.

Sir Brian Pearse
Age 60. Chief Executive of Midland Bank plc and Chairman of Forward Trust Group Limited. Chairman of Young Enterprise and a non-executive Director of Smith & Nephew plc. Appointed a Director in 1992.

* **H Sohmen, OBE**
Age 54. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited, World Finance International Limited; Deputy Chairman of The Wharf (Holdings) Limited; and a Director of Harbour Centre Development Limited. A non-executive Director of HongkongBank since 1984.

J E Strickland
Age 54. Executive Director Services. Joined HongkongBank in 1971 (previous service 1966-69); appointed an executive Director in 1989. Chairman of Wayfoong Property Limited and a Director of Marine Midland Banks, Inc. and Midland Bank plc.

* *Independent non-executive Directors*

Advisers to the Board

F R Frame
Former Deputy Chairman of HongkongBank. Chairman of Wallem Group Limited and a non-executive Director of Baxter International Inc.

Sir Quo-Wei Lee, CBE
Chairman of Hang Seng Bank Limited and Deputy Chairman of Hysan Development Company Limited. A Director of Furama Hotel Enterprises Limited, Miramar Hotel and Investment Company Limited, New World Development Company Limited and Shaw Brothers (Hong Kong) Limited. A non-executive Director of HongkongBank from 1978 to 1984.

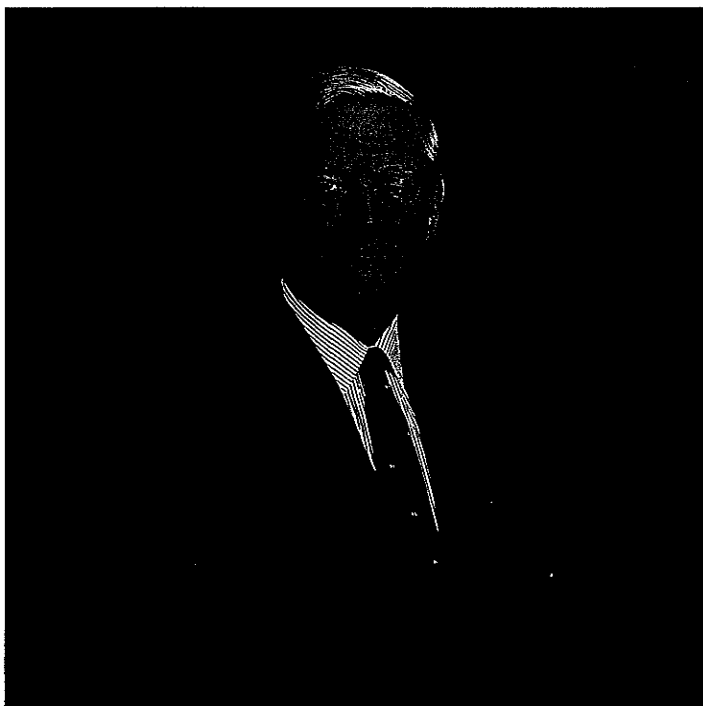
Secretary

R G Barber

The HSBC Group performed well in 1993. Profit attributable to shareholders rose by 48 per cent to £1,806 million (HK\$20,624 million).

Your Directors have recommended payment of a final dividend of 16.5 pence per share. This will bring the total distribution for 1993 to 23.5 pence per share. An enhanced scrip dividend representing 24.75 pence per share will be offered to shareholders as an alternative to the final cash dividend.

Our international focus helped us to prosper, despite a background of mixed world economic fortunes. Continued strong growth in a number of the major economies in the Asia-Pacific region, including Hong Kong, generated vigorous domestic demand, higher trade volumes and strong capital flows, from which we were well placed to benefit. While most European economies remained weak during 1993, in the United Kingdom domestic demand and exports began to show signs of recovery. The United States and Canadian economies also improved in 1993, particularly in the second half of the year. In the Middle East, most countries experienced satisfactory economic growth, despite a sharp fall in the price of oil.



The Group continued to grow throughout the year, with new or relocated branches and offices in Australia, Canada, China, Egypt, Hong Kong, India, Indonesia, Japan, Macau, Malaysia, Mauritius, Scotland, Sri Lanka, Taiwan, Thailand, the United States and Vietnam. A new, purpose-built office building was opened in Dubai to house the main Dubai branch and management offices of The British Bank of the Middle East. In Chile, our two HongkongBank branches were acquired by Banco O'Higgins, in which the Group now holds a 10 per cent interest. On 1 January 1994, Hongkong Bank Malaysia Berhad became the first foreign bank to have been locally incorporated in Malaysia, encompassing the 36 branches of HongkongBank in that country.

In the United Kingdom, we completed the move of HSBC Holdings from Hong Kong to London, and the integration of Midland Bank within the Group continued apace. When we made our offer for Midland Bank in 1992 we estimated that an increased contribution to pre-tax profits of more than £800 million would be achieved over the first four years as a result of cost savings and revenue

enhancements. The synergy benefits from the acquisition, particularly in the treasury, investment banking and UK commercial banking businesses, have exceeded our expectations and are reflected in the strong contribution to profits made by Midland in its first full year as a member of our Group.

The major disappointment of the year was the need to make further significant provisions, mainly against the continued fall in aircraft values, in the Concord Leasing portfolio in the United States. The resultant loss for the year by this subsidiary of us\$244 million necessitated a further capital injection of us\$250 million.

In October, a legal judgement was issued against Samuel Montagu for £176 million in relation to a transaction in 1987 involving British & Commonwealth Holdings plc. Samuel Montagu will appeal against the decision. None the less, full provision has been made.

There have been several important matters affecting staff on which I would like to comment. The first concerns the tragic arson attack on our Shek Kip Mei branch in Hong

Kong in January 1994, as a result of which twelve of our staff died. I know that you will join me in expressing again our condolences to the families of those who perished.

The terrorist bomb which severely damaged the London office of HongkongBank in April 1993, and which caused much disruption to the surrounding area of the City, mercifully caused no serious injuries to our staff. I am grateful to those who worked tirelessly to maintain the operational efficiency of the office from temporary locations.

Although HongkongBank's fire and safety arrangements complied fully with government regulations in both Hong Kong and the United Kingdom, the nature of these events has led us to review our overall approach to safety matters. We are appointing an experienced safety officer at Group level to advise in this important area and HongkongBank itself is reviewing all aspects of these unsettling occurrences.

The Group has purchased a purpose-built facility near St Albans, north of London, as a Group residential training college, which will be fully operational later this year.

I would like to pay tribute to the hard work and resilience of our 104,800 staff all over the world during what has been a year of considerable change. The creation of a new headquarters in London, the reconfiguration of many of the Group's UK businesses, and the continuing reorganisation of operations are merely a few examples of what the commitment, loyalty and dedication of our staff have enabled us to achieve.

We were pleased to have been awarded the accolade of 'Bank of the Year' by the *International Financing Review* for the year 1993.

Two world events were of specific importance to our Group in 1993: the conclusion of the Uruguay round of the General Agreement on Tariffs and Trade and the adoption of the North American Free Trade Agreement. Both are favourable developments for the global market-place and we look forward to the new challenges and opportunities they present as we continue to expand our services in the handling of trade finance.

Member companies in the Group have continued their programmes of sponsorship and other assistance to community activities, with particular emphasis on education and the environment.

We congratulate Sir Brian Pearse on the knighthood conferred upon him on 1 January 1994.

H C Lee retired from the Board in May 1993 and we thank him for his support and advice. Sir Peter Walters will step down as Chairman of Midland Bank plc on 31 March 1994, on becoming non-executive Chairman of SmithKline Beecham, but will continue as a Deputy Chairman of HSBC Holdings. Sir Brian Pearse will retire as Midland's Chief Executive on the same day, but will remain a non-executive Director of Midland. He will be succeeded as Chief Executive and on the HSBC Holdings Board by Keith Whitson. During the past three years, Sir Peter and Sir Brian have done much to restore Midland's performance and image, and their contributions to the Group have been invaluable.

In 1994, we expect to benefit from improved business conditions in the United States and the United Kingdom, and from continued growth in the Asian economies. With interest rates at or near the bottom of the cycle, it is unlikely that conditions in treasury and capital markets in 1994 will be as favourable as those in 1993. Our aim, however, is to continue to emphasise high quality customer service and cost containment as the basis for further growth in 1994.



Sir William Purves, *Group Chairman*
28 February 1994

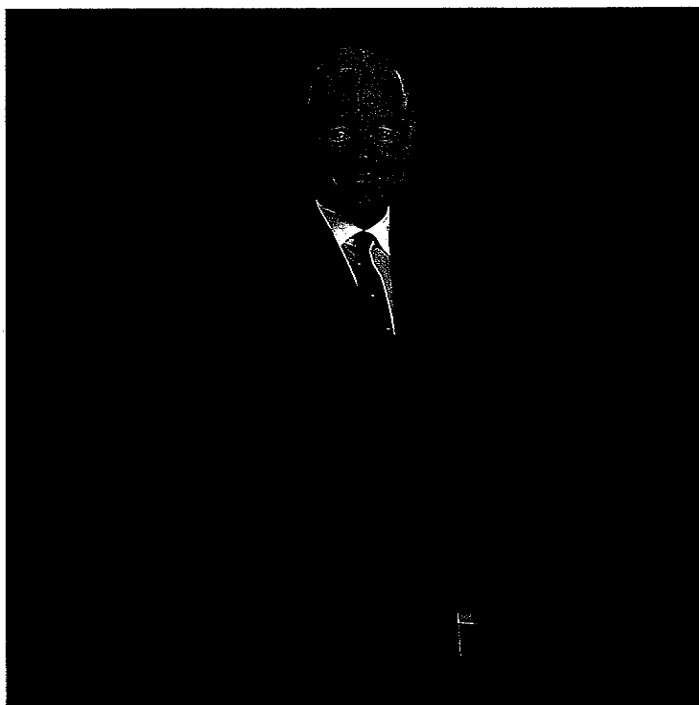
Overview

Overall, 1993 was a good year for the Group.

Attributable profit of £1,806 million, an increase of 48 per cent over 1992, reflected improved results from most of the major Group companies, with particularly strong contributions from HongkongBank and Midland Bank. These results were achieved despite a charge of £125 million from a legal judgement against Samuel Montagu & Co. Limited in a case brought by British & Commonwealth Holdings plc, and the need for additional provisions of £160 million in Concord Leasing.

The growth in profits led to an increased return on shareholders' funds of 20.8 per cent, an increase of 16 per cent in earnings per share, and a 24 per cent increase in the dividend per share, which was covered three times.

A more detailed account of the performance of our major commercial and investment banking operations and our global businesses — treasury and capital markets, private banking and trustees, and insurance — appears later in this *Annual Report*.



Results commentary

An important factor in the increased profits in 1993, which affects all comparisons with 1992, is the inclusion of Midland's results for the full year; the 1992 results included Midland's profit for the second half only following the acquisition in July 1992.

The higher level of net interest income, up 38 per cent to £4,438 million, was due to volume growth as well as increased activity in HSBC Markets, the Group's treasury and capital markets business. The net interest margin, at 2.8 per cent, improved slightly compared with 1992.

A 49 per cent rise in other operating income to £3,576 million came mainly from income generated by our enlarged dealing operations, which were able to take advantage of favourable market conditions, and partly from increased activity in our securities custodial services.

Operating expenses rose by 33 per cent to £4,426 million. The cost : income ratio improved to 55.2 per cent from 59.5 per cent in 1992. Group

staff numbers on a full-time equivalent basis declined during the year from 98,716 to 98,396 mainly as a result of reductions in Marine Midland and the sale of The Wing On Bank Limited by Hang Seng Bank.

Charges for bad and doubtful debts were £1,158 million, a decline of £127 million from 1992 on a pro-forma basis. Lower provisions were recorded by HongkongBank and Hang Seng Bank, both of which were affected by provisions for exposure to Olympia and York in 1992, and by Marine Midland Bank. Midland's provisions increased slightly as a result of the need for further provisions in its international operations. Sadly, there was a need for a high level of provisions in Concord Leasing where asset values, particularly in the aviation portfolio, showed a marked decline. Concord's main business activities are now concentrated on full pay-out leases and loans for equipment. During the year, Concord received us\$250 million in new capital from the Group to support its operations and restructuring.

The effective tax charge of 20 per cent is lower than the standard UK corporation tax of 33 per cent. This is partly achieved through the utilisation of tax losses, primarily in the United Kingdom and the United States, and partly because of lower tax rates in overseas

subsidiaries. As the tax losses are used, we can expect the effective tax rate to increase, although we shall still have the benefit of lower taxation in major parts of the Group. For example, in Hong Kong, profits tax has been reduced by 1 per cent to 16.5 per cent for the fiscal year 1994.

Global businesses

The Group's domestic franchises of individual and commercial customers in many countries around the world are a fundamental strength. Among the Group's global businesses, a substantial part is with other financial institutions and this continued to grow at a satisfactory pace, with treasury and securities revenues substantially exceeding forecast. Synergies realised from the integration and central co-ordination of our Financial Institutions Group's global sales force are now generating significant new and incremental business opportunities. A wider range of products and services, combined with unrivalled global reach, has enabled the Group to compete strongly in all markets for business from other banks.

Midland maintained its dominant position as the correspondent of first choice for sterling automated clearing and, despite strong competition, achieved results well ahead of forecast in this business.

The Group's strategic alliance with Wells Fargo Bank continued to benefit both institutions. Initiatives to develop this mutually beneficial relationship further are under constant review.

The Group's securities custody business benefited from increased investment activity and stronger stock markets, especially in the Asia-Pacific region. The Group continues to support developments to improve the settlement and custody infrastructure of markets, thereby reducing risks for our customers and ourselves.

HSBC Holdings plc

On 1 January 1993, HSBC Holdings plc established a Group Head Office in London. Here, a staff of 346 people provides the essential central functions of strategic planning, human resource management, financial planning and control, audit, legal and public affairs, and company secretarial matters. Another important function is a small team led by John Strickland, a Director of HSBC Holdings, which controls the Group's overall information technology and communications policy in order to ensure that our world-wide systems are cost-effective and compatible.

The Group Executive Committee co-ordinates risk policy across the Group and monitors performance to ensure that we achieve maximum benefits for our customers and our shareholders through teamwork among the various subsidiaries, business lines and geographic regions.

In establishing this Committee and in other ways, the Group has complied with the operative provisions of the Code of Best Practice contained in the Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee) published in December 1992. A formal compliance statement, which has been reviewed by the company's auditors, appears in the Report of the Directors on page 35.

The Group Executive Committee is charged with maintaining the traditional values of HSBC: strong capital, sound liquidity, conservative lending, strict expense control and close attention to our customers' needs. These values are reflected in a balance sheet which has less than 50 per cent of its assets in loans to customers and 31 per cent of the total loan portfolio in consumer lending around the world, mainly in the form of residential mortgages, credit card advances and personal loans.

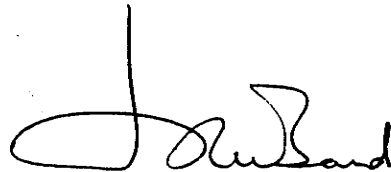
On 1 January 1993, the Bank of England became the lead regulator for the HSBC Group. However, banking subsidiaries continue to be regulated by the authorities in their country of operation. Capital adequacy supervision is exercised in a broadly similar framework by the supervisors of all our major banking subsidiaries.

Resources

The HSBC Group has always taken a long-term view of its business and believes in investing for the future. In 1993, for example, we invested £133 million in new systems development and £37 million on staff training; and we launched a major branch refurbishment programme in Midland Bank.

1993 has seen continuing benefit from our policy of keeping our technology development in our own hands. The Group treasury trading system, TREATS, was successfully installed to support Group trading operations around the world. The HongkongBank Universal Banking system, HUB, is being installed in Midland Bank's international offices to permit delivery of a common, comprehensive range of financial services. Our electronic banking system, Hexagon, allows our customers to manage their accounts from their own personal computers; new products have been offered on this system in 1993, new countries connected to it, and new customers satisfied. Expansion continued in 1993 for GlobalAccess, the Group's global network of automated teller machines (ATMs), which permits customers to withdraw cash from over 160,000 ATMs in 68 countries.

However, we know that we cannot be better than our staff. We are extremely fortunate to have such a committed and energetic team around the world: they have made the 1993 results possible, and they are cause for confidence in the continued growth of the Group.



J R H Bond, *Group Chief Executive*
28 February 1994

Five-year comparison

At year-end (£m)	1989*	1990*	1991*	1992	1993
Share capital	1,157	1,079	1,120	2,054	2,111
Shareholders' funds	5,033	4,318	4,819	8,011	9,334
Capital resources	7,289	6,232	6,789	13,465	16,087
Customer accounts	50,606	51,132	59,996	119,674	130,246
Loans and advances	65,483	59,649	64,536	132,194	142,068
Total assets	82,612	77,361	85,786	185,141	206,050
For the year (£m)					
Operating profit before provisions	1,138	1,016	1,266	2,272	3,588
Provisions for bad and doubtful debts	(408)	(554)	(502)	(990)	(1,158)
Pre-tax profit	834	533	880	1,714	2,584
Profit attributable to the shareholders	615	276	586	1,221	1,806
Dividends	194	168	207	472	594
HK\$/£ exchange rate	12.562	14.972	14.557	11.728	11.420
Per ordinary share (pence)					
Earnings	38.61	17.10	36.06	62.07	71.78
Headline earnings	38.48	14.05	29.35	47.18	69.40
Dividends	12.18	10.42	12.71	19.00	23.50

* Figures for 1989-91 have not been restated to reflect the new reporting requirements applicable under the Companies Act 1985 (Bank Accounts) Regulations 1991, Financial Reporting Standard 3 'Reporting Financial Performance', and Financial Reporting Standard 4 'Capital Instruments'.

Financial reporting

The 1993 financial accounts have been presented in a different format from the 1992 accounts as the Group, along with other banking groups which report in the UK, is now required to comply with the provisions of the Bank Accounts Regulations. Although this has resulted in a much more detailed format for the profit and loss account and balance sheet, supported by further notes, it has had no effect on the result for the year. The adoption of new reporting standards has resulted in the new disclosures on recognised gains and losses and movements in shareholders' funds.

The accounting policies used in the preparation of the accounts are consistent with previous years, except as set out in Note 2 to the accounts. One of

the principal changes affects the accounting for doubtful interest, which is now omitted from the profit and loss account, whereas previously it was included in interest income and bad debt expense was charged with a compensating amount. In addition, the new regulations require certain assets and liabilities which were previously netted to be presented gross. This has increased total assets and total liabilities but had no effect on net assets. Comparative data have been restated.

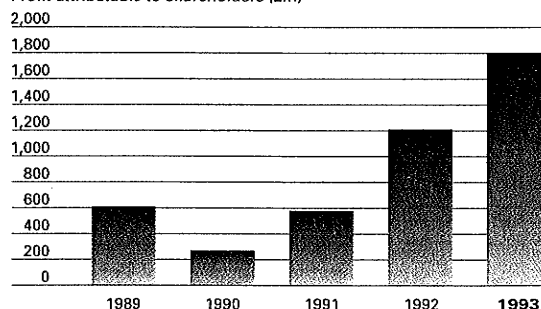
The Financial Review contains comparative pro-forma figures for 1992 to illustrate how the enlarged Group would have looked had Midland Bank been consolidated for the whole of 1992. The commentary is therefore based on the pro-forma comparative.

Group profit

The HSBC Group made a profit before tax of £2,584 million in 1993, an increase of £870 million, or 51 per cent, over 1992. In terms of Hong Kong dollars, pre-tax profit grew by 47 per cent from HK\$20,102 million to HK\$29,509 million.

Profit attributable to shareholders increased from £1,221 million (HK\$14,321 million) in 1992 to £1,806 million (HK\$20,624 million), an increase in sterling terms of 48 per cent (44 per cent in Hong Kong dollars).

Profit attributable to shareholders (£m)



Group profit (continued)

Compared with 1992, on a pro-forma basis, profit before tax increased by £861 million, or 50 per cent, whilst profit attributable to shareholders increased by £615 million or 52 per cent.

£m	1993	Pro-forma 1992	1992
Profit on ordinary activities before tax	2,584	1,723	1,714
Tax on profit on ordinary activities	(515)	(313)	(283)
Profit on ordinary activities after tax	2,069	1,410	1,431
Profit attributable to shareholders	1,806	1,191	1,221

Earnings and dividends per share

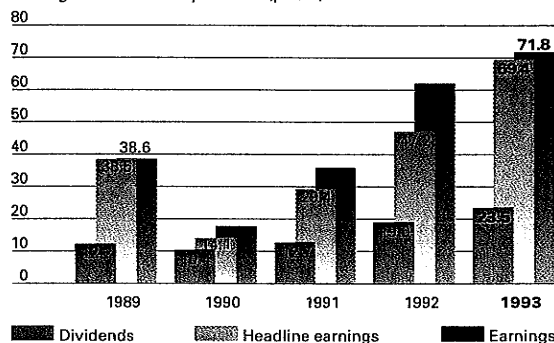
Earnings per share at 71.8 pence were 9.7 pence or 16 per cent higher than in 1992.

The headline earnings per share, which is calculated in accordance with the Institute of Investment Management and Research Statement of Investment Practice definitions, increased by 22.2 pence or 47 per cent. The headline earnings per share excluded net profits on the sale of tangible fixed assets and a subsidiary, Wing On Bank, in 1993 and of a participating interest, Cathay Pacific Airways, in 1992.

Dividends per share for 1993 amounted to 23.5 pence (with an interim of 7 pence and a proposed final of 16.5 pence), compared with 19 pence (an interim of 4.8 pence and a final of 14.2 pence) for 1992, an increase of 24 per cent.

The dividend for 1993 represents 33 per cent of attributable profit, compared with 39 per cent in 1992.

Earnings and dividends per share (pence)



Pence	1993	Pro-forma 1992	1992
Earnings per share	71.78	48.80	62.07
Headline earnings per share	69.40	36.80	47.18
Dividends per share	23.50		19.00

Performance ratios

The return on average shareholders' funds at 20.8 per cent in 1993 was up from 14.8 per cent in 1992, excluding the profit on the disposal of the Group's investment in Cathay Pacific Airways.

Performance ratios (%)

	1993	Pro-forma 1992	1992
Return on average shareholders' funds	20.8	17.3	19.0
Post-tax return on average assets	1.1	0.7	1.1

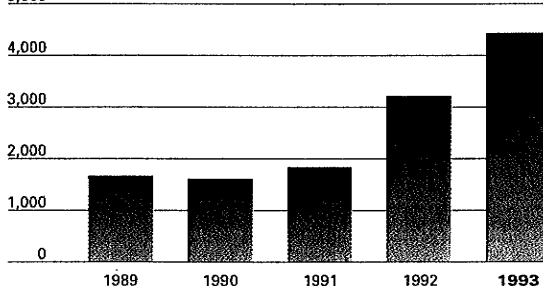
Net interest income

Net interest income at £4,438 million was 13 per cent higher than pro-forma 1992.

Interest earning assets increased by £13 billion or 9 per cent, mainly due to lending growth in HongkongBank and increased holdings of debt securities, partly offset by reductions in loans and advances in Europe and the US.

Net interest margin increased by 0.1 per cent on a pro-forma basis. Higher margins were reported in the US, due to the return of securitised assets to Marine Midland Bank's balance sheet and increased credit card assets, and in HongkongBank, following a significant release of suspended interest as a result of improvements in the loan book. Midland Bank's net interest income increased, mainly due to recovery of previously-suspended interest and increased levels of treasury activity in London, New York and Tokyo.

Net interest income (£m)



Net interest income (£m)

	1993	Pro-forma 1992	1992
Net interest income	4,438	3,918	3,219
Interest earning assets	159,583	146,755	117,178
Net interest margin (%)	2.8	2.7	2.7

Other operating income

Other operating income was £670 million or 23 per cent higher than pro-forma 1992.

Dividend income increased by £18 million or 33 per cent on a pro-forma basis, mainly due to increased income at Midland arising from venture capital investments.

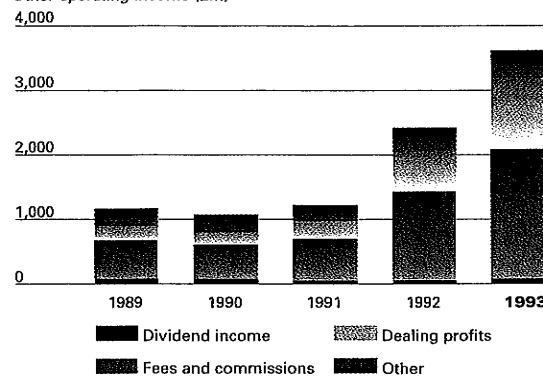
Fees and commissions receivable increased by £203 million or 10 per cent on a pro-forma basis, of which £176 million or 87 per cent reflected increases in HongkongBank and Hang Seng Bank as a result of an increase in stock-market activity.

Fees and commissions payable of £320 million were £102 million or 47 per cent higher than pro-forma 1992, due to the accelerated amortisation of mortgage servicing rights in Marine Midland.

Dealing profits increased by £468 million or 75 per cent compared with pro-forma 1992. The increase was mainly in Midland, whose continuing operations were up by £360 million as a result of a higher volume of business, favourable market conditions and the creation of Midland Global Markets. Dealing profits included foreign exchange earnings of £377 million in 1993 and £383 million in 1992.

Other income was £83 million or 25 per cent higher than pro-forma 1992, mainly due to increased income from life and pension products at Midland.

Other operating income (£m)



£m	1993	Pro-forma 1992	1992
Dividend income	72	54	52
Fees and commissions receivable	2,320	2,117	1,532
Fees and commissions payable	(320)	(218)	(157)
Dealing profits	1,089	621	603
Other	415	332	363
Total other operating income	3,576	2,906	2,393

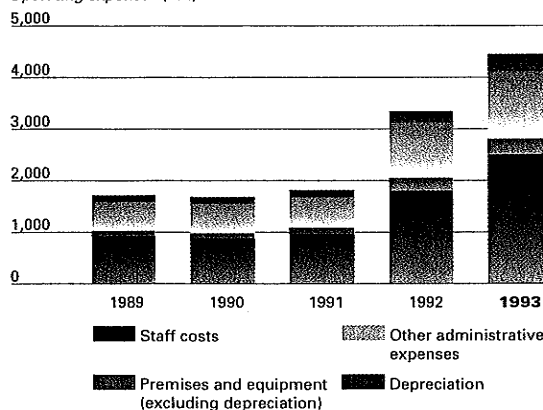
Operating expenses and staff numbers

Operating expenses increased by £181 million or 4 per cent over pro-forma 1992. Staff costs accounted for 92 per cent of the total increase.

Staff costs were up by £167 million or 7 per cent, compared with pro-forma 1992. Adjusting for the effect of currency translation, the underlying increase was £144 million or 6 per cent. Most of the increase occurred in Midland where staff costs rose by £92 million. Staff costs in HongkongBank remained flat, despite an increase in staff numbers of 935 or 4 per cent to support business expansion, as 1993 salary increases were offset by additional retirement benefit funding in 1992.

The cost to income ratio was 55.2 per cent, a reduction of 7 per cent from pro-forma 1992. The increase in total income of £1,190 million, or 17 per cent, exceeded the increase in operating expenses of £181 million, or 4 per cent.

Operating expenses (£m)



Operating expenses (£m)	1993	Pro-forma 1992	1992
Staff costs	2,502	2,335	1,802
Premises and equipment (excluding depreciation)	303	312	255
Other administrative expenses	1,301	1,309	1,075
Administrative expenses	4,106	3,956	3,132
Depreciation	320	289	208
Operating expenses	4,426	4,245	3,340
Cost : income ratio (%)	55.2	62.2	59.5

Staff numbers (full-time equivalent)	1993	1992
HongkongBank	24,403	23,468
Hang Seng Bank	6,995	7,234
Midland Bank	45,088	46,008
Marine Midland Bank	8,409	9,105
Hongkong Bank of Canada	2,573	2,536
The British Bank of the Middle East	2,240	2,120
Other	8,688	8,245
Total	98,396	98,716

Bad and doubtful debts

The total charge against profit for the year of £1,158 million was £127 million below pro-forma 1992. The general charge was £22 million higher in 1993 than in the previous year.

Of the total charge, £670 million or 58 per cent arose in Midland. Excluding the effect of a less developed country ('LDC') charge of £37 million as against a £102 million recovery in 1992, Midland's bad debt charge increased by £24 million. A reduced charge in the UK was more than offset by an increase in continental Europe and in the general provision.

The charge in the HongkongBank Group was £295 million or 25 per cent of the total. It was £217 million lower than in 1992 and reflects the substantial provisions made against exposure to the Olympia and York Group in that year.

Marine Midland's net £55 million recovery of provisions in 1993 as against a charge of £99 million in 1992 reflected a marked improvement in credit quality.

Concord Leasing recorded a charge of £160 million, up from £98 million in 1992, mainly related to its aviation portfolio.

Total provisions against loans to customers were £3,869 million or 3.8 per cent of lending, a decrease from 3.9 per cent of lending at the end of 1992. Amounts written off were greater than the charge for the year.

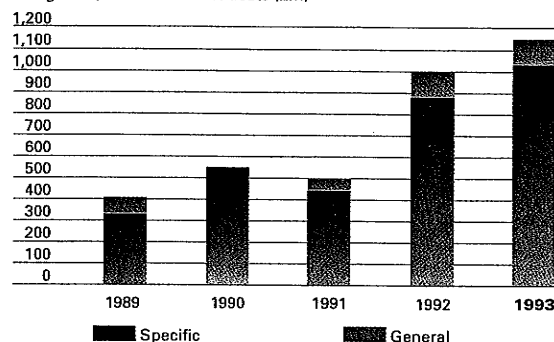
The specific provisions against loans and advances to banks relate mainly to banks in LDCs.

Non-performing loans fell by £952 million during 1993. The majority of the reduction was in Midland where there was a substantial decline in non-performing LDC advances of £792 million.

In addition to the LDC exposure shown in the table on the bottom right, the Group held bonds issued as a result of debt restructuring by Argentina, Mexico, Venezuela and the Philippines. The principal amount of these bonds is secured by US Treasury investments and their cost at 31 December 1993 was £1,060 million (1992: £956 million).

Provisions against LDC exposure at 31 December 1993 were 77 per cent of provisionable exposure (1992: 65 per cent). If the bonds mentioned above were included, total outstanding exposure would amount to £2,230 million (£2,857 million at 31 December 1992). With provisions unchanged at £903 million (1992: £1,226 million), this addition results in a provision cover of 40 per cent (43 per cent at 31 December 1992).

Charge for bad and doubtful debts (£m)



£m	1993	Pro-forma 1992	1992
<i>Profit and loss account charge</i>			
Loans and advances to customers:			
— specific charge	1,022	1,185	881
— general charge	113	91	100
	1,135	1,276	981
Loans and advances to banks:			
— specific charge	23	9	9
Total charge	1,158	1,285	990

£m	1993	1992
<i>Total outstanding provisions</i>		
Loans and advances to customers:		
— specific provisions	3,088	3,105
— general provisions	781	692
	3,869	3,797
Loans and advances to banks:		
— specific provisions	248	482
Total provisions	4,117	4,279

<i>Interest in suspense</i>	649	799
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<i>Provisions against loans and advances to customers</i>		
Total provisions to gross lending:	%	%
Specific provisions	3.0	3.2
General provisions	0.8	0.7
Total provisions	3.8	3.9

<i>Non-performing loans and advances to customers and banks</i>	7,324	8,276
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<i>Provision against advances</i>				
£m	Specific	General	Total	Suspended interest
At 1 January 1993	3,587	692	4,279	799
Amounts written off	(1,448)	—	(1,448)	(212)
Recoveries of advances written off in previous years	104	—	104	—
Charge to profit and loss account	1,045	113	1,158	—
Interest suspended during the year	—	—	—	221
Suspended interest recovered	—	—	—	(199)
Exchange and other adjustments	48	(24)	24	40
At 31 December 1993	3,336	781	4,117	649

£m	1993	1992
<i>LDC exposure and provisions</i>		
Provisionable exposure	1,170	1,901
Provisions	903	1,226

Profit on disposal of fixed assets and investments

In 1993, Hang Seng Bank recorded a profit of £159 million (1992: £125 million): £22 million from the sale of Wing On Bank and the rest from disposals of listed investments. Midland included a £45 million profit on the disposal of investments. The Group's profit in 1992 included £270 million from the disposal of the Group's investment in Cathay Pacific Airways.

£m	1993	Pro-forma 1992	1992
Profit on disposal of fixed assets and investments	287	549	549

Profit on the disposal of premises and equipment in 1993 was £46 million (1992: £27 million), mainly due to disposals in Hong Kong.

Geographical distribution of pre-tax profits

UK

Profit before tax increased by £397 million over 1992 after taking account of the £125 million charge in respect of the British & Commonwealth litigation.

Other operating income increased by £902 million, mainly due to the effects of including Midland for a full year (only the second half results were included in 1992), as well as increased dealing income from Midland Global Markets.

The provision for bad and doubtful debts was £385 million higher, due to the inclusion of a full year's charge from Midland and an increase in that bank's LDC provisions following a £102 million release of provisions in 1992.

Continental Europe

Profit before tax increased by £20 million compared with 1992.

Net interest income increased by £155 million following changes in the internal funding structure of the Group and the inclusion of Midland's results for the full year.

Hong Kong

Profit before tax increased by £419 million, or 38 per cent, after excluding the effect of the profit on the disposal of the investment in Cathay Pacific Airways in 1992.

Net interest income increased by £47 million as a result of asset growth.

Other operating income increased by £277 million mainly due to increased dealing profits and increased fees and commissions.

Provisions for bad and doubtful debts declined to £81 million in 1993.

Profit on the disposal of fixed assets, excluding the profit on the sale of the investment in Cathay Pacific Airways, increased by £44 million as a result of the disposal by Hang Seng of certain of its listed investments.

Rest of Asia-Pacific

Profit before tax increased by £351 million.

Bad debts decreased by £256 million, primarily due to a reduction in the charge by HongkongBank in Singapore, whose 1992 charge included significant provisions against exposure to Olympia and York.

Americas

Profit before tax decreased by £47 million.

Other operating income decreased by £59 million, primarily as a result of the write-down of mortgage servicing rights by Marine Midland.

Provisions for bad and doubtful debts were £28 million lower as a result of a net release of provisions amounting to £55 million by Marine Midland, compared with a charge of £99 million in 1992. This was partly offset by an increase in provisions in Concord Leasing and additional provisions made in respect of the HongkongBank Group's portfolio of real estate loans in the US.

Geographical distribution of pre-tax profits

£m	1993					1992						
	UK	Continental Europe	Hong Kong	Rest of Asia-Pacific*	Americas	Total	UK	Continental Europe	Hong Kong	Rest of Asia-Pacific*	Americas	Total
Net interest income	1,758	134	1,349	437	760	4,438	889	(21)	1,302	360	689	3,219
Other operating income†	2,011	206	956	494	271	3,938	1,109	128	679	399	330	2,645
Operating income	3,769	340	2,305	931	1,031	8,376	1,998	107	1,981	759	1,019	5,864
Operating expenses‡	(2,288)	(212)	(899)	(530)	(859)	(4,788)	(1,325)	(129)	(906)	(419)	(813)	(3,592)
Operating profit before provisions	1,481	128	1,406	401	172	3,588	673	(22)	1,075	340	206	2,272
Provisions for bad and doubtful debts	(647)	(131)	(81)	(44)	(255)	(1,158)	(262)	(19)	(126)	(300)	(283)	(990)
Provisions for contingent liabilities and commitments	(176)	(1)	(16)	(3)	—	(196)	(61)	—	(19)	(2)	(27)	(109)
Amounts written off fixed assets	(18)	(8)	(2)	—	(4)	(32)	(46)	—	—	—	—	(46)
Operating profit	640	(12)	1,307	354	(87)	2,202	304	(41)	930	38	(104)	1,127
Profit on disposal of fixed assets	52	10	208	8	9	287	14	17	434	—	84	549
Income from associated undertakings	26	4	8	46	11	95	3	6	10	19	—	38
Profit before tax	718	2	1,523	408	(67)	2,584	321	(18)	1,374	57	(20)	1,714
Per cent	28	—	59	16	(3)	100	19	(1)	80	3	(1)	100

* Includes Middle East/India, previously disclosed separately.

† Other operating income and operating expenses included intra-Group items of £362 million in 1993, and £252 million in 1992.

Taxation

The 1993 effective tax rate was 19.9 per cent compared with 18.2 per cent in pro-forma 1992 and 16.5 per cent for 1992. This increase was mainly due to the inclusion in the 1992 result of a £270 million tax-free profit on the sale of the investment in Cathay Pacific Airways.

The 1993 effective tax rate was below the standard 33 per cent rate of UK corporation tax, mainly because of lower rates of tax in major subsidiaries overseas and the utilisation of previously unrecognised tax losses, primarily in the UK and the US.

Overseas tax included Hong Kong profits tax of £207 million (1992: £160 million), provided at the rate of 17.5 per cent (1992: 17.5 per cent) on the profits for the year assessable in Hong Kong.

£m	1993	Pro-forma 1992	1992
UK corporation tax charge	92	55	28
Overseas taxation	392	291	268
Deferred taxation	15	(36)	(16)
Associated undertakings	499	310	280
Total charge for taxation	515	313	283

The UK tax charge included £31 million (1992: £28 million) in respect of the grossing up for notional tax on the increase in value of long-term assurance business and on franked investment income.

At 31 December 1993, there were potential future tax benefits of approximately £220 million (1992: £450 million) in respect of trading losses and advance corporation tax carried forward by subsidiary undertakings.

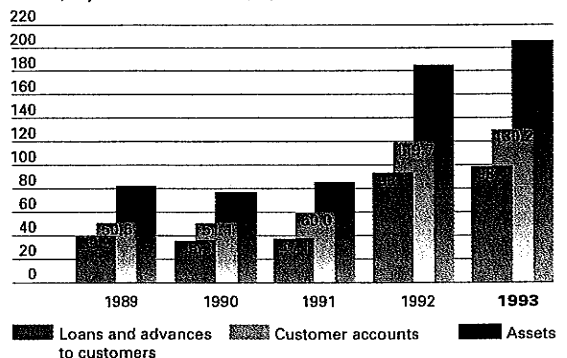
Assets, deposits and advances

At the end of 1993, total assets stood at £206.1 billion, an increase of £20.9 billion or 11 per cent compared with 1992. Of the increase, 6 per cent related to debt securities, whilst loans and advances to customers and banks comprised most of the remainder.

Customer accounts increased by £10.6 billion, or 9 per cent.

The advances to deposits ratio fell to 75.5 per cent at 31 December 1993 from 77.8 per cent at the end of 1992.

Assets, deposits and advances (£b)



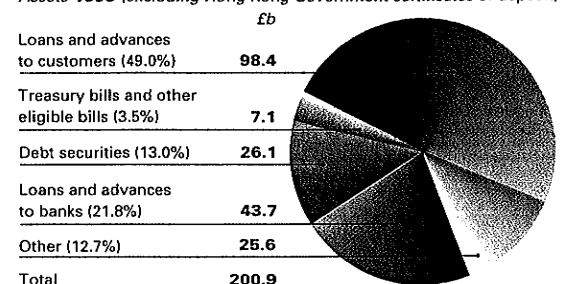
£m	1993	1992
Loans and advances to customers	98,353	93,111
Customer accounts	130,246	119,674
Assets	206,050	185,141
Advances : deposits ratio (%)	75.5	77.8

Assets

Netting of assets and liabilities in the balance sheet has been restricted following the changes described in Note 1 to the accounts. Loans and advances to customers and related credit balances at 31 December 1992 have been restated to increase them by £4.2 billion. Loans and advances to customers and related credit balances at 31 December 1993 have been grossed up to reflect these new restrictions. However, during 1993, action was taken to formalise netting arrangements with customers. There was an underlying increase in loans and advances to customers of about £9 billion during 1993.

The relative proportion of loans and advances to customers declined to 49.0 per cent of Group assets from 51.5 per cent in 1992. This reflects reduced loan demand and the repayment of debt in the UK and US. However, loan demand was strong in Asia,

Assets 1993 (excluding Hong Kong Government certificates of deposit)



Assets (continued)

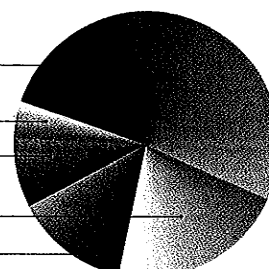
particularly in foreign currencies and for residential mortgages.

Loans and advances to banks at £43.7 billion increased by £4.6 billion or 11.9 per cent compared with 1992, primarily due to increases at HongkongBank and Marine Midland.

Debt securities increased to 13 per cent of Group assets from 8.3 per cent in 1992, largely due to the purchase of gilts and other government bonds by Midland. An increase was also reported by HongkongBank, mainly in Hong Kong and in the US.

Assets 1992 (excluding Hong Kong Government certificates of deposit)

	£b
Loans and advances to customers (51.5%)	93.1
Treasury bills and other eligible bills (4.6%)	8.3
Debt securities (8.3%)	15.1
Loans and advances to banks (21.6%)	39.1
Other (14.0%)	25.2
Total	180.8



Geographical distribution of assets

The geographical distribution of assets has been classified by the country location of the principal operations of the subsidiary company or by the location of the branch responsible for advancing the funds.

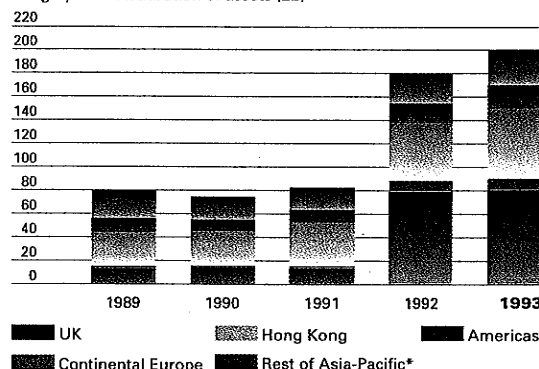
Assets held in Hong Kong increased by £10.2 billion or 21 per cent as a result of the growth in loans and advances to customers and debt securities in both HongkongBank and Hang Seng Bank.

In the rest of the Asia-Pacific region, mainly in Malaysia and Singapore, assets increased by £3.7 billion or 22 per cent.

Assets in the Americas rose by £4.3 billion or 16 per cent, chiefly because of increases in holdings of debt securities in the American treasury operations of Midland Global Markets and HongkongBank.

Assets remained relatively flat in the UK, resulting in a decline to 40 per cent of the total, compared with 44 per cent at the end of 1992.

Geographical distribution of assets (£b)



£m	1993	%	1992	%
UK	81,200	40.4	79,797	44.1
Continental Europe	9,390	4.7	8,908	4.9
Hong Kong	59,193	29.5	49,013	27.1
Rest of Asia-Pacific*	20,730	10.3	16,990	9.4
Americas	30,383	15.1	26,120	14.5
Total	200,896	100.0	180,828	100.0
HK Government certificates of indebtedness	5,154		4,313	
Total assets	206,050		185,141	

* Includes Middle East/India, previously disclosed separately.

Loans and advances to customers by industry

Total loans and advances to customers increased by £5.2 billion, or 6 per cent, compared with 1992. After adjusting for the effect of netting of customer credit balances with the related loans, the underlying increase in total loans and advances was about £9 billion or 10 per cent compared with 1992.

Residential mortgages rose by £3.4 billion or 19 per cent, £2 billion of which was in Hong Kong, with the remaining increase mainly in the UK, US and Canada.

Loans and advances to non-bank financial institutions rose by £2.1 billion or 31 per cent mainly due to increases in both short-term lending in Euromobiliare SpA and in lending in HongkongBank.

Commercial, industrial and international trade decreased by £1.8 billion, or 6 per cent. After adjusting for the effect of netting referred to above, the underlying increase was approximately £1.5 billion, or 6 per cent.

Loans and advances to customers by industry exposure (£m)

	1993	%	1992	%
Consumer:				
Residential mortgages	21,106	20.5	17,728	18.1
Other advances to individuals	10,415	10.1	9,658	9.9
Total consumer	31,521	30.6	27,386	28.0
Commercial:				
Commercial, industrial and international trade	26,912	26.2	28,761	29.5
Commercial real estate	14,699	14.3	13,345	13.7
Non-bank financial institutions	8,941	8.7	6,816	7.0
Other	20,712	20.2	21,264	21.8
Total commercial	71,264	69.4	70,186	72.0
Total	102,785	100.0	97,572	100.0
Suspended interest	(563)		(664)	
Provisions	102,222		96,908	
	(3,869)		(3,797)	
Loans and advances to customers	98,353		93,111	

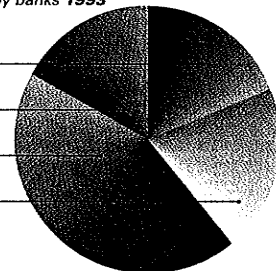
Customer accounts and deposits by banks

Customer accounts totalled £130.2 billion at 31 December 1993, an increase of 9 per cent over the balance at the end of 1992.

Deposits by banks rose by 27 per cent to £26.2 billion from £20.7 billion at year-end 1992. Such deposits represented 16.8 per cent of total deposits, compared with 14.7 per cent a year previously.

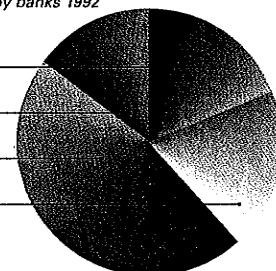
Customer accounts and deposits by banks 1993

	£b
Current (19.0%)	29.8
Deposits by banks (16.8%)	26.2
Deposits (43.8%)	68.5
Savings (20.4%)	31.9
Total	156.4



Customer accounts and deposits by banks 1992

	£b
Current (18.9%)	26.5
Deposits by banks (14.7%)	20.7
Deposits (46.7%)	65.6
Savings (19.7%)	27.6
Total	140.4



Capital resources

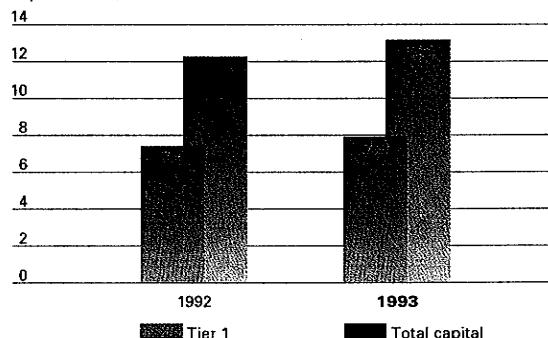
The European Community's Second Consolidated Supervision Directive took effect in 1993, and associated companies are now consolidated for capital adequacy purposes. As a result of this change, weighted risk assets increased by £3 billion during 1993 and capital ratios by 0.1 per cent.

Tier 1 capital increased in 1993, mainly due to 1993 retained earnings of £1,212 million; additional capital of £115 million arising from scrip dividends; and increased minority interests of £713 million. The increase in minority interests arose from the consolidation of associates and deconsolidation of certain subsidiaries under the terms of the Second Consolidated Supervision Directive of £513 million, and the Midland Bank US dollar preference share issue of us\$250 million.

Tier 2 capital increased during the year, primarily due to £250 million and us\$250 million subordinated debt issues by the holding company; a us\$350 million subordinated debt issue by HSBC Finance Nederland B.V., a finance subsidiary of the holding company; and a HK\$3 billion subordinated issue by HongkongBank.

Comparative figures have been compiled on the basis of the rules of the Hong Kong Monetary Authority, the regulator of the Group until 31 December 1992.

Capital ratios (%)



	1993	1992
<i>Capital ratios (%)</i>		
Total capital : risk assets	13.2	12.3
Tier 1 capital : risk assets	7.9	7.4
<i>Composition of capital</i>		
Tier 1:		
Shareholders' funds and minorities less property revaluation reserve	9,864	7,803
Tier 2:		
Property revaluation reserve	1,414	1,054
General provisions	789	692
Perpetual subordinated debt	1,880	1,882
Term subordinated debt	3,137	2,113
Minority interests (in tier 2 preference shares)	66	—
Latent reserve on equities	—	167
Total qualifying tier 2 capital	7,286	5,908
Unconsolidated investments	(563)	(703)
Investments in other banks	(49)	(3)
Other deductions	(28)	—
Total capital	16,510	13,005
Total risk-weighted assets	124,717	105,677

Attributable profit by subsidiary and by line of business

<i>£m</i>	1993	1992
i By subsidiary		
Hang Seng Bank Limited	587	486
Less minority interests	(226)	(187)
	<u>361</u>	<u>299</u>
HongkongBank of Australia Limited	14	4
Wardley Group	93	40
HongkongBank and other subsidiaries	722	664*
HongkongBank and subsidiaries	1,190	1,007
Midland Bank plc	646	102
— items accounted for in merger reserve less results for six months to 30 June 1992	—	82
— preference dividend	(3)	—
	643	184
Marine Midland Bank	117	72
— preference dividend	(4)	(4)
	113	68
Hongkong Bank of Canada	32	29
The British Bank of the Middle East	61	68
Concord Leasing, Inc.	(162)	(75)
Other	(71)	(60)
Group profit	<u>1,806</u>	<u>1,221</u>
ii By line of business		
Commercial banking	1,688	1,249*
Investment banking	192	7
Provision in respect of British & Commonwealth litigation (1993: after tax)	(74)	(35)
Group profit	<u>1,806</u>	<u>1,221</u>

* Includes £270 million profit on the disposal of a long-term investment in Cathay Pacific Airways.

Commercial Banking

The HSBC Group's commercial banking business performed strongly during the year. The commercial banking operations achieved attributable profits totalling £1,688 million in 1993, compared with £1,249 million in 1992, an increase of 35 per cent.

The Hongkong and Shanghai Banking Corporation Limited, or HongkongBank, has an extensive presence in Asia, particularly in Hong Kong where its network is complemented by that of its subsidiary, Hang Seng Bank. Australasia is covered by both HongkongBank of Australia and HongkongBank's branches in New Zealand. In the United Kingdom and the rest of Europe, most of the Group's commercial banking business is undertaken by Midland Bank and its subsidiaries. In North America, the Group is served by Marine Midland Bank, Hongkong Bank of Canada and Concord Leasing. The British Bank of the Middle East represents the Group throughout the Middle East. The profits of the major banking subsidiaries described below include the results of certain investment banking companies, mainly the Wardley Group in the HongkongBank Group and Montagu Private Equity in the Midland Group.

**The Hongkong and
Shanghai Banking
Corporation Limited**



In 1993, the profit attributable to shareholders of HongkongBank and its subsidiary companies (the HongkongBank Group) was HK\$13,593 million, an increase of 15.1 per cent over the profit of HK\$11,810 million for 1992. Attributable profit grew by 57.2 per cent, excluding the effect on 1992's results of the HongkongBank Group's sale of its shareholding in Cathay Pacific Airways. All the major members of the group reported improved results in 1993 and contributed to the growth in profit.

Net operating income in 1993 was HK\$34,653 million, compared with HK\$30,351 million the previous year. The cost to income ratio was 38.8 per cent compared with 41.9 per cent in 1992; the improvement reflected a strong increase in operating income and effective cost

controls. The charge for bad and doubtful debts of HK\$3,850 million was 41.2 per cent lower than in the previous year, reflecting a general improvement in the quality of loans after the substantial provisions made in 1992.

Total assets at 31 December 1993 amounted to HK\$1,132 billion, an increase of 11.7 per cent over 1992 after restating comparative figures to conform with changes in accounting policy during the year. The after-tax return on average assets was 1.51 per cent compared with 1.47 per cent for the previous year.

At the year-end, the consolidated capital ratio was 14.43 per cent, up from 13.85 per cent in 1992.

During the year, the HongkongBank Group issued HK\$3 billion of floating rate notes, which qualify as tier 2 capital; the proceeds are being used to support the development and expansion of the group's business and for general corporate purposes. A permanent diminution in the value of the group's properties, principally in Japan, of HK\$1,384 million was recognised and HK\$1,344 million was charged to reserves. Overall, capital resources grew by 9.7 per cent to HK\$86,560 million.

HongkongBank itself recorded an after-tax profit of HK\$11,468 million for the year, an increase of 4.5 per cent over the HK\$10,971 million recorded in 1992. The result includes dividends from subsidiaries, which in 1992 were boosted by proceeds from the sale of the investment in Cathay Pacific Airways. Excluding the effect of this transaction, HongkongBank's profit grew by 46.9 per cent. This increase reflects a much lower level of provisioning for bad and doubtful debts than in 1992 and satisfactory growth in most areas of the bank's business.

Financial highlights*	1993		1992	
	£m	HK\$m	£m	HK\$m
Share capital and reserves	4,161	47,522	3,651	42,817
Profit before taxation	1,735	19,810	1,397	16,387
Profit attributable to shareholders	1,190	13,593	1,007	11,810
Dividends paid and proposed†	701	8,000	460	5,400
Total assets‡	99,088	1,131,567	86,393	1,013,221

* Figures for HongkongBank and its subsidiaries

† Paid out of current year's profits

‡ 1992 comparatives restated to conform with current year's presentation

Hong Kong

Hong Kong's economy continued to expand steadily in 1993, underpinned by buoyant economic growth in China. Gross domestic product grew by 5.5 per cent in real terms, fuelled by strong domestic consumption, increasing trade and the acceleration of work on major public construction projects.

HongkongBank expanded its business in Hong Kong significantly and achieved a corresponding growth in assets. The increased business volumes, combined with tight cost controls in an inflationary environment, produced results well ahead of 1992 and made a major contribution to the overall financial performance of the bank.

In its retail business, the bank produced good profit growth and maintained its market share of deposits despite low interest rates, rising competition and a buoyant equities market. Assets increased substantially as personal loan volumes climbed, and mortgage lending expanded in line with rising property values, despite the bank's conservative lending policy.

HongkongBank continued its undisputed leadership in self-service banking with the introduction of dedicated cash deposit machines. Its network of more than 230 branches in Hong Kong is supplemented by some 800 automated teller machines operated jointly with Hang Seng Bank.

Through a broad marketing programme, a new 24-hour card service centre and a bonus airline mileage scheme, the bank succeeded in increasing the number of its credit cardholders to more than one million in 1993. The resulting high volumes of cardholder purchases and merchant processing helped the bank's card business to achieve another year of record profitability.

As the Hong Kong stock market surged to new highs and foreign investment funds flowed into the territory, the bank consolidated its position as Hong Kong's leading securities custodian and clearing agent for institutional investors.

Although competition increased substantially, the bank's treasury operation maintained its dominance in the domestic money market and strengthened its position in commercial foreign exchange with the introduction of round-the-clock customer services. Falling interest rates also boosted treasury profits, which were well ahead of results in 1992.

Returns from the bank's traditional corporate lending and trade finance operations remained strong and benefited from business associated with the high volume and growth of the local equities market. The bank also continued to generate strong revenue from trade finance and lending opportunities associated with economic expansion in China.

Hong Kong's economic prospects are good for the year ahead. Growth throughout the region is likely to be sustained and, despite inflationary pressures and labour shortages, Hong Kong's gross domestic product is projected to increase again by 5.5 per cent. HongkongBank remains well placed to contribute to, and share in, this growth.

Asia-Pacific

Strong growth in a number of the region's major economies generated vigorous domestic demand, higher trade volumes, strong capital flows and a wide range of infrastructure projects during 1993. In this robust economic environment, most of HongkongBank's operations recorded good performances and achieved increased profits over 1992.

In Singapore and Malaysia, the bank's operations produced excellent results. With the transfer on 1 January 1994 of its business to Hongkong Bank Malaysia Berhad, a wholly-owned subsidiary of HSBC Holdings, HongkongBank became the first foreign bank in Malaysia to comply with local incorporation requirements.

In China, where growth of more than 13 per cent helped to stimulate trade and investment in several neighbouring economies, the bank achieved a satisfactory increase in profit. Its representative offices in Qingdao and Tianjin were upgraded to full branch status during the year. Elsewhere in the region — especially in Thailand, Korea, Macau and Sri Lanka — the

bank's operations reported very encouraging results. As a result of its deep-seated recession, Japan was a notable exception.

A region-wide retail strategy, designed to meet the growing expectations of retail customers for more sophisticated banking products and services and to establish brand-name recognition for the bank's retail products and services throughout Asia, was introduced during the year. Credit card products experienced strong growth during 1993, particularly in Taiwan.

Large volumes of investment funds flowed into the region's stock markets throughout the year, generating strong demand for HongkongBank's regional securities custody and clearing services. As a result of the record turnovers and short-term liquidity created by the inflows, the bank recorded a significant increase in non-interest income. Low or falling interest rates elsewhere in the world also provided good opportunities for treasury gains, while the phased introduction of a computer-based trade finance system helped branches to keep pace with rising trade volumes.

Europe

Although further provisions for non-performing advances were required, a good performance by treasury operations and a sharp reduction in operating costs meant that the pre-tax profit of HongkongBank's operations in the United Kingdom was well ahead of 1992. However, an increase in the tax charge in 1993 adversely affected the net result.

Efforts to streamline and rationalise the HSBC Group's business continued following HSBC Holdings' acquisition in 1992 of Midland Bank. Steps taken included closing HongkongBank's representative office in Stockholm, where Midland Bank, which now represents the Group in Sweden, opened a new branch. In Frankfurt, HongkongBank's representative office achieved increased business for the Group.

The Americas

HongkongBank's branches in the United States achieved a greatly improved operating result, despite the sluggishness of the economic recovery and the transfer of certain treasury and corporate business to other HSBC Group members. Corporate income was particularly strong. Additional provisions in subsidiary companies for the HongkongBank Group's portfolio of real estate loans in the United States, however, resulted in a greater overall loss for the year than that recorded in 1992.

In Latin America, the Group reorganised a number of its businesses to take advantage of improved economic conditions. In Chile, HongkongBank sold its business to Banco O'Higgins, in which the HSBC Group simultaneously acquired a 10 per cent shareholding. In Panama, higher operating expenses reduced the bank's profit to below that of 1992.

Subsidiaries

HongkongBank's subsidiaries recorded good profits in 1993, benefiting from strong economic growth and burgeoning trade throughout most of the Asia-Pacific region. Reviews of the results of the two major Hong Kong-based subsidiaries, **Hang Seng Bank Limited**, which is 61.48 per cent owned by HongkongBank, and the **Wardley Group**, are provided on pages 21 to 22 and 28 to 29 respectively. At **Wayfoong Finance Limited**, further tightening of mortgage-lending criteria in Hong Kong and reduced demand for commercial vehicles resulted in only moderate growth in financing activity. Customer deposits grew substantially despite low local interest rates, however, and profit growth was satisfactory.

In Australia, the economy moved into a sustainable recovery. The consolidated after-tax profit of **HongkongBank of Australia Limited** and its subsidiaries rose by 273 per cent to A\$30.04 million from A\$8.06 million in 1992. Continuing strong performances from the bank's trade services, personal banking and, in particular, financial markets divisions contributed to the overall result. In addition, HongkongBank of Australia achieved a substantial reduction in the level of non-performing loans. Stockbroker **James Capel**

Australia Limited recorded a satisfactory profit and **Wardley Investment Services (Australia) Limited** also performed well. Low levels of activity in the mergers and acquisitions market resulted in a loss for **Wardley James Capel Corporate Finance Limited**.

In Singapore, **Wayfoong Mortgage And Finance (Singapore) Limited** achieved a record annual profit, reflecting a rise in receivables and deposits, the lower cost of funds and improved efficiency through automation. The company continued to increase its share of the vehicle financing market, but fell behind marginally in its share of property financing.

HSBC Finance (Malaysia) Berhad's performance was also much better than in 1992, as a result of increased customer advances, higher interest margins and the improved collection of overdue interest from accounts in arrears. Operating conditions remained difficult in East Malaysia, however, with reduced demand for equipment financing.

In Brunei, **Mortgage And Finance Berhad** achieved a record profit. Margins remained high, and both assets and deposits increased. The company's paid-up capital doubled during the year following a transfer from reserves.

Hang Seng Bank Limited



Hang Seng Bank Limited (Group interest 61.48 per cent) reported a pre-tax profit of HK\$7,582 million, an increase of 16.1 per cent over 1992. Profit attributable to shareholders was HK\$6,702 million, 17.6 per cent up from 1992. Earnings per share also rose, by 17.6 per cent to HK\$3.47.

Credit demand remained strong and, despite low interest rates, overall deposits achieved satisfactory growth. Consolidated shareholders' funds rose by 11.1 per cent to HK\$33,328 million at the end of December. Total assets were HK\$279,224 million, a rise of 7.6 per cent over the figure for 1992. The capital ratio was 29.3 per cent, compared with 26.9 per cent at the end of 1992. The return on shareholders' funds was 20.1 per cent, and the after-tax return on average assets 2.5 per cent.

Financial highlights	1993		1992	
	£m	HK\$m	£m	HK\$m
Share capital and reserves	2,918	33,328	2,557	29,993
Profit before taxation	664	7,582	557	6,533
Profit attributable to shareholders	587	6,702	486	5,698
Dividends paid and proposed	279	3,187	253*	2,972*
Total assets	24,451	279,224	22,120	259,419

* Including a special dividend of HK\$401 million (£34 million) to mark Hang Seng's 60th anniversary

Following the disclosure of its inner reserves in 1992, Hang Seng released previously unpublished details in 1993 of its profit and loss account and balance sheet.

At the year-end, customer deposits and other accounts amounted to HK\$243,676 million, an increase of 7.5 per cent. The figure reflected the keen competition for deposits among banks in Hong Kong and the exclusion of deposits of The Wing On Bank Limited following the disposal of Hang Seng's investment in it in March 1993.

Loans and advances to customers, including trade bills (net of provisions), rose by 15.9 per cent to HK\$97,885 million. Corporate lending, project financing and residential mortgages, particularly those under the Hong Kong Government's home ownership scheme, were the main sources of growth.

With loan growth outpacing the increase in deposits, the ratio of loans to deposits rose to 41.9 per cent. Hang Seng's liquidity position remained strong, with 66.4 per cent of customers' deposits and other accounts in the form of cash and deposits with other banks.

During the year, Hang Seng stepped up efforts to increase non-interest income and was active in arranging syndicated loans. Credit card operations expanded strongly, particularly after a high-profile promotional campaign was launched in the latter part of 1993.

At the end of 1993, Hang Seng had a local network of 128 branches. Back-office operations, including the processing of documentary credits, were centralised and internal clerical procedures were streamlined to enhance efficiency. Hang Seng's cost to income ratio decreased from 31.3 per cent in 1992 to a low level of 27.1 per cent in 1993.

Overseas, Hang Seng's two New York branches and limited service branch in San Francisco continued to consolidate and improve the quality of their assets. In China, Hang Seng's three representative offices — in Shanghai, Shenzhen and Xiamen — supported customers who have set up or intend to establish operations in the People's Republic of China.

Associated Bankers Insurance Company Limited, which became a wholly-owned subsidiary of Hang Seng in March 1993, recorded a healthy increase in operating profit for the year of 40 per cent (after tax but before accounting for exceptional items).

Hang Seng's sale of its 50.3 per cent interest in The Wing On Bank Limited provided a realised surplus of HK\$259 million.

Throughout the year, Hang Seng maintained its support of a variety of community services, including the compilation of the Hang Seng Share Index and the Hang Seng Consumer Price Index, the publication of the *Hang Seng Economic Monthly* and the provision of the Education Advisory Service. The Hang Seng School of Commerce, a non-profit coeducational institution offering a one-year diploma course in business studies and a matriculation course in commercial subjects, completed its 13th year of operation. It increased to 11 the number of its awards to outstanding graduates to study business-related degree courses at tertiary institutions overseas. The S H Ho Overseas Scholarship Fund and the Hongkong Bank Foundation were among the organisations that donated money to the scheme.

Midland Bank plc


The UK's emergence from recession in 1993 proceeded at a slow pace. Gross domestic product rose by 2 per cent, the best rate achieved since 1989. Inflation was at a 30-year low and there were fewer business failures. Consumer spending improved as a consequence of lower interest rates. Exports benefited from sterling's devaluation after the UK's exit from the Exchange Rate Mechanism, but were adversely affected by recession in the major continental European economies. The recovery continued to be strongest in the service sector, with industry showing limited demand for bank finance. For many companies, debt repayment remained a priority. At the same time, the return of foreign competition to the UK banking market depressed margins in lending to larger businesses.

In its first full year as a member of the HSBC Group, Midland Bank plc recorded a pre-tax profit of £844 million, compared with £204 million in 1992. The pre-tax profit for the second half of 1993 was £459 million. Operating profit for the year from continuing operations before provisions for bad and doubtful debts rose by £624 million to £1,419 million, which included increases of £492 million or 40 per cent in other operating income and £259 million or 17 per cent in net interest income.

This result reflects a particularly strong performance by Midland Global Markets, the consolidated Midland and HongkongBank treasury and capital markets operations in London, New York and Tokyo. It was achieved against a background of difficult trading conditions in the UK and a continuing high level of competition in the personal banking and finance markets.

The bad debt charge from continuing operations of £670 million, a rise of £163 million, included a 21 per cent decline in domestic specific bad debts. However, the weak economic conditions currently prevailing in continental Europe, particularly in France and Germany, and an increase in provisions against loans to less developed countries more than offset the benefits of the domestic recovery.

Economic prospects for the UK in 1994 are better than those for continental Europe as a whole. While the UK economy is forecast to grow by 2 per cent, the Continent is expected to emerge from recession more slowly.

Synergies

The continuing close co-operation between Midland and other members of the HSBC Group produced benefits in many parts of the bank's business, the most significant of which was

in Midland Global Markets. The creation of a single dealing room in new premises in London contributed greatly to increased profits, as demonstrated by a marked gain in market share during the year. As a result, Midland Global Markets is now one of the major treasury operations in the world, offering a first-class service for information on international financial markets. Recent surveys show that it occupies a prominent position as a market maker in treasury products. In capital markets, the origination of bond issues for corporate, sovereign and international borrowers had a particularly successful year.

Financial highlights	1993 £m	1992* £m
Share capital and reserves	2,670	2,224
Profit before taxation†	844	204
Profit attributable to shareholders	646	102
Dividends paid and proposed	403	—
Total assets†	76,431	71,474

* Midland's results were consolidated into the results of the Group with effect from July 1992

† 1992 comparatives restated to conform with current year's presentation

Other benefits of co-operation included the ending of an extended period of uncertainty within Midland, which enabled it to refocus its attention on its customers; the introduction of Hexagon, the Group's proprietary electronic banking and financial service; the establishment of an integrated trade and international banking service capability to bring Group expertise to Midland's customer base; and the opening of the Asia-Pacific region — the Group's traditional area of strength — to more UK and continental European customers.

Personal customers

During 1993, Midland completed the restructuring of its UK retail network by bringing together the previously separate personal and business customer streams. The programme included putting experienced bankers back in the high street to provide customers with a more straightforward and effective banking service. These senior bankers combine decision-making authority with local knowledge, reinforced by active involvement in the communities in which they are located. The process is being complemented by a long-term programme to modernise and refurbish Midland's branches to provide customers with a more friendly and comfortable environment.

At the same time, longer branch operating hours were introduced: 1,300 offices now have extended opening hours, 300 are open on Saturdays, and 140 sites offer an 'after hours' lobby service. A new range of general brochures covering all of the bank's services and products was launched to clarify what is available to customers.

As part of the strategy to improve customer service, the Chief Executive wrote to all Midland personal customers outlining changes made as a result of their responses to a similar initiative in 1992. Midland also sent out over 170,000 questionnaires on service quality to customers during the year. Among the initiatives undertaken was the removal of charges for overdraft letters and a simplification of charges on overdrawn accounts in the personal market. As a result of these and other improvements, the bank had a 40 per cent drop in the level of complaints.

The prevailing historically-low interest rates led customers to turn away from conventional savings towards investment products. Through its personal financial services business, Midland responded with both its core pensions and investment products and a new range of life assurance-based savings programmes. Midland remained the market leader in the provision of guaranteed growth and income bonds.

The bank increased its share of the mortgage market during the year, which is expected to continue in 1994. In the cards market, Midland extended its services with the launch of a gold Visa credit card and an international debit card.

In late 1993, in conjunction with National Westminster Bank, Midland announced the trial of Mondex, a 'smart card' electronic cash payment system. Mondex will be tested over the next two years and final development will depend on the evaluation of these trials.

First Direct, Midland's telephone banking division, performed well during the year. Its account base stood at over half a million at the end of 1993, compared with 350,000 at the

end of 1992. First Direct remains the clear market leader despite the entry of new participants into the market. It will open new premises in the second half of 1994 to accommodate the continued fast growth of this business.

Business customers

Midland has been a leader in supporting business, especially small and medium-sized businesses, which are driving the UK's economic recovery and providing growth in employment. The bank maintained its small business tariff at the December 1990 level, launched a business banking charter, and implemented procedures to ensure that companies receive advance warning of charges.

Midland is a top provider of equity capital to small businesses through its equity fund, Midland Growth Capital, and it launched nine regional enterprise funds in conjunction with independent venture capital fund managers.

Midland established eight regional treasury centres throughout the UK in 1993 to provide customers with treasury services close to their home base. It also offers a wide range of specially-tailored, low-cost services for schools, colleges, clubs, societies and charities.

Overseas, Midland's branches in Greece again produced good results, especially in treasury and capital markets activities, despite depressed economic conditions on the Continent. However, the rise in bad debts was significant, especially in France.

Subsidiaries

Forward Trust Group Limited, the finance house subsidiary of Midland Bank, reported an increase in operating profits from £46 million to £63 million. Factoring was again a strong contributor and asset finance made good progress. In July, Forward Trust Group acquired Swan National Leasing, which resulted in the establishment of the UK's third largest contract hire company.

During 1993, Midland's German subsidiary, **Trinkaus & Burkhardt KGaA**, achieved record income. All business areas performed well. Net interest income rose marginally in a scenario of falling interest rates. Net commission income increased strongly due to commissions on securities and the very active new issues business. International business developed favourably, fuelled especially by new opportunities within the HSBC Group. These encouraging results were achieved despite a substantial increase in bad debt provisions caused by the poor economic climate and a conservative provisioning policy.

Investment banking

Midland's investment banking activities were transferred to HSBC Investment Banking Group Limited on 30 June. The first-half operating profit, prior to the transfer, was £41 million compared with a loss of £33 million in 1992. The profit was due to a combination of increased fee income, higher income from capital markets activities and a lower bad debt charge.

Marine Midland Bank



After a weak start, the US economy improved in the second half of 1993 as low interest rates stimulated both consumer spending and housing construction and industrial production edged upwards.

Marine Midland Bank recorded an attributable profit of us\$173 million, the highest in its corporate history. This increase of 59 per cent over the us\$109 million in 1992 was achieved despite stagnant conditions in the bank's base of operations in New York State.

Marine's priorities during the year included major rationalisation programmes, such as expense control, and the building of its regional business. Credit quality showed marked improvement as non-accruing loans fell by 51 per cent, from us\$698 million in 1992 to us\$341 million in 1993. The ratio of loan loss reserves to total non-accruing loans improved from 75.93 per cent to 102.71 per cent, year-on-year.

Financial highlights	1993		1992	
	£m	us\$m	£m	us\$m
Share capital and reserves	928	1,371	795	1,204
Profit before taxation	101	150	79	120
Profit attributable to shareholders	117	173	72	109
Dividends paid and proposed*	4	6	4	6
Total assets	12,222	18,065	11,293	17,109

* Preferred stock dividends

Expenses over the past three years have been reduced from us\$949 million in 1991, to us\$853 million in 1992, and to us\$761 million in 1993 — an overall improvement of us\$188 million, or 20 per cent. Staffing levels were reduced from 10,450 in 1991, to 9,400 in 1992, and to 8,700 in 1993 — an overall decrease of 17 per cent.

During the year, Marine continued to focus on expanding its consumer and commercial banking businesses. Regional New York State commercial loans grew by us\$194 million or 9 per cent.

The balance sheet grew to us\$18 billion from us\$17 billion in 1992, largely as a result of increased treasury activity and consumer loans. Marine's capital position continued to strengthen: its tier 1 risk-weighted asset ratio stood at 10.11 per cent at year-end 1993, compared with 9.12 per cent at year-end 1992; and its total capital ratio was 16.84 per cent compared with 16.48 per cent a year earlier.

In addition to its activities in New York State, Marine competes selectively on a national basis in a number of businesses, including lending to students, mortgage servicing, credit cards and commercial finance. In each of these businesses, the bank has a significant market position. For example, it is among the top 15 originators of US government-guaranteed student loans, and is a major mortgage servicer among American banks, currently processing approximately us\$9 billion in mortgages. Marine is also a key participant in selected HSBC Group global activities, such as payment services, securities custody, and its electronic financial service, Hexagon.

On 1 January 1994, Marine Midland Bank, N.A. converted from a nationally-chartered bank to a New York State-chartered bank. As part of this change, the 'N.A.' designation is no longer used. The bank's deposits continue to be insured by the Federal Deposit Insurance Corporation and the bank remains a member of the Federal Reserve System.

Hongkong Bank of Canada In 1993, the Canadian economy marked its first full year of recovery from the recession which began in 1989. Economic growth reached 2.8 per cent, while inflation was just under 2 per cent. The foreign trade sector was particularly strong, attributable in large part to growth in sales of motor vehicles and motor vehicle parts to the United States. Consumer spending started to recover, but was discouraged by tax increases.



Financial highlights	1993*		1992*	
	£m	c\$m	£m	c\$m
Share capital and reserves	254	499	230	442
Profit before taxation	47	92	43	82
Profit attributable to shareholders	32	63	29	55
Dividends paid and proposed	8	15	0	0
Total assets	6,885	13,519	6,200	11,916

* Fiscal year to 31 October

Hongkong Bank of Canada's market share rose during the year. Consolidated attributable profit increased by 14.1 per cent over the previous year, to c\$63 million. Assets totalled more than c\$13 billion; deposits were over c\$11 billion, up 13 per cent; and net income before taxes was a record c\$92 million, a rise of 11.6 per cent. All other areas of the bank also performed well: mortgage loans increased by 30 per cent, commercial loans by 5 per cent, personal deposits by 16 per cent, and business deposits by 9 per cent.

Revenue from trade finance, an area of particular importance, rose by 10 per cent. The substantial growth in revenue from treasury activities reflects improved operations, benefits derived from the link to the Group's major treasury operations in international financial centres, and the growing recognition of the bank's expertise and facilities in Canada. The bank's portfolio of mutual funds experienced substantial growth of 400 per cent, well in excess of that experienced by the funds industry as a whole. In response to customer demand, a mortgage investment fund — which invests

in mortgages, the income from which accrues to the fund holders — was launched in mid-year. The bank became a full member of Canada's point-of-sale electronic funds transfer system, allowing depositors to use their Hongkong Bank of Canada debit card to pay for purchases at participating merchants.

In April, the bank purchased the assets of ANZ Bank Canada.

The British Bank of the Middle East



Most countries in the Middle East experienced satisfactory economic growth in 1993, despite the fall in the price of oil to its lowest level for five years. As the price of oil is likely to remain depressed, at least in the short term, slower economic growth can be expected in 1994.

The British Bank of the Middle East recorded a satisfactory profit of £61 million, 11.2 per cent lower than the record profit achieved in 1992. This includes the bank's attributable share of income from its associated undertaking, The Saudi British Bank, which was sold late in the year to HSBC Holdings BV, The British Bank of the Middle East's parent. Although credit quality continued to improve, administrative expenses were higher than in 1992, which contributed to the decline in attributable profit.

Financial highlights	1993 £m	1992 £m
Share capital and reserves	147	196
Profit before taxation*	90	92
Profit attributable to shareholders	61	68
Dividends paid and proposed	116	115
Total assets*	3,305	3,317

* 1992 comparatives restated to conform with current year's presentation

Narrower interest rate margins in most countries in which the bank operates led to a 5 per cent fall in net interest income. However, earnings from trade services and treasury activities increased satisfactorily, resulting in total operating income remaining broadly in line with 1992.

The bank's automated teller machine network was enhanced and expanded and GlobalAccess cards were introduced to give customers access to a world-wide network of more than 160,000 machines. Credit cards were launched, building on

the success of the bank's debit cards. A new purpose-built office building in Dubai was opened to house the main Dubai branch and management offices, and a new branch was opened in Trivandrum, India, bringing the branch network to 33 offices. In addition, private banking services were enhanced.

The British Bank of the Middle East's Head Office will relocate to Jersey, which is also a major centre for the HSBC Group's private banking business, on 1 April 1994.

Concord Leasing, Inc.

Concord Leasing, Inc. had a difficult year, with further large provisioning because of lower asset values, primarily in its aviation loan and leasing portfolio. During the year, Concord made a loss of us\$244 million, compared with a net loss of us\$113 million in 1992.

Financial highlights	1993		1992	
	£m	us\$m	£m	us\$m
Share capital and reserves	79	117	74	111
Loss before taxation	(162)	(244)	(83)	(125)
Loss attributable to shareholders	(162)	(244)	(75)	(113)
Total assets	1,161	1,716	1,402	2,123

The company is now focusing exclusively on full pay-out leases and loans for equipment in sectors in which it has an established position: construction, health care and road transportation. Asset portfolios such as aircraft, which involve trading in residual value, are being phased out. The process will take time, however, and the aircraft portfolio will continue to affect Concord's performance in the meantime. HSBC Holdings injected us\$250 million of additional capital during 1993 to support Concord's operations and restructuring.

Associated Commercial Banks

The Group's associated commercial banks recorded good performances during the year.

The Saudi British Bank (Group interest 40 per cent) again achieved record income, registering a 50 per cent increase in net profit to sr403 million (£72 million). This was despite a sluggish economy, primarily due to a steady fall in the price of oil throughout the year. Strong performances in all core business areas contributed to the growth, which was

Financial highlights: The Saudi British Bank	1993		1992	
	£m	SRM	£m	SRM
Share capital and reserves	449	2,500	223	1,272
Profit before taxation	72	403	47	268
Profit attributable to shareholders	72	403	47	268
Dividends paid and proposed	57	317	—	—
Total assets	4,090	22,765	3,638	20,704

expects that an expanded product range and improved customer service will help it to increase its market share in 1994.

The Cyprus Popular Bank Limited (Group interest 22.06 per cent) performed well despite adverse economic conditions, with gains in market share in both deposits and loans. The bank continued to exhibit the highest profitability and capital adequacy ratios among banks in the country, with an increase in profit of around 10 per cent and a capital adequacy ratio of 13.8 per cent.

The establishment of a branch in Alexandria and a significant increase in capital enabled **Hongkong Egyptian Bank S.A.E.** (Group interest 40 per cent) to expand its market share of corporate business in a highly competitive and liquid market. This resulted in a substantial increase in net interest income, the major contributing factor to a rise in profits of 277 per cent over 1992. In December, the bank obtained approval to change its name to Egyptian British Bank S.A.E. with effect from January 1994.

London-based **UBAF Bank Limited** (Group interest 24.77 per cent) facilitates business, particularly trade finance, with Arab countries. The bank performed strongly in 1993, achieving record pre-tax earnings of £27 million, compared with £17 million in 1992. A capital reorganisation allowed the bank to eliminate a deficit on revenue reserves and permitted the payment of a dividend. Share capital at year-end amounted to £101 million and total capital to £130 million, compared with £88 million and £116 million respectively for 1992.

Investment Banking

HSBC Investment Banking Group, the line of business that is responsible for the merchant banking, securities and asset management activities of the HSBC Group, achieved a pre-tax profit of £253 million in 1993, compared with a loss of £2 million in 1992. Attributable profit was £192 million compared with £7 million in 1992.

The principal companies comprising the Investment Banking Group continue to trade under their well-established brand names, but work together across company lines to serve clients' needs by delivering investment banking products and services around the world.

Financial highlights	1993 £m	1992 £m
Share capital and reserves	783	700
Merchant banking	153	(26)
Securities	68	7
Asset management	32	17
Profit/(Loss) before taxation	253	(2)
Profit attributable to shareholders	192	7
Total assets	13,426	12,181

supported by a share capital increase in February and the strategic restructuring of the bank's balance sheet. Total assets grew by 10 per cent and customer deposits by 12 per cent. Three new branches were opened during the year, expanding the branch network to 56 offices.

Implementation of the HongkongBank Universal Banking system (HUB) began to serve as a core transaction processing, accounting and information system. When fully operational, HUB is expected to sharpen the bank's competitive edge by enabling it to introduce new products and services. The bank

Merchant banking activities are carried out by Samuel Montagu in the UK, continental Europe and the Americas, and by the Wardley Group throughout the Asia-Pacific region. International securities activities are carried out by James Capel. HSBC Asset Management provides international fund management.

In July, a new holding company, HSBC Investment Banking Group Limited, was established to co-ordinate the activities of the operating companies, develop functional links, and provide advice

and guidance to capitalise on the synergies already existing within the organisation. In securities, James Capel was increasingly managing its institutional equity sales and research on a global basis. Wardley James Capel Limited was restructured at year-end as two companies: James Capel Asia Limited to handle institutional business, and Wardley Financial Services Limited for retail business. Both Samuel Montagu and James Capel reorganised their operations in continental Europe to reinforce their capabilities in primary market equity origination and distribution.

All lines of business benefited from increased business flows among group companies, and this factor, combined with favourable market conditions, especially in South-East Asia, resulted in a £254.6 million rise in pre-tax profit. Improving economic conditions in the UK also contributed to a significantly lower charge for bad debts and investment write-downs.

Merchant Banking

Merchant banking activities made a profit of £153 million, compared with a loss of £26 million in 1992. The significant improvement resulted from increased market activity, as well as from inter-company co-operation, which facilitated the servicing of clients world-wide.

Working jointly with James Capel & Co. Limited in the UK, Samuel Montagu & Co. Limited originated and sponsored the flotation of the London Insurance Market Investment Trust plc, which raised £280 million of corporate capital for the Lloyd's of London insurance market. The funds of this vehicle are managed by HSBC Asset Management. Samuel Montagu also arranged 19 rights issues, placings and flotations, and acted for several clients in contested take-overs. It is actively involved in providing advisory services for privatisations in both the UK and continental Europe.

The notable transactions arranged by Samuel Montagu's specialised financing unit included debt facilities for the management buy-out of McDonnell Douglas Information Systems and the News Corporation's us\$3 billion committed revolving credit.

During 1993, Samuel Montagu also arranged, lead-managed and participated in medium-term export facilities amounting to more than £3 billion for several international projects. In Asia, the company was involved — jointly with Wardley in a number of cases — in project financings totalling £1.3 billion.

Montagu Private Equity achieved a number of significant realisations during the year by means of flotations, sales to other companies and reverse take-overs. It also made a number of new investments totalling over £70 million.

Despite a marked increase in competition in Asian markets, the Wardley Group achieved record results in 1993, reflecting strong performances in its entire range of activity. Wardley sponsored and lead-managed HK\$12.5 billion of primary equity fund-raising in Hong Kong. Of particular note was its lead position, with James Capel acting as the principal placing agent, in the HK\$4 billion flotation and international offering of Maanshan Iron & Steel Company, the largest offering for Chinese 'H' shares (stock of Chinese-incorporated companies listed in Hong Kong).

Wardley was the co-sponsor and joint global co-ordinator, with James Capel as the joint principal placing agent, in the largest flotation and international offering in Hong Kong's history — that of Consolidated Electric Power of Asia which raised HK\$6.25 billion. Wardley proved itself an innovator in the Chinese markets, acting as the sponsor and lead underwriter in the first and only flotation of Hong Kong-registered 'B' shares, a category listed on Chinese stock exchanges which may be purchased by foreign investors.

Wardley maintained its position as the market leader for project finance and financial advisory work in Asia, serving as financial adviser or arranger for many of the region's principal infrastructure projects, including two in Hong Kong. These were the provision of loan facilities for the HK\$5.2 billion Western Harbour Crossing, and for the us\$2.5 billion Black Point power-station, the largest loan financing package ever arranged in the territory.

Wardley continues to rank as the leading arranger of Hong Kong dollar bond issues, with 19 issues for an aggregate of over HK\$7 billion last year. It maintained its leadership position in structuring, arranging and advising on lease financing. During the year, Wardley arranged lease financings for 11 aircraft totalling us\$744 million, and an innovative lease financing for a major Hong Kong infrastructure project.

Securities

The securities operations of the Investment Banking Group had a good year, making a pre-tax profit of £68 million, compared with £8 million in 1992. The core business of institutional equity sales benefited from rising markets around the world, consolidating market positions in its traditional areas of strength — the UK and South-East Asia. Although markets were weaker in continental Europe and Japan, James Capel's operations there also showed good results, reflecting gains in market share.

James Capel's global equity research continued to rank highly in independent surveys of institutional investors. In the UK, continental European market-making and other principal trading activities had a good year, with considerable increases in profit. James Capel's Investment Management Division, which manages funds for UK and international private clients, showed increases in both profits and funds under management, the latter of which now total some £4.5 billion.

During 1993, James Capel participated in a record number of primary market transactions both in the UK and internationally. In the UK, it was broker for 17 flotations, five of which were for investment trust companies. The company co-operated with Samuel Montagu on three flotations and secured business from a number of important new broking clients.

James Capel was international lead manager for the flotation of a Greek construction company, and lead manager for an American Depositary Share issue for a Mexican steel company. In India, James Capel capitalised on HongkongBank's long presence and quality reputation: it was lead manager or joint lead manager for convertible bond and Global Depositary Receipt issues for such major companies as the financial institution SCICI Limited and Southern Petrochemical Industries Corporation Limited. At year-end, James Capel became one of the first international securities houses to be permitted to place orders in the domestic Indian market on behalf of overseas investors.

Asset Management

HSBC Asset Management, the Group's investment advisory and fund management arm, performed well in 1993. It achieved a profit of £32 million, an 88 per cent rise from the £17 million recorded in 1992. Funds under management grew by 27 per cent, to more than us\$30 billion.

The asset management business was restructured in 1993 to give greater emphasis to client service. An important aspect was unifying the regional operating companies, James Capel Fund Managers Limited in Europe, Wardley Investment Services Limited in the Asia-Pacific region, and Marinvest, Inc. in the United States, under the name HSBC Asset Management, a change which was finalised in early 1994.

Other improvements included a strengthening of the management team and the appointment of a Chief Investment Officer, the adoption of a 'local' funds management concept by which clients' assets are managed as close as possible to the market in which they are invested, and considerable investment in technology to develop a common systems platform for investment management.

Treasury and Capital Markets

The Group's treasury and capital markets operations had an outstanding year. Profitability rose across the Group's dealing operations located in 41 countries, with several major centres achieving particularly good results from trading in interest-rate products. Transactions undertaken with corporate and institutional customers in a wide range of treasury and capital markets products increased against a background of falling interest rates in major currencies.

Although managed centrally, the treasury and capital markets operations comprise subsidiaries of, or divisions within, the Group's major commercial banks in which their results are consolidated. The integration of the treasury activities of Hongkong Bank and Midland in the major trading centres of London, New York and Tokyo under the name of Midland Global Markets has been very successful, as evidenced by strong dealing profits.

Midland Global Markets' operations in New York were strengthened by the integration of another principal member of the Group, Carroll McEntee & McGinley Incorporated (CM&M), into a single expanded dealing room. A primary dealer in the US government securities market, CM&M expands the range of products traded by Midland Global Markets in New York.

In Tokyo, Midland Global Markets quickly established itself as a major participant in the interbank market for foreign exchange and interest-rate products, having significantly expanded its dealings with customers.

New issues of debt securities handled by the Group's international capital markets divisions achieved record levels of profit in 1993, helped by favourable markets in most currencies. The Group lead-managed more than 70 international bond issues in eight currencies and is now widely recognised as a world-class participant in such markets.

HSBC Markets, a new umbrella brand name for the Group's capital markets businesses, was launched in October, with the aim of promoting a common corporate identity for them, while retaining individual subsidiaries' identities that have established strengths in local markets.

The Group's advanced computerised treasury trading system, TREATS, was expanded and upgraded during 1993. The system was installed in several new sites, including the London trading room, which is the largest in Europe. The number of dealing rooms operating on, and linked by, TREATS is now 21, and the system is capable of handling the analysis and processing of additional instruments.

Operational and financial control functions were also strengthened, permitting more efficient risk management for the Group's treasury and capital markets operations around the world.

Insurance

The HSBC Group's insurance businesses include life and non-life underwriting, broking, agency, employee benefits consultancy and premium financing. They operate in 18 countries, providing a wide range of insurance products and services to the Group's banking and other customers. Although co-ordinated centrally from the Group Insurance Head Office in London, the insurance businesses operate in most locations as subsidiaries or activities of commercial or investment banking operations in which their profits are consolidated.

Most of the economies in which the Group transacts insurance business improved towards the end of 1992, and higher premiums benefited many operations during 1993. However, a shortage of secure underwriting capacity led to significant increases in reinsurance costs, thus offsetting some advantages, particularly for the broking and non-life underwriting subsidiaries. Total investment income, as a percentage of premiums transacted, fell to the lowest level for five years, due principally to lower interest rates.

In 1993, most of the Group's insurance businesses recorded satisfactory growth in profits. Life underwriting achieved a higher after-tax profit compared with 1992, with significant growth recorded by Midland Life Limited in the United Kingdom. In non-life underwriting, good results were also recorded by the two Hong Kong-based subsidiaries, Carlingford Insurance Company Limited and Associated Bankers Insurance Company Limited. Broking and consultancy, including premium financing, again saw good profit growth. However, profits from the Group's insurance agency businesses were sluggish, due to both lower commissions and sales volumes.

During the year, two small businesses were acquired by the Group's UK insurance broking subsidiary, Gibbs Hartley Cooper Limited. Another broking operation was also acquired by Gibbs Insurance Brokers Singapore Pte Ltd. in Singapore. The new businesses have been integrated and are expected to perform well in 1994.

Private Banking and Trustees

Private banking and trustee units were brought under the functional management of Group Private Banking from the beginning of 1993, although their profits are consolidated in the results of the commercial or investment banking companies. They substantially increased their profit contributions compared with 1992, led by an exceptional performance from Wardley Limited, the Group's wholly-owned principal private banking operation in the Asia-Pacific region. Guyerzeller Bank AG (Group interest 74.8 per cent) in Switzerland also achieved excellent results, benefiting — like Wardley — from active stock and bond markets and favourable trading conditions. Profit growth recorded by other units, though less important in absolute terms, was very satisfactory.

A team was established in Dubai to market and co-ordinate the services of the Group's European private client units throughout the region. The British Bank of the Middle East's office in Geneva was refurbished and reorganised, enabling it to offer a full range of Swiss private banking services. In Jersey, all the locally-resident private banking and trustee units of the Group were co-located, and put under a single line of management under a new holding company, HSBC Private Banking (C.I.) Limited. Similarly, the Group's private banking units in London, which deal principally with non-resident clients, are now managed as one unit, with plans to co-locate them in new premises in 1994.

Results for 1993

The Group profit for the year attributable to shareholders of the Company was £1,806 million, an increase of 48 per cent.

The Directors recommend the payment of a final dividend of 16.5p per ordinary share on 10 June 1994 to shareholders who are registered as at the close of business on 24 March 1994. With the interim dividend of 7.0p per ordinary share paid on 26 November 1993, the total distribution for the year will amount to £594 million. The dividend will be payable in cash in sterling, or in Hong Kong dollars at an exchange rate to be fixed on 1 June 1994, with an enhanced scrip dividend alternative. The enhanced scrip dividend alternative will be calculated by reference to the cash dividend increased by 50 per cent to 24.75p per share.

Further information about the results is given in the accompanying consolidated profit and loss account on page 37.

Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of financial services — commercial banking, investment banking, private banking and insurance — through an international network of more than 3,000 offices in 65 countries throughout Europe, the Asia-Pacific region, the Middle East and the Americas.

A review of the development of the business of Group undertakings during the year, particulars of important events since the end of the year and an indication of likely future developments are given in the Review of the Group on pages 18 to 31.

Geographical analyses of Group assets and of profit before taxation are set out in Note 41 on pages 68 to 70.

Capital and Reserves

The following events occurred during the year:

1. 296 ordinary shares of 75p each credited as fully paid and £160 11.69% Subordinated Bonds 2002 were issued by the Company in January 1993 under the terms of the 1992 recommended offer for Midland Bank plc. Although Midland Bank became a wholly-owned subsidiary during 1992, holders of options under Midland Bank employee share option schemes were able to exercise their options to acquire Midland Bank shares until 10 January 1993.
2. Options under the Midland Bank employee savings-related and executive share option schemes over 2,956,376 of the Company's ordinary shares of 75p each were exercised during 1993 at prices ranging from £1.1951 to £2.4124 and options over 560,566 shares lapsed. Options over 384,500 ordinary shares of 75p each were granted in two tranches under the Company's 1993 Executive Share Option Scheme. The options are exercisable between the third and tenth anniversaries of the grant at prices of 725.0p or 728.4p (the market values at the date of grant).
3. 1,573,953 ordinary shares of 75p and 10,084,055 ordinary shares of HK\$10 each were issued on 4 June 1993 at par in lieu of the final dividend for 1992 to shareholders who had elected to receive new shares in lieu of cash dividends. The average market price per share used to calculate shareholders' entitlements to new shares was £6.031.
4. 848,483 ordinary shares of 75p and 5,714,873 shares of HK\$10 each were issued on 26 November 1993 at par in lieu of the interim dividend for 1993 to shareholders who so elected. The average market price per share used to calculate shareholders' entitlements to new shares was £6.797.
5. £250,000,000 9 7/8 per cent Subordinated Bonds due 2018 were issued on 8 April. Of these, £200,000,000 were issued at 100.567 per cent and £50,000,000 at 100.897 per cent. The net proceeds from the issue, amounting to £245,303,000, are being used to develop and expand the business of the Group and for general corporate purposes.
6. us\$250,000,000 Subordinated Collared Floating Rate Notes due 2008 were issued at par on 17 November. The net proceeds from the issue, amounting to us\$248,670,000, are being used to develop and expand the business of the Group and for general corporate purposes.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 27 May 1994 at 11.00 a.m.

Close Company Provisions

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Valuation of Freehold and Leasehold Land and Buildings

The market value of the Group's properties has been reassessed by the Group's professional valuation staff and it is estimated that overall there was a surplus of approximately £500 million over the value at which it is included in the consolidated balance sheet. The Group's properties are subject to a comprehensive valuation on a triennial basis for the purpose of updating the balance sheet value. The next such valuation will be made as at 31 December 1995.

Directors

The names of the Directors of the Company serving at the date of this Report and brief biographical notes are set out on page 3.

R Delbridge, G Maitland Smith and Sir Colin Marshall were appointed to the Board on 1 January 1993 and H C Lee resigned on 28 May 1993. Sir Brian Pearse, who will retire as Chief Executive of Midland Bank on 31 March 1994, will also retire as a Director of the Company on that day. K R Whitson, who will succeed Sir Brian as Chief Executive of Midland Bank, will become an executive Director of the Company on 1 April 1994.

K R Whitson will retire at the forthcoming Annual General Meeting in accordance with the Articles of Association of the Company and, being eligible, offers himself for re-election.

D E Connolly, J M Gray, N R Knox, D P H Liao, Sir Wilfrid Newton and H Sohmen will retire by rotation at the forthcoming Annual General Meeting in accordance with the Articles of Association of the Company and, being eligible, offer themselves for re-election.

K R Whitson has a service contract with the Company which may be terminated by the Company at 24 months' notice. None of the other Directors proposed for re-election at the Annual General Meeting has a service contract with the Company or a subsidiary of the Company which is required to be open to inspection.

Directors' Interests

According to the registers of Directors' interests kept by the Company under Section 325 of the Companies Act 1985 and Section 29 of the Securities (Disclosure of Interests) Ordinance, the Directors of the Company at the year-end had the following interests, all beneficial, in the shares and loan capital of the Company:

	At 1 January 1993	At 31 December 1993				Total
		Personal	Family	Corporate	Other	
Ordinary Shares of HK\$10						
B H Asher	—	2,100	—	—	2,100	
J R H Bond	15,309	15,830	—	—	15,830	
D E Connolly	178,235	178,235	—	—	178,235	
J M Gray	16,030	3,673	12,898	—	16,571	
Sir Joseph Hotung	503,102	239	—	520,010*	520,249	
N R Knox	7,560	7,560	—	—	7,560	
D P H Liao	17,087	17,669	—	—	17,669	
Sir Wilfrid Newton	2,246	3,356	—	—	3,356	
Sir William Purves	31,779	32,861	—	—	40,861	
H Sohmen	451,671	—	161,292	490,379*	651,671	
J E Strickland	25,986	25,968	900	—	26,868	

	At 1 January 1993	At 31 December 1993				Total
		Personal	Family	Corporate	Other	
Ordinary Shares of 75p						
R Delbridge	7,298	7,372	—	—	—	7,372
D P H Liao	6,778	7,008	—	—	—	7,008
G Maitland Smith	1,702	1,742	—	—	—	1,742
Sir Colin Marshall	1,800	1,842	—	—	—	1,842
Sir Brian Pearse	24,595	12,431	12,164	—	—	24,595
Sir William Purves	1,269	1,311	—	—	—	1,311
Sir Peter Walters	12,164	12,578	—	—	—	12,578
11.69% Subordinated Bonds 2002						
J R H Bond	—	500,000	—	—	—	500,000
R Delbridge	3,900	3,900	—	—	—	3,900
Baroness Dunn	70,000	70,000	—	—	—	70,000
D P H Liao	3,622	3,622	—	—	—	3,622
G Maitland Smith	910	910	—	—	—	910
Sir Colin Marshall	975	975	—	—	—	975
Sir Wilfrid Newton	—	35,000	—	—	—	35,000
Sir Brian Pearse	13,143	6,643	6,500	—	—	13,143
Sir Peter Walters	6,500	6,500	—	—	—	6,500
us\$ Subordinated Collared Floating Rate Notes 2008						
Sir Joseph Hotung	—	1,000,000	—	—	—	1,000,000

*Interests held by private investment companies

At the year-end, the undernamed Directors held options to acquire the number of HSBC Holdings plc ordinary shares of 75p each set against their respective names. The options were granted on 12 October 1993 under the terms of the 1993 Executive Share Option Scheme, which was approved by shareholders at the Annual General Meeting on 28 May 1993. The options are exercisable between the third and tenth anniversaries of the grant at a price of 728.4p per share (the market value at the date of the grant).

B H Asher	12,500
J R H Bond	20,000
R Delbridge	10,000
J M Gray	15,000
Sir William Purves	25,000
J E Strickland	10,000

R Delbridge held at the beginning and at the end of the year, under the Midland Bank Savings-Related Share Option Scheme, an option to acquire 3,312 HSBC Holdings plc ordinary shares of 75p each at a price of 119.51p per share exercisable by 1 July 1996.

On 20 December 1993, Sir Joseph Hotung acquired a personal interest in HK\$10 million of The Hongkong and Shanghai Banking Corporation Limited Subordinated Collared Floating Rate Notes 2003, which he held at the end of the year.

As directors of Marine Midland Bank, J R H Bond, N R Knox and Sir William Purves each had a personal interest in 10 shares of common stock of that company at the beginning and at the end of the year.

Save as stated above, none of the Directors had an interest in any shares or debentures of any Group company at 1 January 1993, or at 31 December 1993, and none of the Directors, or members of their immediate families, was granted or exercised any right to subscribe for any shares or debentures during the year.

There have been no changes in these interests since 31 December 1993.

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

Directors' and Officers' Liability Insurance

Directors' and officers' liability insurance was maintained during the year.

Employee Involvement

The Company regards communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and the financial and economic factors affecting the Group's performance, through management channels, in-house magazines and attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions to improve operational performance. The involvement of employees in the performance of the Group is further encouraged through participation in bonus and share option schemes as appropriate.

Employment of Disabled Persons

The Company is committed to providing equal opportunities in employment. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons are based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

Substantial Interests in Share Capital

The following interests in the Company's ordinary shares of 75p each are recorded in the register maintained under Section 211 of the Companies Act 1985:

The Prudential Corporation Group of Companies	3.03 per cent
Legal & General Group	3.08 per cent

No substantial interest in any of the equity share capital is recorded in the register maintained by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance.

Dealings in HSBC Holdings plc Shares

During the year subsidiaries of the Company purchased, in total, 63,261 ordinary shares of HK\$10 each and 2,452,012 ordinary shares of 75p each and sold, in total, 175,261 ordinary shares of HK\$10 each and 2,452,012 ordinary shares of 75p each. The consideration for the purchases was £16,696,000 in aggregate; the consideration for the sales was £17,471,000 in aggregate. 54,000 ordinary shares of HK\$10 each were purchased and 166,000 ordinary shares of HK\$10 each were sold on the Stock Exchange of Hong Kong. The remainder of the shares were purchased or sold by James Capel & Co. Limited to facilitate clients. James Capel & Co. Limited is a market maker in London in shares of the Company.

Donations

During the year, subsidiary undertakings made charitable donations totalling £5,354,000. Of this amount, £809,000 was given for charitable purposes in the United Kingdom. No political donations were made during the year.

Corporate Governance

The Company has complied throughout the year with the operative provisions of the Code of Best Practice contained in the Report of the Committee on the Financial Aspects of Corporate Governance ('the Cadbury Committee') published in December 1992, except that a specified term for the appointment of non-executive Directors was not fixed until May 1993. The provisions of the Code under which directors are required to report on the effectiveness of their company's systems of internal control and that the business is a going concern will come into effect when, as recommended by the Cadbury Committee, the necessary guidance for companies and their auditors has been developed.

The Auditors, KPMG Peat Marwick, have confirmed to the Directors that they are satisfied that this statement appropriately reflects the Company's compliance with the Code of Best Practice, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for their review.

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

Group Executive Committee

The Group Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Committee at the date of this report are J R H Bond (Chairman), B H Asher, R Delbridge, J M Gray, Sir Brian Pearse, Sir William Purves and J E Strickland, Directors, and F J French, S K Green and A Mehta, Group General Managers.

Group Audit Committee

The Group Audit Committee meets regularly with the Group's senior financial, internal audit and compliance management and the external auditors to consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The members of the Group Audit Committee are Sir Wilfrid Newton (Chairman), D E Connolly and G Maitland Smith, all of whom are non-executive Directors, and F R Frame, Adviser to the Board.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource policies of the Group, particularly those governing terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning, and to make recommendations to the Board. The members of the Remuneration Committee are Baroness Dunn (Chairman), H Sohmen and Sir Peter Walters, all of whom are non-executive Directors, and R A Tennant, General Manager Group Human Resources.

Nomination Committee

This Committee carries out the process of nominating candidates to fill vacancies on the Board of Directors. The members of the Committee are the members of the Remuneration Committee together with the Group Chairman.

Auditors

The Accounts have been audited by KPMG Peat Marwick, London. KPMG Peat Marwick have expressed their willingness to continue in office. A resolution proposing their reappointment and giving authority to the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting.

On behalf of the Board
R G Barber, *Secretary*

28 February 1994

**Consolidated Profit and Loss Account
for the Year Ended 31 December 1993**

1992 £m		Note	1993 £m	1993 HK\$m	1993 us\$m
	Interest receivable				
688	— interest receivable and similar income arising from debt securities		1,361	15,543	2,012
8,188 (5,657)	— other interest receivable and similar income		9,318 (6,241)	106,411 (71,272)	13,772 (9,225)
3,219	Net interest income		4,438	50,682	6,559
52	Dividend income	3	72	822	106
1,532	Fees and commissions receivable		2,320	26,494	3,429
(157)	Fees and commissions payable		(320)	(3,654)	(473)
603	Dealing profits		1,089	12,436	1,610
363	Other operating income		415	4,740	614
5,612	Operating income		8,014	91,520	11,845
(3,132)	Administrative expenses	4	(4,106)	(46,891)	(6,069)
(208)	Depreciation and amortisation	21	(320)	(3,654)	(473)
2,272	Operating profit before provisions		3,588	40,975	5,303
	Provisions				
(990)	— provisions for bad and doubtful debts	14	(1,158)	(13,224)	(1,711)
(109)	— provisions for contingent liabilities and commitments	28	(196)	(2,238)	(290)
(46)	Amounts written off fixed asset investments		(32)	(366)	(47)
1,127	Operating profit		2,202	25,147	3,255
549	Profit on disposal of fixed assets and investments		287	3,277	424
38	Income from associated undertakings		95	1,085	140
1,714	Profit on ordinary activities before tax	5	2,584	29,509	3,819
(283)	Tax on profit on ordinary activities	6	(515)	(5,881)	(761)
1,431	Profit on ordinary activities after tax		2,069	23,628	3,058
	Minority interests				
(206)	— equity interests		(256)	(2,924)	(379)
(4)	— non-equity interests		(7)	(80)	(10)
1,221	Profit for the financial year attributable to shareholders		1,806	20,624	2,669
(472)	Dividends	8	(594)	(6,783)	(878)
749	Retained profit for the year		1,212	13,841	1,791
Pence			Pence	HK\$	us\$
62.07	Earnings per ordinary share	9	71.78	8.20	1.06
47.18	Headline earnings per ordinary share	9	69.40	7.92	1.03
19.00	Dividends per ordinary share	8	23.50	2.68	0.35

Movements in reserves are set out in Note 32.

Consolidated Balance Sheet
at 31 December 1993

1992 £m		Note	1993 £m	1993 HK\$m	1993 US\$
ASSETS					
1,353	Cash and balances at central banks		1,622	18,524	2,39
2,337	Items in the course of collection from other banks				
8,280	Treasury bills and other eligible bills	10	2,483	28,356	3,67
4,313	Hong Kong Government certificates of indebtedness		7,088	80,945	10,47
39,083	Loans and advances to banks	11	5,154	58,854	7,61
93,111	Loans and advances to customers	12	43,715	499,226	64,61
15,087	Debt securities	13	98,353	1,123,192	145,360
1,287	Equity shares	17	26,130	298,405	38,620
404	Interests in associated undertakings	18	1,950	22,269	2,882
110	Other participating interests	19	556	6,350	822
4,837	Tangible fixed assets	20	134	1,531	198
12,970	Other assets	21	4,781	54,599	7,067
1,969	Prepayments and accrued income	23	11,799	134,745	17,439
<u>185,141</u>	Total assets		<u>206,050</u>	<u>2,353,091</u>	<u>304,542</u>
LIABILITIES					
4,318	Hong Kong currency notes in circulation				
20,682	Deposits by banks	11	5,159	58,914	7,625
119,674	Customer accounts	24	26,248	299,752	38,795
1,237	Items in the course of transmission to other banks	25	130,246	1,487,409	192,503
5,843	Debt securities in issue		1,399	15,977	2,068
17,260	Other liabilities	26	6,444	73,591	9,524
2,015	Accruals and deferred income	27	17,614	201,152	26,033
285	Provisions for liabilities and charges — deferred taxation	28	2,251	25,707	3,327
362	— other provisions for liabilities and charges		253	2,889	374
1,818	Subordinated liabilities — undated loan capital	29	349	3,986	516
2,272	— dated loan capital		1,859	21,230	2,747
1,299	Minority interests — equity		3,328	38,006	4,919
65	— non-equity		1,336	15,257	1,975
2,054	Called up share capital	30	230	2,627	340
374	Share premium account	31	2,111	24,108	3,120
184	Reserves	32	378	4,316	559
1,506	Revaluation reserve	32	148	1,690	219
3,893	Profit and loss account	32	1,421	16,228	2,100
8,011	Shareholders' funds	32	5,276	60,252	7,798
<u>185,141</u>	Total liabilities		<u>9,334</u>	<u>106,594</u>	<u>13,796</u>
MEMORANDUM ITEMS					
1,532	Contingent liabilities — acceptances and endorsements	34	1,398	15,965	2,066
9,716	— guarantees and assets pledged as collateral security		10,733	122,571	15,864
517	— other contingent liabilities		352	4,020	520
<u>11,765</u>			<u>12,483</u>	<u>142,556</u>	<u>18,450</u>
Commitments					
429	— commitments arising out of sale and option to resell transactions	34	280	3,198	414
52,158	— other commitments		57,807	660,156	85,439
<u>52,587</u>			<u>58,087</u>	<u>663,354</u>	<u>85,853</u>

1992 £m		Note	1993 £m	1993 HK\$m	1993 US\$m
FIXED ASSETS					
10	Tangible assets	21	11	126	16
	Investments	22			
7,358	— shares in Group undertakings		9,559	109,164	14,128
1,052	— loans to Group undertakings		1,077	12,299	1,592
—	— other investments other than loans		149	1,701	220
<u>8,420</u>			<u>10,796</u>	<u>123,290</u>	<u>15,956</u>
CURRENT ASSETS					
Debtors					
477	— amounts owed by Group undertakings		365	4,169	540
—	— amounts owed by Group undertakings (falling due after more than one year)		126	1,439	186
—	— other debtors		3	34	4
Cash at bank and in hand					
188	— balances with Group undertakings		210	2,398	310
<u>665</u>			<u>704</u>	<u>8,040</u>	<u>1,040</u>
CREDITORS: amounts falling due within one year					
(9)	Amounts owed to Group undertakings		(57)	(651)	(84)
(96)	Other creditors		(83)	(948)	(122)
(118)	Taxation		(119)	(1,359)	(176)
(356)	Proposed dividend	8	(418)	(4,774)	(618)
<u>(579)</u>			<u>(677)</u>	<u>(7,732)</u>	<u>(1,000)</u>
<u>86</u>	NET CURRENT ASSETS		<u>27</u>	<u>308</u>	<u>40</u>
<u>8,506</u>	TOTAL ASSETS LESS CURRENT LIABILITIES		<u>10,823</u>	<u>123,598</u>	<u>15,996</u>
CREDITORS: amounts falling due after more than one year					
Subordinated liabilities					
(413)	— owed to third parties	29	(827)	(9,444)	(1,222)
—	— owed to Group undertakings		(235)	(2,684)	(347)
—	Amounts owed to Group undertakings		(401)	(4,579)	(593)
PROVISIONS FOR LIABILITIES AND CHARGES					
(82)	Deferred taxation	28	(26)	(297)	(38)
<u>8,011</u>	NET ASSETS		<u>9,334</u>	<u>106,594</u>	<u>13,796</u>
CAPITAL AND RESERVES					
2,054	Called up share capital	31	2,111	24,108	3,120
374	Share premium account	32	378	4,316	559
2,431	Revaluation reserve	32	4,003	45,714	5,916
3,152	Profit and loss account	32	2,842	32,456	4,201
<u>8,011</u>			<u>9,334</u>	<u>106,594</u>	<u>13,796</u>

**Statement of Total Recognised Gains and Losses
for the Year Ended 31 December 1993**

	1993 £m	1992 £m
Profit for the financial year attributable to shareholders	1,806	1,221
Unrealised surplus on revaluation of land and buildings	—	369
Permanent diminution in value of land and buildings	(123)	—
Exchange and other adjustments	149	799
	<hr/>	<hr/>
Total recognised gains and losses for the year	1,832	2,389
	<hr/> <hr/>	<hr/> <hr/>

**Reconciliation of Movements in Shareholders' Funds
for the Year Ended 31 December 1993**

	1993 £m	1992 £m
Profit for the financial year attributable to shareholders	1,806	1,221
Dividends	(594)	(472)
	<hr/>	<hr/>
	1,212	749
Other recognised gains and losses relating to the year	26	1,168
New share capital subscribed	6	3,127
Arising on shares issued in lieu of dividend	115	70
Goodwill on acquisition of subsidiary undertakings	(36)	(2,008)
Goodwill reinstated on the disposal of subsidiary undertakings	—	86
	<hr/>	<hr/>
Net addition to shareholders' funds	1,323	3,192
Shareholders' funds at 1 January	8,011	4,819
	<hr/>	<hr/>
Shareholders' funds at 31 December	9,334	8,011
	<hr/> <hr/>	<hr/> <hr/>

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.

**Consolidated Cash Flow Statement
for the Year Ended 31 December 1993**

	<i>Note</i>	1993 £m	1992 £m
Net cash inflow/(outflow) from operating activities	35	11,010	(1,061)
Returns on investments and servicing of finance			
Income received on investment securities		630	583
Dividends received from associated undertakings		12	8
Interest paid on finance leases and similar hire-purchase contracts		(9)	(8)
Interest paid on loan capital		(231)	(197)
Dividend paid to minority interests			
— equity		(109)	(64)
— non-equity		(7)	(4)
Ordinary dividends paid		(417)	(208)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(131)	110
Taxation paid		(332)	(208)
Investing activities:			
Purchase of investment securities		(11,003)	(6,469)
Proceeds from sale of investment securities		6,074	3,976
Purchase of tangible fixed assets		(368)	(171)
Proceeds of sale of tangible fixed assets		285	161
Net cash (outflow)/inflow from acquisition of subsidiary undertakings		(183)	6,910
Net cash outflow from disposal of subsidiary undertakings		—	(280)
Purchase of interest in associated undertakings and other participating interests		(112)	—
Net cash (outflow)/inflow from investing activities		(5,307)	4,127
Net cash inflow before financing		5,240	2,968
Financing:			
Issue of ordinary share capital		6	439
Issue of preference share capital		164	—
Loan stock issued		1,134	43
Loan capital repaid		(133)	(157)
Net cash inflow from financing	36	1,171	325
Increase in cash and cash equivalents	37	6,411	3,293

The cash flow statement and notes thereto have been restated for 1992 to take into account the requirements of the Companies Act 1985 (Bank Accounts) Regulations 1991 (see Note 1).

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. The presentation of the consolidated accounts has been changed to comply with the requirements of the Companies Act 1985 (Bank Accounts) Regulations 1991, which has amended the Act as it applies to banks, Financial Reporting Standard ('FRS') 3 'Reporting Financial Performance' and FRS 4 'Capital Instruments'. The format of the Consolidated Profit and Loss Account, Consolidated Balance Sheet and Notes on the Accounts is as prescribed by the amended Schedule 9 to the Act. The format of the accounts of the Company complies with Schedule 4 to the Act.

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

The accounting policies used in the preparation of these accounts are consistent with previous years except as set out in Notes 2b, 2h and 2j below.

- b The consolidated accounts comprise the accounts of HSBC Holdings plc ('the Company') and its subsidiary and associated undertakings (together 'the Group'). Accounts of subsidiary undertakings are made up to 31 December, except in the case of Hongkong Bank of Canada, whose accounts are made up to 31 October annually to comply with local regulations. The consolidated accounts include the attributable share of the results and reserves of associated undertakings, based on accounts made up to dates not earlier than six months prior to 31 December.

All significant intra-Group transactions have been 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 income is accounted for when receivable, unless charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

- b *Loans and advances and doubtful debts*

The netting of loans and advances with related credit balances has been restricted by the new requirements of the Act and the British Bankers' Association Statement of Recommended Accounting Practice ('BBA SORP') on Advances. Accordingly, the relevant balances have, where appropriate, been presented gross and comparative data have been restated accordingly (see Note 33).

Specific provision is made for doubtful debts as and when they are so considered and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

Interest on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances. Previously, such interest was credited to interest income and provision made as appropriate.

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 provisions are based on any subsequent deterioration in its value. Previously, the asset acquired was recorded at the face value of the advance disposed of and provisions were based on that amount.

These changes in accounting policy have been made to comply with the BBA SORP on Advances and comparative data have been restated accordingly.

- c *Debt securities and equity shares*

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

2 Principal accounting policies (continued)

discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity. If the maturity is at the borrowers' option within a specified range of years, the maturity date which gives the more conservative result 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 'Profit on disposal of fixed assets and investments'.

Debt securities held for the purpose of hedging are valued on the same basis as the liabilities which are being hedged.

Other debt securities and equity shares are included in the balance sheet at market value. Changes in the market value of such assets are recognised in the profit and loss account as 'Dealing profits' as they arise.

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on 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 balance sheet and the consideration paid is recorded in 'Loans and advances to customers' and 'Loans and advances to banks'.

d *Subsidiary and associated undertakings and other participating interests*

- i The Company's investments in subsidiary undertakings are stated at attributable net asset values. Changes in net tangible assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.
- ii Interests in associated undertakings are stated at the Group's attributable share of the net tangible assets of the relevant companies.
- iii Other participating interests are investments in the shares of undertakings which are held on a long-term basis for the purpose of securing a contribution to the Group's business, other than subsidiary or associated undertakings. Other participating interests are stated at cost less any permanent diminution in value.
- iv Goodwill arising on the acquisition of subsidiary or associated undertakings, being the excess of the cost of acquisition over the fair value of the Group's share of separable net assets acquired, is charged against reserves in the year of acquisition. Goodwill arising on the acquisition of Midland Bank plc ('Midland') was charged against the merger reserve established at the date of acquisition. At the date of disposal of subsidiary or associated undertakings, goodwill is reinstated in reserves and included in the calculation of the profit on disposal of the undertaking.

e *Tangible fixed assets*

- i 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 is not depreciated.
 - land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases.
 - buildings and improvements thereto are depreciated on cost at the greater of 2% per annum on the straight line basis or over the unexpired terms of the leases.
- ii 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 years and 20 years.
- iii Certain of the Group's properties are held as investments. No depreciation is provided in respect of such properties other than leaseholds with 20 years or less to expiry. Valuations of investment properties are considered annually and the aggregate surplus or deficit, where material, is transferred to revaluation reserve.

f *Finance and operating leases*

- i 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, after deduction of unearned charges, are included in 'Loans and advances to customers' and 'Loans and advances to banks'. Finance charges receivable are recognised over the periods of the leases in proportion to the funds invested.
- ii 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

2 Principal accounting policies (continued)

rates implicit in the leases.

- iii All other leases are classified as operating leases and, where the Group is the lessor, are included in tangible fixed assets. 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 Deferred taxation

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

h Pension and other post-retirement benefits

The Group operates a number of pension and other post-retirement benefit schemes throughout the world and the major schemes are of the defined benefit type.

For UK 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 to the employee or dependant a pension after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular 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. At 1 January 1993, there was an accumulated obligation in respect of these benefits relating to current and retired employees. This is being charged in the profit and loss account in equal instalments over 20 years. Previously, the cost of providing these benefits was recognised as an expense in the period in which the claims were made. This change in accounting policy complies with the requirements of the Urgent Issues Task Force Abstract 6 'Accounting for post-retirement benefits other than pensions'.

i Foreign currencies

- i Assets and liabilities denominated in foreign currencies and the results of overseas branches and subsidiary and associated undertakings are translated into sterling at the rates of exchange ruling at the year-end.
- ii Exchange differences arising from the retranslation of opening foreign currency net investments in subsidiary and associated undertakings and the related cost of hedging are accounted for in reserves.
- iii Other exchange differences are recognised in the profit and loss account.

j Off-balance-sheet financial instruments

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

Accounting for these instruments is dependent upon whether the transactions are undertaken for dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios.

Transactions undertaken for dealing purposes are marked to market value and the net present value of the 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.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or positions.

Interest rate swap transactions undertaken as part of the management of asset and liability portfolios are separately identified and income or expense is accrued and included in 'Interest receivable' or 'Interest payable'.

Unrealised gains on transactions which are marked to market are included in 'Other assets' on the balance sheet. Unrealised losses on transactions which are marked to market are included in 'Other liabilities'. Previously, unrealised gains and losses were included net in 'Other assets'. This change in accounting policy has been made to comply with the BBA SORP on Off-Balance-Sheet Instruments and Other Commitments and Contingent Liabilities and comparative data have been restated accordingly.

3 Dividend income

	1993	1992
	£m	£m
Income from equity shares	65	51
Income from participating interests other than associated undertakings	7	1
	<u>72</u>	<u>52</u>

4 Administrative expenses

a	1993	1992
	£m	£m
Staff costs		
— wages and salaries	2,203	1,551
— social security costs	113	79
— other pension costs (4b below)	186	172
	<u>2,502</u>	<u>1,802</u>
Premises and equipment (excluding depreciation)	303	255
Other administrative expenses	1,301	1,075
	<u>4,106</u>	<u>3,132</u>

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

	1993	1992
	Number	Number
Commercial banking	99,870	75,887
Investment banking	4,157	3,583
	<u>104,027</u>	<u>79,470</u>

b Retirement benefits

The Group operates some 95 pension schemes throughout the world, with a total pension cost of £186 million (1992: £172 million), of which £82 million (1992: £117 million) relates to overseas schemes. The increase in cost reflects a full year's charge relating to schemes within Midland, partly offset by reduced contributions made to overseas schemes. Of the overseas schemes, £16 million (1992: £16 million) has been determined in accordance with best practice and regulations in the United States and Canada.

The majority of the schemes, which cover 90% of the Group's employees, are defined benefit schemes which are fully funded, with assets in the case of the larger schemes held in trust funds separate from the Group. The pension cost relating to these schemes was £175 million (1992: £164 million) which is assessed in accordance with the advice of qualified actuaries; the schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the country in which they are situated.

For the principal UK scheme, the Midland Bank Pension Scheme, the latest valuation was at 31 December 1990. At that date, the market value of the scheme's assets was £2,295 million and the actuarial value of the assets was sufficient to cover 108% of the benefits which had accrued to members, after allowing for expected future increases in earnings. The main assumptions used in this valuation are a long-term investment return of 10% per annum, salary increases of 7.5% per annum, equity dividend increases of 5.5% per annum and post-retirement pension increases of 5% per annum.

The pension cost for defined contribution schemes, which cover 10% of the Group's employees, was £11 million (1992: £8 million).

The Group also provides post-retirement health care benefits under schemes, mainly in the UK and also in the United States and Canada. The charge relating to these schemes, which are unfunded, is £27 million for the year (1992: £5 million). As explained in Note 2h, the charge in 1993 has been assessed in accordance with the advice of qualified actuaries, whilst in 1992 the charge was the payment in respect of claims made during the year. It is estimated that if an accruals basis of accounting had been adopted, then the charge in 1992 would have increased by £12 million. The latest actuarial valuations as at 31 December 1993 estimated the present value of the accumulated benefit obligation at £198 million (1992: £180 million), of which £21 million (1992: £ nil) has been provided. The actuarial assumptions used to estimate this obligation vary according to the claims experience and economic conditions of the country in which the scheme is situated. For the UK schemes, the main assumptions used in the latest valuation

4 Administrative expenses (continued)

are price inflation of 4.5% per annum, health care claims cost escalation of 8% per annum, and a discount rate of 8% per annum.

c *Directors' emoluments*

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

	1993 £000	1992 £000
Fees	440	458
Salaries and other emoluments	3,671	3,077
Discretionary bonuses	255	—
Pension contributions	457	275
	<u>4,823</u>	<u>3,810</u>

The emoluments of the Directors, excluding pension contributions, are within the following bands:

£	1993 Number of Directors	1992 Number of Directors	£	1993 Number of Directors	1992 Number of Directors
5,001 – 10,000	—	1	360,001 – 365,000	—	1
10,001 – 15,000	3	2	370,001 – 375,000	2	—
20,001 – 25,000	—	2	395,001 – 400,000	1	—
25,001 – 30,000	4	8	425,001 – 430,000	—	1
30,001 – 35,000	3	—	440,001 – 445,000	1	—
45,001 – 50,000	—	1	495,001 – 500,000	1	—
50,001 – 55,000	—	1	545,001 – 550,000	—	1
60,001 – 65,000	2	—	565,001 – 570,000	—	1
70,001 – 75,000	—	1	720,001 – 725,000	1	—
100,001 – 105,000	—	1	900,001 – 905,000	—	1
155,001 – 160,000	—	1	965,001 – 970,000	1	—
215,001 – 220,000	1	—			

The Chairman's emoluments were:

	1993 £000	1992 £000
Fees	15	15
Salary and other emoluments	910	890
Discretionary bonus	40	—
Pension contributions	96	140
	<u>1,061</u>	<u>1,045</u>

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

The emoluments of the Chairman for 1992 and part of 1993 and of certain other executive Directors for both years include expatriate benefits in kind, which are normal within the locations in which they were employed and which constitute a significant portion of their emoluments.

Five Directors waived the right to receive emoluments totalling £71,405 (1992: seven Directors £57,101).

d *Auditors' remuneration*

Auditors' remuneration amounted to £9.3 million (1992: £11.4 million). £2.8 million (1992: £2.6 million) was paid to the Company's auditors and their associates for non-audit work.

5 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:	1993 £m	1992 £m
i <i>Income</i>		
Aggregate rentals receivable, including capital repayments, under		
— finance leases	1,981	1,916
— operating leases	43	19
Income from listed investments	1,202	663
Profits less losses on securities and derivatives trading	712	209
Profits less losses on disposal of investment securities	219	249
Exceptional item — profit on disposal of participating interest in Cathay Pacific Airways Limited	—	270
ii <i>Charges</i>		
Exceptional item — provision in respect of British & Commonwealth Holdings plc litigation (see Note 38 below)	125	35
Charges incurred with respect to subordinated liabilities	305	168
Finance charges in respect of finance leases and similar hire-purchase contracts	21	20
Hire of plant and machinery	87	72

As stated in Note 2b above, the Group has changed its accounting policy on interest on doubtful debts. The effect of this change has been to decrease 'Interest receivable' and 'Provisions for bad and doubtful debts' by £123 million for 1992.

Profit on the disposal of fixed assets and investments attracted a tax charge of £48 million (1992: £45 million). Of the after-tax amount, £53 million (1992: £43 million) is attributable to minority interests.

6 Tax on profit on ordinary activities

The charge for taxation comprises:	1993 £m	1992 £m
United Kingdom corporation tax charge	92	28
Overseas taxation	392	268
Deferred taxation	15	(16)
	<u>499</u>	<u>280</u>
Associated undertakings	16	3
	<u>515</u>	<u>283</u>

The Company, which became tax resident in the UK on 1 January 1993, and its subsidiary undertakings in the UK provide for UK corporation tax at 33% (1992: 33%). Overseas tax includes Hong Kong profits tax of £207 million (1992: £160 million). Subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 17.5% (1992: 17.5%) on the profits for the year assessable in Hong Kong. Other overseas subsidiary undertakings and overseas branches provide for taxation in the countries in which they operate at the appropriate rates of taxation.

7 Profit of the Company

The profit of the Company for the year is £184 million (1992: £1,674 million, including dividends amounting to £1,254 million paid by HongkongBank).

8 Dividends

	1993		1992	
	Pence per share	£m	Pence per share	£m
Interim	7.00	176	4.80	116
Proposed final	16.50	418	14.20	356
	<u>23.50</u>	<u>594</u>	<u>19.00</u>	<u>472</u>

Of the interim dividend for 1993, £45 million (1992: £45 million) was settled by the issue of shares. Of the final dividend for 1992, £70 million was settled by the issue of shares in 1993 (1992: £25 million).

9 Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the earnings of £1,806 million (1992: £1,221 million) by the weighted average number of ordinary shares in issue in 1993 of 2,516 million (1992: 1,967 million). Fully diluted earnings per share is not materially different from the basic earnings per ordinary share shown.

As the headline earnings per share measure is now gaining widespread acceptance, this has been calculated in accordance with the definitions in the Institute of Investment Management and Research (IIMR) Statement of Investment Practice No. 1, 'The Definition of IIMR Headline Earnings', as follows:

	1993	1992
	Pence	Pence
Earnings per ordinary share	71.78	62.07
Adjustments:		
Profits on sale of tangible fixed assets	(1.83)	(1.17)
Profit on sale of subsidiary undertaking, adjusted for minority interest	(0.55)	—
Profit on disposal of participating interest in Cathay Pacific Airways Limited	—	(13.72)
Headline earnings per ordinary share	<u>69.40</u>	<u>47.18</u>

10 Treasury bills and other eligible bills

	1993	1992
	£m	£m
Treasury bills and similar securities	5,818	6,431
Other eligible bills	1,270	1,849
	<u>7,088</u>	<u>8,280</u>

Treasury bills and other eligible bills are not held as investment securities.

11 Hong Kong currency notes in circulation

	1993	1992
	£m	£m
Authorised note issue (HK\$60 million)	5	5
Excess note issue (HK\$58,854 million)	5,154	4,313
	<u>5,159</u>	<u>4,318</u>

The authorised note issue is secured by the deposit of investments having a market value of £6 million (1992: £6 million). The excess note issue is secured by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

12 Loans and advances to banks

	1993	1992
	£m	£m
Repayable on demand	29,891	23,626
Other loans and advances		
Remaining maturity		
— within 3 months	9,328	8,211
— between 3 months and 1 year	3,104	5,575
— between 1 and 5 years	465	197
— over 5 years	1,175	1,956
Specific bad and doubtful debt provisions (Note 14)	(248)	(482)
	<u>43,715</u>	<u>39,083</u>

The bad and doubtful debt provisions against loans and advances to banks relate principally to less developed country exposures.

Amounts include:

Due from associated undertakings		
— unsubordinated	<u>48</u>	<u>82</u>
Due from other undertakings in which the Group has a participating interest		
— unsubordinated	<u>2</u>	<u>4</u>

13 Loans and advances to customers

	1993	1992
	£m	£m
Remaining maturity:		
— within 3 months	41,947	39,404
— between 3 months and 1 year	11,781	10,888
— between 1 and 5 years	24,309	24,147
— over 5 years	24,185	22,469
General and specific bad and doubtful debt provisions (Note 14)	(3,869)	(3,797)
	<u>98,353</u>	<u>93,111</u>
Of which repayable on demand or at short notice	<u>30,682</u>	<u>22,298</u>
Amounts include:		
Subordinated	<u>76</u>	<u>10</u>
Due from associated undertakings		
— unsubordinated	<u>213</u>	<u>180</u>
Due from other undertakings in which the Group has a participating interest		
— unsubordinated	<u>62</u>	<u>74</u>

As stated in Note 2b above, there has been a change in the accounting policy for assets acquired in exchange for advances. There is no effect on net advances arising from this change, but gross advances and provisions as at 31 December 1992 have both been restated, being reduced by £230 million.

14 Provisions for bad and doubtful debts

	<i>Provisions against advances</i>			<i>Suspended interest</i>
	<i>Specific</i>	<i>General</i>	<i>Total</i>	
	£m	£m	£m	£m
At 1 January 1993	3,587	692	4,279	799
Amounts written off	(1,448)	—	(1,448)	(212)
Recoveries of advances written off in previous years	104	—	104	—
Charge to profit and loss account	1,045	113	1,158	—
Interest suspended during the year	—	—	—	221
Suspended interest recovered	—	—	—	(199)
Exchange and other adjustments	48	(24)	24	40
At 31 December 1993	<u>3,336</u>	<u>781</u>	<u>4,117</u>	<u>649</u>

Included in:

Loans and advances to banks (Note 12)
Loans and advances to customers (Note 13)248
3,869
4,117

	<i>Provisions against advances</i>			<i>Suspended interest</i>
	<i>Specific</i>	<i>General</i>	<i>Total</i>	
	£m	£m	£m	£m
At 1 January 1992	923	319	1,242	287
Acquisition of subsidiary undertakings	2,153	226	2,379	432
Amounts written off	(863)	—	(863)	(157)
Recoveries of advances written off in previous years	56	—	56	—
Charge to profit and loss account	890	100	990	—
Interest suspended during the year	—	—	—	216
Suspended interest recovered	—	—	—	(93)
Exchange and other adjustments	428	47	475	114
At 31 December 1992	<u>3,587</u>	<u>692</u>	<u>4,279</u>	<u>799</u>

Included in:

Loans and advances to banks (Note 12)
Loans and advances to customers (Note 13)482
3,797
4,279

The total of advances on which interest is being placed in suspense is as follows:

	1993	1992
	£m	£m
Gross	3,994	5,468
Net of specific provisions	<u>1,866</u>	<u>3,307</u>

15 Less developed country exposure

	1993	1992
	£m	£m
Total less developed country exposures to banks and customers (net of provisions in respect of commercial risk)	1,170	1,901
Total accrued interest	<u>203</u>	<u>293</u>
	1,373	2,194
Less developed country risk provisions	(903)	(1,226)
Suspended interest	<u>(192)</u>	<u>(293)</u>
Net exposure to less developed countries	<u>278</u>	<u>675</u>
As a percentage of shareholders' funds	3.0%	8.4%

15 Less developed country exposure (continued)

In addition to the above exposures, the Group held par and discount bonds issued by Argentina, Mexico, the Philippines and Venezuela. The principal amount of these bonds is secured by US Treasury investments. The cost of these bonds at 31 December 1993 was £1,060 million (1992: £956 million). Including these in less developed country provisionable exposure, total outstanding exposure would be £2,230 million (1992: £2,857 million), resulting in a provisioned percentage exposure of 40% (1992: 43%).

16 Concentrations of exposure

The following industry concentrations, gross of specific provisions, are in excess of 10% of total gross advances to customers:

	1993 £m	1992 £m
Consumer:		
Residential mortgages	21,106	17,728
Other advances to individuals	10,415	9,658
Commercial:		
Commercial, industrial and international trade	26,912	28,761
Commercial real estate	14,699	13,345

17 Debt securities

	1993		1992	
	<i>Book value</i> £m	<i>Market valuation</i> £m	<i>Book value</i> £m	<i>Market valuation</i> £m
Issued by public bodies				
Investment securities				
— government securities	6,993	7,021	4,014	4,040
— other public sector securities	364	374	466	465
	<u>7,357</u>	<u>7,395</u>	4,480	<u>4,505</u>
Other securities				
— government securities	8,576		3,637	
— other public sector securities	178		254	
	<u>16,111</u>		<u>8,371</u>	
Issued by other bodies				
Investment securities				
— bank and building society certificates of deposit	866	870	268	268
— other debt securities	4,032	4,077	2,850	2,851
	<u>4,898</u>	<u>4,947</u>	3,118	<u>3,119</u>
Other securities				
— bank and building society certificates of deposit	2,016		1,639	
— other debt securities	3,105		1,959	
	<u>10,019</u>		<u>6,716</u>	
	<u>26,130</u>		<u>15,087</u>	
Due within 1 year	8,032		9,019	
Due 1 year and over	18,098		6,068	
	<u>26,130</u>		<u>15,087</u>	

17 Debt securities (continued)

	1993		1992	
	<i>Book value</i>	<i>Market valuation</i>	<i>Book value</i>	<i>Market valuation</i>
	£m	£m	£m	£m
Amounts include:				
Subordinated debt securities	<u>22</u>		<u>44</u>	
Due from other undertakings in which the Group has a participating interest				
— unsubordinated	<u>10</u>		<u>10</u>	
Unamortised premiums net of discounts on investment securities	<u>165</u>		<u>55</u>	
Investment securities				
— listed on a recognised UK exchange	2,618	2,621	683	684
— listed in Hong Kong	466	463	12	11
— listed elsewhere	5,476	5,531	5,745	5,769
— unlisted	3,695	3,727	1,158	1,160
	<u>12,255</u>	<u>12,342</u>	<u>7,598</u>	<u>7,624</u>
Other debt securities				
— listed on a recognised UK exchange	2,313		1,397	
— listed in Hong Kong	53		152	
— listed elsewhere	6,775		2,754	
— unlisted	4,734		3,186	
	<u>26,130</u>		<u>15,087</u>	

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

Investment securities:

	<i>Cost</i>	<i>Provisions</i>	<i>Book value</i>
	£m	£m	£m
At 1 January 1993	7,633	(35)	7,598
Exchange adjustments	34	—	34
Acquisitions	10,653	—	10,653
Disposals and amounts repaid	(5,485)	8	(5,477)
Transfers	(517)	17	(500)
Provisions made	—	(15)	(15)
Amortisation of discounts and premiums	(38)	—	(38)
At 31 December 1993	<u>12,280</u>	<u>(25)</u>	<u>12,255</u>

18 Equity shares

	1993		1992	
	<i>Book value</i>	<i>Market valuation</i>	<i>Book value</i>	<i>Market valuation</i>
	£m	£m	£m	£m
Investment securities				
— listed on a recognised UK exchange	14	39	—	—
— listed in Hong Kong	197	1,111	146	523
— listed elsewhere	92	118	82	72
— unlisted	144	202	223	266
	447	1,470	451	861
Other securities				
— listed on a recognised UK exchange	119		83	
— listed in Hong Kong	318		235	
— listed elsewhere	778		491	
— unlisted	288		27	
Total	1,950		1,287	

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

Investment securities:

	<i>Cost</i>	<i>Provisions</i>	<i>Book value</i>
	£m	£m	£m
At 1 January 1993	532	(81)	451
Exchange adjustments	(5)	—	(5)
Acquisitions	350	—	350
Disposals and amounts repaid	(370)	14	(356)
Transfers	25	(2)	23
Provisions made	—	(16)	(16)
At 31 December 1993	532	(85)	447

19 Interests in associated undertakings

	1993	1992
	£m	£m
At 1 January	404	148
Exchange adjustments	(3)	35
Acquisitions	88	194
Retained profits	67	27
At 31 December	556	404
a Shares in banks	309	238
Other	247	166
	556	404
Listed shares (all listed outside the UK and Hong Kong)	238	126
Unlisted shares	318	278
	556	404

Loans to associated undertakings, other than normal trading balances, amount to £261 million (1992: £262 million).

19 Interests in associated undertakings (continued)

b The principal associated undertakings of the Group are:

	<i>Accounts made up to</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Group's interest in equity capital</i>	<i>Issued equity capital</i>
3i Group plc*†	30.09.93‡	England	Venture capital	17%	£238m
The Cyprus Popular Bank Limited*	31.12.93	Cyprus	Banking	22%	£67m
Hongkong Egyptian Bank S.A.E. (from 1 January 1994 Egyptian British Bank S.A.E.)*	31.12.93	Egypt	Banking	40%	£60m
The Saudi British Bank*	31.12.93	Saudi Arabia	Banking	40%	SR1,000m
UBAF Bank Limited*	31.12.93	England	Banking	25%	us\$81m (£32m (fully (paid, (£5m (nil paid
World Finance International Limited*	30.06.93	Bermuda	Shipping	38%	us\$58m
Kay Hian James Capel Holdings Limited*	31.12.93	Singapore	Stock- broking	38%	s\$33m
Banco Roberts SA*	31.07.93‡	Argentina	Banking	30%	AP50m

*Held indirectly

‡Interim accounts

† The 3i Group plc is owned by a consortium of UK clearing banks and the Bank of England and accordingly is treated as an associated undertaking.

The principal countries of operation are the same as the countries of incorporation except for World Finance International Limited which operates world-wide.

c The associated undertakings listed above have no loan capital, except for The Cyprus Popular Bank Limited, which has issued £8 million, in which the Group has no interest, and UBAF Bank Limited, which has issued us\$28.7 million of subordinated unsecured loan stock and £10 million of subordinated loan stock in which the Group has a 25% and a 13% interest respectively.

20 Other participating interests

	1993 £m	1992 £m
Listed other than on a recognised UK exchange	12	13
Unlisted	122	97
	<u>134</u>	<u>110</u>
Market value of listed securities	<u>29</u>	<u>26</u>
Other participating interests in banks	<u>26</u>	<u>3</u>
	<u>151</u>	<u>134</u>
	<i>Cost</i>	<i>Provisions</i>
	£m	£m
At 1 January 1993	126	(16)
Exchange adjustments	1	—
Acquisitions	24	—
Provisions made	—	(1)
At 31 December 1993	<u>151</u>	<u>(17)</u>
		<i>Carrying value</i>
		£m
At 1 January 1993	126	110
Exchange adjustments	1	1
Acquisitions	24	24
Provisions made	—	(1)
At 31 December 1993	<u>151</u>	<u>134</u>

21 Tangible fixed assets

a Group	<i>Freehold land and buildings</i>	<i>Long leasehold land and buildings</i>	<i>Short leasehold land and buildings</i>	<i>Equipment, fixtures and fittings</i>	<i>Equipment on operating leases</i>	<i>Total</i>
	£m	£m	£m	£m	£m	£m
Cost or valuation at 1 January 1993	1,213	2,682	702	1,713	—	6,310
Reclassification (from advances to customers)	—	—	—	—	75	75
Reclassified balance at 1 January 1993	1,213	2,682	702	1,713	75	6,385
Exchange adjustments	42	28	9	23	—	102
Additions	30	17	45	191	85	368
Acquisition of subsidiary undertaking	2	—	—	3	246	251
Disposals	(23)	(65)	(109)	(169)	(62)	(428)
Permanent diminution in value of land and buildings	(115)	(8)	—	—	—	(123)
At 31 December 1993	1,149	2,654	647	1,761	344	6,555
Accumulated depreciation at 1 January 1993	(59)	(128)	(275)	(1,066)	—	(1,528)
Reclassification (from advances to customers)	—	—	—	—	(20)	(20)
Reclassified balance at 1 January 1993	(59)	(128)	(275)	(1,066)	(20)	(1,548)
Exchange adjustments	(3)	7	(3)	(19)	—	(18)
Disposals	3	2	24	130	30	189
Acquisition of subsidiary undertaking	—	—	—	(1)	(76)	(77)
Charge for the year	(8)	(26)	(44)	(203)	(39)	(320)
Accumulated depreciation at 31 December 1993	(67)	(145)	(298)	(1,159)	(105)	(1,774)
Net book value at 31 December 1993	1,082	2,509	349	602	239	4,781
Net book value at 31 December 1992	1,154	2,554	427	647	55	4,837
						<i>Freehold land and buildings</i>
						£m
b Company						10
Cost or valuation at 1 January 1993						1
Exchange adjustments						11
At 31 December 1993						11

21 Tangible fixed assets (continued)

c Valuations	Group £m	Company £m
Cost or valuation of freehold and long and short leasehold land and buildings (excluding investment properties):		
At 1992 valuation	3,721	11
At cost	<u>365</u>	<u>—</u>
	<u><u>4,086</u></u>	<u><u>11</u></u>
On the historical cost basis, freehold and long and short leasehold land and buildings would have been included as follows (excluding investment properties):		
Cost	2,860	1
Accumulated depreciation	<u>(357)</u>	<u>—</u>
	<u><u>2,503</u></u>	<u><u>1</u></u>

All freehold and long leasehold properties other than investment properties are revalued triennially. The last valuation was made as at 31 December 1992 and the results of the valuation were included in the balance sheet at that date.

d Investment properties

The valuation at which investment properties are included in Group tangible fixed assets, together with the net book value of these properties calculated under the historical cost basis, is as follows:

	1993		1992	
	At valuation £m	At cost £m	At valuation £m	At cost £m
Freehold land and buildings	2	2	3	2
Long leaseholds	322	34	347	78
Short leaseholds	<u>40</u>	<u>10</u>	<u>43</u>	<u>15</u>
	<u><u>364</u></u>	<u><u>46</u></u>	<u><u>393</u></u>	<u><u>95</u></u>

Investment properties were valued on an open market value for existing use basis at 31 December 1993 by professionally qualified staff and the surplus arising is not material. In 1992, the valuation was carried out either by professional external valuers or by professionally qualified staff and reviewed by professional external valuers and the results of the valuation were included in the balance sheet at that date.

The Company had no investment properties at 31 December 1993 or 1992.

e Group properties leased to customers

Group properties leased to customers, none of which were held by the Company, included £407 million at 31 December 1993 (1992: £459 million) let under operating leases, net of accumulated depreciation of £9 million (1992: £9 million).

f Land and buildings occupied for own activities

	1993 £m	1992 £m
Net book value	<u><u>2,918</u></u>	<u><u>3,058</u></u>

There were no such assets in the Company at 31 December 1993 or 1992.

22 Investments

	<i>Shares in Group undertakings</i>	<i>Loans to Group undertakings</i>	<i>Other investments other than loans</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
a				
At 1 January 1993	7,358	1,052	—	8,410
Exchange adjustments	—	25	—	25
Additions	624	—	149	773
Write-up of subsidiary undertakings to net asset value	1,577	—	—	1,577
At 31 December 1993	9,559	1,077	149	10,785

Shares in Group undertakings include £2,513 million (1992: £1,816 million) in respect of shares in banks, all of which are unlisted.

Other investments other than loans represent the Company's holdings of UK government stock.

	1993 £m	1992 £m
On the historical cost basis, shares in Group undertakings would have been included as follows:		
Cost	<u>11,122</u>	<u>10,777</u>

There are no provisions for permanent diminution against these investments (1992: £ nil).

b The principal subsidiary undertakings of the Company are:

	<i>Country of incorporation or registration</i>	<i>Principal activity</i>	<i>Issued equity capital</i>
The British Bank of the Middle East	England	Banking	£100m
Carlingford Insurance Company Limited	Hong Kong	Insurance	HK\$25m
Carroll McEntee & McGinley Inc.	United States	Primary dealer in US government securities	—
Concord Leasing, Inc.	United States	Finance	—
Forward Trust Limited	England	Finance	£265m
Gibbs Hartley Cooper Limited	England	Insurance	£3m
Greenwell Montagu Gilt-Edged	England	Capital markets	£30m
Guyzeller Bank AG	Switzerland	Banking	SFR5m
Hang Seng Bank Limited	Hong Kong	Banking	HK\$9,658m
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	Banking	HK\$16,254m
Hongkong Bank of Australia Limited	Australia	Banking	A\$500m
Hongkong Bank of Canada	Canada	Banking	c\$75m
James Capel & Co. Limited	England	Stockbroking	£125m
Marine Midland Bank	United States	Banking	US\$185m
Midland Bank plc	England	Banking	£797m
Midland Life Limited	England	Financial services	£14m
Samuel Montagu & Co. Limited	England	Merchant banking	£112m
Trinkaus & Burkhardt KGaA (partnership limited by shares)	Germany	Banking	DM112m
Wardley Limited	Hong Kong	Merchant banking	HK\$770m
Wayfoong Finance Limited	Hong Kong	Finance	HK\$300m

Details of all Group companies will be annexed to the next Annual Return of the Company.

With the exception of Midland Bank plc, all the above companies are owned by subsidiaries of the Company and, with the exception of Guyzeller Bank AG which is 74.8% owned, Hang Seng Bank Limited which is 61.48% owned, Midland Life Limited which is 75% owned and Trinkaus & Burkhardt KGaA which is 70% owned, all the above companies are wholly-owned subsidiaries.

22 Investments (continued)

The principal countries of operation are the same as the countries of incorporation except for The British Bank of the Middle East which operates mainly in the Middle East. All the above subsidiaries are included in the consolidation.

23 Other assets

	1993	1992
	£m	£m
Gold bullion	216	207
Unrealised gains on foreign exchange and interest rate contracts	8,426	9,800
Current taxation recoverable	60	39
Deferred taxation (Note 28)	43	36
Other accounts	3,054	2,888
	<u>11,799</u>	<u>12,970</u>

Included in 'Other accounts' are 2,567,972 (1992: 3,619,256) shares in the Company held by subsidiary undertakings as part of their insurance and retirement funds for the benefit of policyholders.

24 Deposits by banks

	1993	1992
	£m	£m
Repayable on demand	4,807	5,330
With agreed maturity dates or periods of notice, by remaining maturity:		
— not repayable on demand but within 3 months	18,026	12,761
— between 3 months and 1 year	2,228	1,319
— between 1 and 5 years	1,038	967
— over 5 years	149	305
	<u>26,248</u>	<u>20,682</u>
Amounts include:		
Due to associated undertakings	<u>144</u>	<u>73</u>

25 Customer accounts

	1993	1992
	£m	£m
Repayable on demand	67,757	59,415
With agreed maturity dates or periods of notice, by remaining maturity:		
— not repayable on demand but within 3 months	57,547	55,290
— between 3 months and 1 year	4,019	3,521
— between 1 and 5 years	891	983
— over 5 years	32	465
	<u>130,246</u>	<u>119,674</u>
Amounts include:		
Due to associated undertakings	<u>18</u>	<u>1</u>

26 Debt securities in issue

	1993	1992
	£m	£m
Bonds and medium-term notes, by remaining maturity:		
— within 1 year	46	77
— between 1 and 2 years	29	—
— between 2 and 5 years	248	353
— over 5 years	203	80
	<u>526</u>	<u>510</u>
Other debt securities in issue, by remaining maturity:		
— within 3 months	3,470	2,921
— between 3 months and 1 year	1,650	1,594
— between 1 and 5 years	761	755
— over 5 years	37	63
	<u>6,444</u>	<u>5,843</u>

27 Other liabilities

	1993	1992
	£m	£m
Short positions in securities:		
Treasury bills and other eligible bills	544	259
Debt securities		
— government securities	2,433	1,599
— other public sector securities	90	1
— issued by other bodies	84	17
Equity shares	149	165
	<u>3,300</u>	<u>2,041</u>
Unrealised losses on foreign exchange and interest rate contracts	7,853	9,757
Current taxation	741	410
Obligations under finance leases	172	268
Proposed dividend	418	356
Insurance and retirement funds	1,376	992
Other liabilities	3,754	3,436
	<u>17,614</u>	<u>17,260</u>
Obligations under finance leases fall due as follows:		
Within 1 year	47	66
Between 1 and 5 years	106	168
Over 5 years	19	34
	<u>172</u>	<u>268</u>

28 Provisions for liabilities and charges**a Deferred taxation**

i Deferred taxation is provided for in accordance with the Group's accounting policy in Note 2g.

	£m	
At 1 January 1993	249	
Exchange and other adjustments	(54)	
Arising during the year	15	
At 31 December 1993	<u>210</u>	
	1993	1992
	£m	£m
Included in 'Provisions for liabilities and charges'	253	285
Included in 'Other assets' (Note 23)	(43)	(36)
Net deferred taxation provision	<u>210</u>	<u>249</u>

28 Provisions for liabilities and charges (continued)

	1993 £m	1992 £m
Comprising:		
Short-term timing differences	14	38
Leasing transactions	198	204
Relief for tax losses	(35)	(56)
Advance corporation tax carried forward in Midland	(80)	(76)
Advance corporation tax on dividends paid and proposed	(199)	(118)
Provision for additional UK tax on profit remittances from overseas	200	200
Other items	112	57
	<u>210</u>	<u>249</u>

The Company's deferred tax liability of £26 million (1992: £82 million) comprises the provision established on the acquisition of Midland of £200 million (1992: £200 million), less advance corporation tax on dividends paid and proposed of £199 million (1992: £118 million) together with £25 million (1992: £ nil) arising from other items.

Save as disclosed below, there is no significant deferred taxation liability not provided for.

- ii The distribution of the reserves of certain subsidiary and associated undertakings may give rise to additional tax liabilities. From 1 January 1993, the Company became UK tax resident and thereby became subject to UK corporation tax in respect of all its income (including dividends remitted from its non-UK resident subsidiary undertakings) and chargeable gains. A provision for a potential UK tax charge of £200 million was established upon the acquisition of Midland to reflect the expected additional UK tax cost of remitting dividends.
- iii No provision is made for deferred taxation on revalued premises. The Directors are of the opinion that, in respect of properties occupied for the purposes of the Group's business, the likelihood of a material taxation liability arising is remote and no useful purpose would be served by attempting to quantify it. In respect of investment and other properties which have been revalued, no material taxation liability is judged likely to arise in the foreseeable future under management's current intentions for these properties.
- iv At 31 December 1993, there were potential future tax benefits of approximately £220 million (1992: £450 million) in respect of trading losses and advance corporation tax carried forward by subsidiary undertakings which have not been recognised because recoverability of the potential benefits is not considered certain.
- v Unprovided deferred tax in respect of leasing transactions carried out by Midland totalled £87 million as at 31 December 1993 (1992: £88 million).

b Other provisions for liabilities and charges

	<i>Pension and other post- retirement obligations</i> £m	<i>Provisions for contingent liabilities and commitments</i> £m	<i>Other</i> £m	<i>Total</i> £m
At 1 January 1993	65	144	153	362
Exchange adjustments	(1)	1	—	—
Charges against profits	34	196	43	273
Provisions utilised	(13)	(241)	(65)	(319)
Other movements	(4)	25	12	33
At 31 December 1993	<u>81</u>	<u>125</u>	<u>143</u>	<u>349</u>

Acquisition provisions reflecting the restructuring costs of achieving the synergy benefits of the merger with Midland were established in 1992. Of these provisions, £25 million was utilised during the year and the unutilised balance of £110 million (1992: £135 million) is included in 'Other' in the table above.

29 Subordinated liabilities

	1993 £m	1992 £m
Undated subordinated loan capital:		
— the Company	—	—
— other Group	1,859	1,818
	<u>1,859</u>	<u>1,818</u>
Dated subordinated loan capital:		
— the Company	827	413
— other Group	2,501	1,859
	<u>3,328</u>	<u>2,272</u>
Total subordinated liabilities:		
— the Company	827	413
— other Group	4,360	3,677
	<u>5,187</u>	<u>4,090</u>
Dated subordinated loan capital is repayable:		
— within 1 year	85	5
— between 1 and 2 years	4	86
— between 2 and 5 years	614	239
— over 5 years	2,625	1,942
	<u>3,328</u>	<u>2,272</u>

The total subordinated borrowings of the Company are as follows:

	1993 £m	1992 £m
£413m 11.69% subordinated bonds 2002	413	413
£250m 9.875% subordinated bonds 2018*	245	—
us\$250m Subordinated collared floating rate notes 2008*	169	—
	<u>827</u>	413
Amounts owed to Group undertakings:		
us\$350m 7.525% subordinated loan 2003 — HSBC Finance Nederland B.V.	235	—
	<u>1,062</u>	<u>413</u>

The following other Group subordinated borrowings exceed £100 million:

us\$1,200m Primary capital subordinated undated floating rate notes	812	792
us\$750m Undated floating rate primary capital notes	506	497
us\$500m Undated floating rate primary capital notes	337	331
HK\$3,000m Subordinated collared floating rate notes 2003*	263	—
£250m Subordinated unsecured floating rate notes 2001	250	250
us\$350m 7.4% subordinated guaranteed notes 2003*	237	—
us\$300m Undated floating rate primary capital notes (Series 3)	203	198
¥27,000m 5.5% subordinated loans 1998	163	144
us\$200m Guaranteed floating rate notes 1999	135	132
DM300m Guaranteed floating rate notes 1986/98	117	123
us\$157m Floating rate subordinated notes 2000 (1992: us\$142m)	105	94
FFr900m Guaranteed floating rate notes 1997	103	108
us\$150m 12.75% guaranteed notes 2003	101	99
£100m 14% subordinated unsecured loan stock 2002/07	100	100
Other subordinated liabilities less than £100m	928	809
	<u>4,360</u>	<u>3,677</u>

* These new issues during 1993 were undertaken to develop and expand the business of the HSBC Group and for general corporate purposes.

29 Subordinated liabilities (continued)

The above floating rate notes pay interest at rates related to Interbank Offered Rates.

Generally, subordinated loan capital is repayable at par on maturity but some is repayable prior to maturity at the option of the borrower, in certain cases at a premium over par. Interest rates on the floating rate loan capital are related to Interbank Offered Rates. On the remaining subordinated loan capital, interest is payable at fixed rates of between 6.5% and 10.75%.

30 Minority interests — non-equity

Preference shares issued by subsidiaries:

	1993	1992
	£m	£m
us\$98m Perpetual preference shares	66	65
us\$250m Non-cumulative preference shares	164	—
	<u>230</u>	<u>65</u>

31 Called up share capital

Authorised:

The authorised ordinary share capital of the Company at 31 December 1993 and 1992 is HK\$20,000 million divided into 2,000 million ordinary shares of HK\$10 each, £1,125 million divided into 1,500 million ordinary shares of 75p each, and £301,500 divided into 301,500 non-voting deferred shares of £1 each; in addition at 31 December 1993 the authorised preference share capital of the Company is £500 million (1992: £ nil) divided into 500 million non-cumulative preference shares of £1 each.

	HK\$10 Number of shares	75p Number of shares	1993 £m
Issued:			
At 1 January 1993	1,691,030,535	815,917,578	2,054
Shares issued in lieu of dividends	15,798,928	2,422,436	15
Shares issued under option schemes	—	2,956,672	2
Exchange adjustments	—	—	40
At 31 December 1993	<u>1,706,829,463</u>	<u>821,296,686</u>	<u>2,111</u>

The 301,500 non-voting deferred shares are held by a subsidiary undertaking of the Company.

Options outstanding to subscribe for the Company's ordinary shares of 75p each under the Group's executive share option scheme and Midland's executive and savings-related share option schemes are as follows:

	Number of shares	Period of exercise	Price
1993	21,537,511	1994 to 2003	£1.1951 to £7.2840
1992	24,669,953	1993 to 2002	£1.1951 to £2.4124

32 Reserves

	<i>Group</i>	<i>Company</i>	<i>Associated undertakings</i>
	£m	£m	£m
Share premium account			
At 1 January 1993	374	374	—
Shares issued under option scheme	4	4	—
At 31 December 1993	378	378	—
Reserves:			
— Merger reserve			
At 1 January 1993	184	—	—
Goodwill on the acquisition of subsidiary undertakings	(36)	—	—
At 31 December 1993	148	—	—
Revaluation reserve:			
— Investment property revaluation reserve			
At 1 January 1993	187	—	—
Exchange adjustments	5	—	—
Transfer from revaluation reserve	15	—	—
Realisation on disposal of properties	(12)	—	—
At 31 December 1993	195	—	—
— Revaluation reserve			
At 1 January 1993	1,319	2,431	—
Exchange adjustments	66	(5)	—
Transfer to investment property revaluation reserve	(15)	—	—
Realisation on disposal of properties	(21)	—	—
Permanent diminution in value of premises	(123)	—	—
Net increase in attributable net assets of subsidiary undertakings	—	1,577	—
At 31 December 1993	1,226	4,003	—
Total revaluation reserve	1,421	4,003	—
Profit and loss account			
At 1 January 1993	3,893	3,152	78
Exchange and other adjustments	38	—	—
Retained profit/(loss) for the year	1,212	(410)	67
Realisation on disposal of properties	33	—	—
Arising on shares issued in lieu of dividends	100	100	—
At 31 December 1993	5,276	2,842	145

Goodwill amounting to £2,154 million (1992: £2,118 million) has been charged against reserves in current and prior years in respect of acquisitions.

Many of the Group's banking subsidiary undertakings operate under local regulatory jurisdictions which could potentially restrict the amount of reserves which can be remitted to the Company in order to maintain local regulatory capital ratios. In addition, as stated in Note 28 above, the remittance of reserves might result in further taxation liabilities.

33 Analysis of total assets and total liabilities

	1993 £m	1992 £m
a Assets and liabilities denominated in foreign currency		
Denominated in sterling	54,065	52,613
Denominated in currencies other than sterling	<u>151,985</u>	<u>132,528</u>
Total assets	<u>206,050</u>	<u>185,141</u>
Denominated in sterling	59,407	58,404
Denominated in currencies other than sterling	<u>146,643</u>	<u>126,737</u>
Total liabilities	<u>206,050</u>	<u>185,141</u>
b Assets subject to sale and repurchase transactions	1993 £m	1992 £m
Total assets subject to sale and repurchase transactions	<u>2,992</u>	<u>684</u>
c Assets leased to customers	1993 £m	1992 £m
Loans and advances to customers	4,889	5,048
Tangible fixed assets — equipment on operating leases	<u>239</u>	<u>55</u>
	<u>5,128</u>	<u>5,103</u>

The cost of assets acquired during 1993 for letting to customers under finance leases and hire-purchase contracts by the Group amounted to £1,927 million (1992: £1,295 million).

d Assets charged as security for liabilities

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

	<i>Amount of liability secured</i>	
	1993 £m	1992 £m
Deposits by banks	822	789
Customer accounts	1,569	1,880
Debt securities in issue	136	38
Other liabilities	<u>950</u>	<u>1,106</u>
	<u>3,477</u>	<u>3,813</u>

The amount of assets pledged to secure these amounts is £3,057 million (1992: £3,519 million) and is mainly made up of items included in 'Loans and advances to banks' (£1,657 million, 1992: £2,017 million) and 'Debt securities' (£575 million, 1992: £595 million).

e Restatement of net balances to a gross basis

The effect of restating 1992 balances to reflect the gross presentation required under the Act is set out below:

	1992 £m	1992 £m
Total assets previously reported	170,450	
Total liabilities and capital resources previously reported		170,450
Items in the course of collection from other banks	966	
Items in the course of transmission to other banks		1,237
Loans and advances to customers (Note 2b)	4,181	
Customer accounts		3,619
Foreign exchange and interest rate contracts (Note 2j) included in:		
Other assets	<u>9,544</u>	
Other liabilities		<u>9,835</u>
Restated total assets	<u>185,141</u>	
Restated total liabilities		<u>185,141</u>

34 Memorandum items

	1993			1992		
	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk-weighted amount</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk-weighted amount</i>
a Group	£m	£m	£m	£m	£m	£m
Contingent liabilities						
Acceptances and endorsements	1,398	992	913	1,532	1,194	1,082
Guarantees and assets pledged as collateral security:						
— guarantees and irrevocable letters of credit	10,733	8,480	6,072	9,716	7,841	5,081
Other contingent liabilities	352	222	216	517	285	249
	<u>12,483</u>	<u>9,694</u>	<u>7,201</u>	<u>11,765</u>	<u>9,320</u>	<u>6,412</u>
Commitments						
Sale and option to resell transactions	280	280	140	429	429	306
Other commitments:						
— documentary credits and short-term trade-related transactions	4,878	1,076	877	4,748	1,046	806
— forward asset purchases and forward deposits placed	187	187	97	525	525	166
— undrawn note issuing and revolving underwriting facilities	1,052	526	526	720	360	353
— undrawn formal standby facilities, credit lines and other commitments to lend:						
— over 1 year	13,268	6,634	5,305	10,236	5,118	3,274
— 1 year and under	38,422	—	—	35,929	—	—
	<u>58,087</u>	<u>8,703</u>	<u>6,945</u>	<u>52,587</u>	<u>7,478</u>	<u>4,905</u>
Exchange rate contracts	<u>279,244</u>	<u>5,343</u>	<u>1,343</u>	<u>297,957</u>	<u>9,369</u>	<u>2,207</u>
Interest rate contracts	<u>554,809</u>	<u>5,825</u>	<u>1,430</u>	<u>406,084</u>	<u>3,781</u>	<u>928</u>
				1993	1992	
				£m	£m	
Replacement cost of contracts:						
— exchange rate contracts				2,703	6,287	
— interest rate contracts				5,132	3,325	
				<u>7,835</u>	<u>9,612</u>	

The table above gives 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 Bank of England's guidelines which implement the Basle agreement on capital adequacy and depend on the creditworthiness of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts.

34 Memorandum items *(continued)*

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements. The credit equivalent amounts are obtained by applying appropriate Bank of England credit conversion factors.

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets.

The exchange rate and interest rate contracts shown in the table above are undertaken for dealing purposes, to hedge risk, or as part of the management of asset and liability portfolios. 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. Credit risk is generally limited to the replacement cost, which represents the aggregate unrealised gains on all contracts with a positive value. The credit equivalent amount disclosed is the sum of the replacement cost and an additional nominal amount relating to potential future credit exposure.

b Company

The Company had contingent liabilities of £377 million (1992: £76 million). In addition, the Company enters into guarantees on behalf of other Group undertakings in the normal course of business.

35 Reconciliation of operating profit to net cash flow from operating activities

	1993	1992
	£m	£m
Operating profit	2,202	1,127
Change in prepayments and accrued income	(150)	16
Change in accruals and deferred income	236	(401)
Interest paid on finance leases and similar hire-purchase contracts	21	20
Interest on loan capital	350	197
Depreciation and amortisation	320	208
Provisions for bad and doubtful debts	1,158	990
Loans written off net of recoveries	(1,344)	(807)
Provisions for liabilities and charges	273	109
Provisions utilised	(319)	(42)
Amounts written off fixed asset investments	32	46
Income receivable on investment securities	(797)	(584)
Net cash flow from trading activities	1,982	879
Change in items in the course of collection from other banks	(146)	(96)
Change in treasury bills and other eligible bills	639	(2,753)
Change in loans and advances to banks	2,257	(3,181)
Change in loans and advances to customers	(5,313)	(14,387)
Change in other securities	(6,233)	(1,403)
Change in other assets	1,199	(3,593)
Change in deposits by banks	5,566	1,070
Change in customer accounts	10,572	18,847
Change in items in the course of transmission to other banks	162	343
Change in debt securities in issue	601	1,112
Change in other liabilities	(39)	4,479
Elimination of exchange differences	(237)	(2,378)
Net cash inflow/(outflow) from operating activities	11,010	(1,061)

36 Changes in financing during the year

	<i>Loan capital</i>	<i>Preference shares*</i>	<i>Ordinary shares</i>	<i>Share premium</i>
	£m	£m	£m	£m
Balance at 1 January 1993	4,090	65	2,054	374
Shares issued in lieu of dividends	—	—	15	—
Issued during the year	1,134	164	2	4
Repaid during the year	(133)	—	—	—
Net cash inflow from financing	1,001	164	2	4
Exchange and other adjustments	96	1	40	—
Balance at 31 December 1993	5,187	230	2,111	378

*Preference shares in issue are in subsidiary undertakings (Note 30).

Major non-cash transactions

In 1992, the Group acquired Midland for a consideration principally comprising the issue of shares and bonds by the Company to the value of £2,688 million and £413 million respectively.

37 Analysis of cash and cash equivalents

a Deposits required by government regulations and included in the consolidated balance sheet

	1993	1992
	£m	£m
Loans and advances to banks	559	498
Treasury bills	146	40
	<u>705</u>	<u>538</u>

b Changes in cash and cash equivalents during the year

	1993	1992
	£m	£m
Balance at 1 January	28,822	21,550
Net cash inflow before the effect of foreign exchange movements	6,411	3,293
Effect of foreign exchange movements	343	3,979
Balance at 31 December	<u>35,576</u>	<u>28,822</u>

c Analysis of the balances of cash and cash equivalents as classified in the consolidated balance sheet

	1993	1992
	£m	£m
Cash and balances at central banks	1,622	1,353
Treasury bills and other eligible bills	2,800	3,353
Loans and advances to banks	29,696	22,985
Other assets	216	207
Debt securities	1,242	924
	<u>35,576</u>	<u>28,822</u>

38 Litigation

Proceedings which were initiated by British & Commonwealth Holdings plc against Samuel Montagu & Co. Limited ('Samuel Montagu'), formerly a wholly-owned subsidiary of Midland Bank plc and since the acquisition of Midland a wholly-owned subsidiary within the Group, in connection with the proposed purchase in 1987 by Quadrex Holdings Inc of the wholesale broking division of Mercantile House Holdings plc, resulted in a judgement of £176 million being awarded against Samuel Montagu, who intend to appeal against this judgement. These accounts reflect full provision in respect of this judgement after charging £125 million during the year (Note 5).

The Group, through a number of its subsidiary undertakings, is named in and is defending a number of other legal actions in various jurisdictions arising from its normal business. No material adverse impact on the financial position of the Group is expected to arise from these proceedings.

39 Capital commitments

	1993	1992
	£m	£m
Expenditure contracted for	126	43
Expenditure authorised by Directors but not contracted for	34	71
	<u>160</u>	<u>114</u>

Included in the above is £6 million (1992: £ nil) of expenditure authorised by the Directors but not contracted for in respect of the Company.

40 Lease commitments

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

	1993	1992
	£m	£m
Leasehold land and buildings		
Operating leases which expire:		
— within 1 year	83	33
— between 1 and 5 years	108	98
— over 5 years	148	104
	<u>339</u>	<u>235</u>
Equipment		
Operating leases which expire:		
— within 1 year	13	9
— between 1 and 5 years	13	16
	<u>26</u>	<u>25</u>

The Company had no commitments under operating leases at 31 December 1993 (1992: none).

41 Segmental analysis**a By geographic region**

As the Group is not required to disclose turnover, no segmental analysis of turnover is included. Turnover of non-banking business is included in other operating income above. The allocation of earnings has, where practicable, been adjusted to reflect the value of shareholders' funds included in each segment.

Geographical information has been classified by the location of the principal operations of the subsidiary undertaking, or in the case of HongkongBank, Midland and The British Bank of the Middle East operations, by the location of the branch responsible for reporting the results or for advancing the funds. Due to the nature of the Group structure, the analysis of profit and net assets shown below includes intra-Group items between geographic regions.

	At 31 December 1993		At 31 December 1992	
	£m	%	£m	%
Total assets:				
UK	81,200	40.4	79,797	44.1
Continental Europe	9,390	4.7	8,908	4.9
Hong Kong	59,193	29.5	49,013	27.1
Rest of Asia-Pacific	20,730	10.3	16,990	9.4
Americas	30,383	15.1	26,120	14.5
	<u>200,896</u>	<u>100.0</u>	180,828	<u>100.0</u>
Add: Hong Kong Government certificates of indebtedness	5,154		4,313	
Total assets	<u>206,050</u>		<u>185,141</u>	

41 Segmental analysis (continued)

Net assets:	At 31 December 1993		At 31 December 1992	
	£m	%	£m	%
UK	3,083	33.0	2,347	29.3
Continental Europe	560	6.0	315	3.9
Hong Kong	3,848	41.2	3,377	42.2
Rest of Asia-Pacific	657	7.1	620	7.7
Americas	1,186	12.7	1,352	16.9
Total net assets	9,334	100.0	8,011	100.0

Profit on ordinary activities before tax:

Year ended 31 December 1993	Continental		Hong Kong	Rest of Asia-Pacific	Americas	Total
	UK	Europe				
	£m	£m	£m	£m	£m	£m
Interest receivable	5,003	693	3,140	1,089	1,606	11,531
Interest payable	(3,245)	(559)	(1,791)	(652)	(846)	(7,093)
Net interest income	1,758	134	1,349	437	760	4,438
Dividend income	20	2	37	6	7	72
Fees and commissions receivable	1,235	129	469	203	284	2,320
Fees and commissions payable	(47)	(32)	(32)	(5)	(204)	(320)
Dealing profits	615	112	175	103	84	1,089
Other operating income	188	(5)	307	187	100	777
Operating income	3,769	340	2,305	931	1,031	8,376
Operating expenses	(2,288)	(212)	(899)	(530)	(859)	(4,788)
Operating profit before provisions	1,481	128	1,406	401	172	3,588
Provisions for bad and doubtful debts	(647)	(131)	(81)	(44)	(255)	(1,158)
Provisions for contingent liabilities and commitments	(176)	(1)	(16)	(3)	—	(196)
Amounts written off fixed asset investments	(18)	(8)	(2)	—	(4)	(32)
Operating profit/(loss)	640	(12)	1,307	354	(87)	2,202
Profit on disposal of fixed assets and investments	52	10	208	8	9	287
Income from associated undertakings	26	4	8	46	11	95
Profit/(loss) on ordinary activities before tax	718	2	1,523	408	(67)	2,584

*(continued)*41 Segmental analysis *(continued)*

Year ended 31 December 1992	<i>Continental</i>		<i>Hong</i>	<i>Rest of</i>	<i>Americas</i>	<i>Total</i>
	<i>UK</i>	<i>Europe</i>	<i>Kong</i>	<i>Asia-Pacific</i>		
	£m	£m	£m	£m	£m	£m
Interest receivable	3,305	566	3,398	1,047	1,577	9,893
Interest payable	(2,416)	(587)	(2,096)	(687)	(888)	(6,674)
Net interest income	889	(21)	1,302	360	689	3,219
Dividend income	3	1	38	7	3	52
Fees and commissions receivable	688	76	369	149	250	1,532
Fees and commissions payable	(20)	(1)	(39)	(14)	(83)	(157)
Dealing profits	288	43	110	88	74	603
Other operating income	150	9	201	169	86	615
Operating income	1,998	107	1,981	759	1,019	5,864
Operating expenses	(1,325)	(129)	(906)	(419)	(813)	(3,592)
Operating profit before provisions	673	(22)	1,075	340	206	2,272
Provisions for bad and doubtful debts	(262)	(19)	(126)	(300)	(283)	(990)
Provisions for contingent liabilities and commitments	(61)	—	(19)	(2)	(27)	(109)
Amounts written off fixed asset investments	(46)	—	—	—	—	(46)
Operating profit/(loss)	304	(41)	930	38	(104)	1,127
Profit on disposal of fixed assets and investments	14	17	434	—	84	549
Income from associated undertakings	3	6	10	19	—	38
Profit/(loss) on ordinary activities before tax	321	(18)	1,374	57	(20)	1,714

Total interest receivable and total interest payable include intra-Group interest of £852 million (1992: £1,017 million). Other operating income and operating expenses include intra-Group items of £362 million (1992: £252 million).

The operations of the geographic segment previously separately reported as Middle East/India have been included within 'Rest of Asia-Pacific'. The 1992 comparative information has been restated accordingly.

b *By class of business*

Towards the end of 1992, the Group established an Investment Banking Group to integrate its merchant banking, asset management and securities activities. In view of the increasing significance of these activities, the Directors now consider it appropriate to provide a class of business analysis reflecting this change.

	<i>Commercial banking</i>		<i>Investment banking</i>		<i>Total</i>	
	1993	1992	1993	1992	1993	1992
	£m	£m	£m	£m	£m	£m
Segment result before exceptional items	2,456	1,481	253	(2)	2,709	1,479
Provision in respect of British & Commonwealth Holdings plc litigation (see Note 38)	—	—	(125)	(35)	(125)	(35)
Profit on disposal of participating interest in Cathay Pacific Airways Limited	—	270	—	—	—	270
Profit on ordinary activities before tax	2,456	1,751	128	(37)	2,584	1,714
Total assets	192,624	172,960	13,426	12,181	206,050	185,141
Net assets	8,551	7,311	783	700	9,334	8,011

42 Transactions, arrangements and agreements involving Directors and others

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

	<u>1993</u>	
	<u>Number</u>	<u>£m</u>
Directors and connected persons and companies controlled by them:		
Loans and credit card transactions (including £47,000 in credit card transactions)	<u>50</u>	<u>194</u>
Officers:		
Loans and credit card transactions (including £24,000 in credit card transactions)	<u>12</u>	<u>4</u>

Particulars of Directors' transactions are recorded in a register held at the Registered Office of the Company, which is available for inspection by members.

43 Foreign currency amounts

The Hong Kong and United States dollar figures shown in the consolidated profit and loss account and the balance sheets are for information only. They are translated from sterling at the rates of exchange ruling at 31 December 1993, which were as follows:

£1.00 = HK\$11.420
£1.00 = us\$1.478

44 UK and Hong Kong accounting requirements

UK accounting requirements do not differ materially from Hong Kong Statements of Standard Accounting Practice except for changes in presentation of the accounts which have been made to comply with recent changes to UK company law, FRS3 and FRS4 (Note 1a).

45 Approval of accounts

These accounts were approved by the Board of Directors on 28 February 1994.

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report below, 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 Company 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 the financial statements on the going concern basis unless it is not appropriate.

The Directors consider that in preparing the financial statements on pages 37 to 71, the Company has used appropriate accounting policies, consistently applied, save as disclosed in the notes to the financial statements, 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 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 Group and to prevent and detect fraud and other irregularities.

On behalf of the Board
R G Barber, *Secretary*

28 February 1994

We have audited the financial statements on pages 37 to 71.

Respective Responsibilities of Directors and Auditors

As described above, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 affairs of the Company and the Group as at 31 December 1993 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 Peat Marwick
Chartered Accountants/Registered Auditors
London

28 February 1994

The pro-forma statement of combined profit and loss accounts of the enlarged Group following the acquisition of the Midland Group is provided for illustrative purposes only. It has been restated from that published in the 1992 *Annual Report and Accounts* to take into account the changes in presentation and accounting policy explained in Notes 1 and 2 on the Accounts and is based on the consolidated audited financial information relating to HSBC Holdings and Midland for that year. Dividends from Midland to HSBC Holdings in respect of HSBC Holdings' previous investment in Midland have been eliminated and HSBC Holdings earnings have been presented on a fully-disclosed basis. An adjustment has been made to account for the full year's interest cost on the new HSBC Holdings bonds that were issued when the Final Offer was accepted in respect of all Midland shares other than those already held by the Group, and to account for the full exercise of all share options, and for a full year's interest receivable arising on the proceeds of exercised share options and the disposal of Thomas Cook Group Limited and Thomas Cook Inc. ('Thomas Cook'), net of the cost of cash purchases of Midland shares by HSBC Holdings since 8 May 1992. The interest was based on market rates applicable then. The income, expenses, profits and losses attributable to Thomas Cook have been eliminated.

	Year ended 31 December 1992		
	£m	HK\$m	US\$m
Interest receivable	11,523	135,142	17,457
Interest payable	(7,605)	(89,191)	(11,522)
Net interest income	3,918	45,951	5,935
Other operating income	2,906	34,082	4,403
Operating income	6,824	80,033	10,338
Operating expenses	(4,245)	(49,785)	(6,431)
Operating profit before provisions	2,579	30,248	3,907
Provisions			
— provision for bad and doubtful debts	(1,285)	(15,070)	(1,947)
— provision for contingent liabilities and commitments	(109)	(1,278)	(165)
Amounts written off fixed asset investments	(62)	(727)	(94)
Operating profit	1,123	13,173	1,701
Profit on disposal of fixed assets and investments	549	6,439	832
Income from associated undertakings	51	598	77
Profit on ordinary activities before tax	1,723	20,210	2,610
Tax on profit on ordinary activities	(313)	(3,671)	(474)
Profit on ordinary activities after tax	1,410	16,539	2,136
Minority interests			
— equity interests	(215)	(2,522)	(326)
— non-equity interests	(4)	(47)	(6)
Profit for the financial year attributable to shareholders	1,191	13,970	1,804
Earnings per ordinary share	48.8p	HK\$5.72	US\$0.74

Note:

Earnings per share is calculated by dividing earnings by the total number of HSBC Holdings shares in issue following the acquisition of Midland (assuming the exercise of all share options).

The Hong Kong and United States dollar figures shown above are for information only. They are translated from sterling at the rates of exchange ruling at 31 December 1992, which were as follows:

£1.00 = HK\$11.73

£1.00 = US\$1.52

1. Cash Dividends

Since 1 January 1993, when the Company became UK resident for UK taxation purposes, HSBC Holdings plc has had to account to the UK Inland Revenue for advance corporation tax when the Company pays a dividend.

For individual shareholders who are resident in the United Kingdom for taxation purposes and liable to UK income tax at the basic rate, no further tax liability will arise. Individual shareholders who are liable to UK income tax at the higher rate of 40 per cent will be taxed on the dividend, including the tax credit of 20 per cent. The tax credit will then be available for set-off against the higher rate liability. Individual UK-resident shareholders whose income falls within the lower rate band of income tax charged at 20 per cent will not be entitled to any tax credit repayment. Other UK-resident shareholders who are exempt from tax on their investment income will be entitled to repayment by the UK Inland Revenue of the tax credit in respect of dividends at the rate of 20 per cent.

Non-UK-resident shareholders are generally not entitled to any payment of the tax credit in respect of any dividend received. However, some shareholders who are not resident in the United Kingdom may be entitled to a cash payment from the Inland Revenue of a proportion of the tax credit in respect of dividends received. Such entitlement depends in general either upon the provisions of any double taxation agreement between the country of residence and the United Kingdom, or upon the shareholder being a Commonwealth (including Hong Kong) citizen or a citizen of the Republic of Ireland.

Dividends paid by HSBC Holdings plc are generally not subject to tax in Hong Kong.

2. Scrip Dividends

Information on the taxation consequences of the HSBC Holdings plc scrip dividend offered in lieu of the 1992 final dividend and the 1993 interim dividend was set out in the Secretary's letters to shareholders of 15 April 1993 and 7 October 1993. Information on the taxation consequences of the HSBC Holdings plc enhanced scrip dividend to be offered in lieu of the 1993 final dividend is set out in the Chairman's letter to shareholders of 8 April 1994. Shareholders should contact their usual professional advisers to obtain further information.

3. UK Capital Gains Tax

The computation of the capital gains tax liability arising on disposals of shares in the Company by shareholders subject to UK capital gains tax can be complex, partly dependent on whether the shares were purchased since April 1991, acquired in April 1991 in exchange for shares in The Hongkong and Shanghai Banking Corporation Limited, or acquired in July 1992 in acceptance of the offer for shares in Midland Bank plc.

Whilst it is not possible to give specific guidance on the tax calculation, it may be helpful to note that the market value of the relevant shares as at 31 March 1982 (before any adjustment to take account of subsequent rights and capitalisation issues) was:

The Hongkong and Shanghai Banking Corporation Limited	£1.36
Midland Bank plc	£3.23

For capital gains tax purposes, the acquisition cost for ordinary shares is adjusted to take account of subsequent rights and capitalisation issues. Further adjustments may be necessary where a shareholder has chosen to receive shares instead of cash dividends. Any capital gain arising on a disposal will also be adjusted to take account of indexation allowance.

If in doubt, shareholders are recommended to consult their professional advisers.

Category of Shareholders

	75p shares		HK\$10 shares		Combined total	
	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total
Individuals	66,898	87.56	88,974	95.66	155,872	92.01
Trustee of Midland Bank Group 1979 profit-share scheme*	1	—	—	—	1	—
Assurance and insurance companies	132	0.17	70	0.07	202	0.12
Commercial and industrial companies	3,192	4.18	1,551	1.67	4,743	2.80
Charities, local authorities, hospitals	206	0.27	76	0.08	282	0.17
Nominee companies	5,422	7.10	1,950	2.10	7,372	4.35
Pension funds and pension trusts	31	0.04	9	0.01	40	0.02
Unit trusts and investment trusts	519	0.68	382	0.41	901	0.53
	<u>76,401</u>	<u>100.00</u>	<u>93,012</u>	<u>100.00</u>	<u>169,413</u>	<u>100.00</u>
	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>	<i>Total number of shares held by each category</i>	<i>Percentage of total</i>
Individuals	74,037,664	9.01	342,170,323	20.05	416,207,987	16.46
Trustee of Midland Bank Group 1979 profit-share scheme*	5,335,309	0.65	—	—	5,335,309	0.21
Assurance and insurance companies	54,789,191	6.67	12,890,792	0.76	67,679,983	2.68
Commercial and industrial companies	84,951,549	10.34	100,346,877	5.88	185,298,426	7.33
Charities, local authorities, hospitals	12,063,385	1.47	5,646,989	0.33	17,710,374	0.70
Nominee companies	521,000,868	63.44	1,212,542,678	71.04	1,733,543,546	68.58
Pension funds and pension trusts	16,304,826	1.99	10,842,252	0.63	27,147,078	1.07
Unit trusts and investment trusts	52,813,894	6.43	22,389,552	1.31	75,203,446	2.97
	<u>821,296,686</u>	<u>100.00</u>	<u>1,706,829,463</u>	<u>100.00</u>	<u>2,528,126,149</u>	<u>100.00</u>

* The Trustee of the Midland Bank Group 1979 profit-sharing scheme holds ordinary shares on behalf of 19,888 participants

Ordinary Shares Held

	75p shares		HK\$10 shares		Combined total	
	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total	Number of shareholders	Percentage of total
1-100	14,186	18.57	14,795	15.91	28,981	17.11
101-400	14,017	18.34	16,843	18.11	30,860	18.22
401-500	4,146	5.43	3,430	3.68	7,576	4.47
501-1,000	15,685	20.53	13,570	14.59	29,255	17.27
1,001-5,000	24,073	31.51	30,184	32.45	54,257	32.03
5,001-10,000	2,191	2.87	6,625	7.12	8,816	5.20
10,001-20,000	686	0.90	3,774	4.06	4,460	2.63
20,001-50,000	465	0.61	2,305	2.48	2,770	1.64
50,001-200,000	491	0.64	1,086	1.17	1,577	0.93
200,001-500,000	214	0.28	232	0.25	446	0.26
500,001 and above	247	0.32	168	0.18	415	0.24
	<u>76,401</u>	<u>100.00</u>	<u>93,012</u>	<u>100.00</u>	<u>169,413</u>	<u>100.00</u>
	<i>Total number of shares held</i>	<i>Percentage of total</i>	<i>Total number of shares held</i>	<i>Percentage of total</i>	<i>Total number of shares held</i>	<i>Percentage of total</i>
1-100	380,576	0.06	523,931	0.03	904,507	0.03
101-400	3,406,176	0.41	4,184,455	0.25	7,590,631	0.30
401-500	1,876,028	0.23	1,529,039	0.09	3,405,067	0.13
501-1,000	11,543,434	1.40	9,864,056	0.58	21,407,490	0.85
1,001-5,000	50,128,086	6.10	70,234,249	4.11	120,362,335	4.76
5,001-10,000	14,812,112	1.80	46,779,980	2.74	61,592,092	2.44
10,001-20,000	9,580,993	1.17	52,502,912	3.08	62,083,905	2.46
20,001-50,000	15,238,354	1.86	69,870,199	4.09	85,108,553	3.37
50,001-200,000	51,201,728	6.23	100,075,885	5.86	151,277,613	5.98
200,001-500,000	67,190,349	8.18	72,887,133	4.27	140,077,482	5.54
500,001 and above	595,938,850	72.56	1,278,377,624	74.90	1,874,316,474	74.14
	<u>821,296,686</u>	<u>100.00</u>	<u>1,706,829,463</u>	<u>100.00</u>	<u>2,528,126,149</u>	<u>100.00</u>

	<i>Offices</i>		<i>Offices</i>
Angola			
Equator Bank Limited	1	Hongkong and Shanghai Banking Corporation (CI) Limited	1
Equator Trade Services Limited	1	HongkongBank International Trustee Limited	1
Argentina		James Capel (Channel Islands) Limited	1
Midland Bank plc	1	Lion International Management Limited	1
Samuel Montagu & Co. Limited	1	Midland Bank plc	12
<i>Banco Roberts S.A.</i>	30	Midland Bank International Finance Corporation Limited	2
Australia		Midland Bank Trustee (Guernsey) Ltd	1
HongkongBank of Australia Limited	7	Midland Bank Trustee (Jersey) Ltd	1
HSBC Asset Management Australia Limited	2	Chile	
James Capel Australia Limited	3	Hexagon Inversiones y Servicios Limitada	1
Wardley James Capel Corporate Finance Limited	3	Investment Management Co. Chile SA	1
<i>The Cyprus Popular Bank Limited</i>	3	Midland Bank plc	1
<i>Nevitts Limited</i>	8	Midland Servicios Financieros Chile SA	1
<i>Phillips Henderson Ward Limited</i>	1	Samuel Montagu & Co. Limited	1
<i>Shadforth's Limited</i>	3	China, People's Republic of	
Bahamas		Hang Seng Bank Limited	3
The British Bank of the Middle East	1	HongkongBank	9
Equator Advisory Services Limited	1	Wardley Shipping Services Limited	1
Equator Bank Limited	1	Colombia	
Equator Trade Services Limited	1	Midland Bank plc	1
Hang Seng Bank (Bahamas) Limited	1	Samuel Montagu & Co. Limited	1
HongkongBank	1	Cook Islands	
HongkongBank (Bahamas) Limited	1	HongkongBank International Trustee Limited	1
Hongkong Shanghai (Shipping) Limited	1	Hongkong Bank Trustee (Cook Islands) Limited	1
HSBC Asset Management Bahamas Limited	1	Cyprus	
Wardley International Bank Limited	1	Gibbs Hartley Cooper Limited	1
Wardley Limited	1	Wardley Cyprus Limited	1
Bahrain		<i>Cyprus Popular Bank (Finance) Limited</i>	1
The British Bank of the Middle East	4	<i>The Cyprus Popular Bank Limited</i>	128
HongkongBank	1	<i>Demonax Computer Services Limited</i>	1
Midland Bank plc	1	<i>Laiki Factors Limited</i>	1
Bermuda		<i>Laiki Insurance Co Limited</i>	1
Gibbs Harnett & Richardson International Limited	1	<i>Laiki Investments Limited</i>	1
HSBC Life (International) Limited	1	<i>Popular Bank Computers Limited</i>	1
Brazil		Czech Republic	
HongkongBank	1	Samuel Montagu Financial Services s.r.o.	1
Midland Bank plc	1	Egypt	
Midland Holding Participação, Administração e Representações Limitada	1	<i>Egyptian British Bank S.A.E.</i>	3
Samuel Montagu & Co. Limited	1	Finland	
<i>Banco HKB SA</i>	1	Samuel Montagu & Co. Oy	1
Brunei Darussalam		France	
HongkongBank	9	James Capel S.A.	1
Mortgage And Finance Berhad	1	Midland Bank S.A.	1
Canada		Samuel Montagu & Cie	1
Hongkong Bank of Canada	109	Germany	
Wardley Canada Inc	1	HongkongBank	1
<i>BBN James Capel Inc.</i>	4	Internationale Kapitalanlagegesellschaft GmbH	1
Cayman Islands		James Capel & Co. Limited	1
HongkongBank International (Cayman) Limited	1	Trinkaus & Burkhardt Immobilien GmbH	1
HongkongBank International Trustee Limited	1	Trinkaus & Burkhardt KGaA	8
Midland Bank Trust Corporation (Cayman) Ltd	1	Trinkaus Capital Management GmbH	1
<i>Rofin International Bank and Trust Company</i>	1	Trinkaus Montagu Equity GmbH	1
Channel Islands		Greece	
BBME Trustee (Jersey) Limited	1	Midland Bank plc	4
Hongkong and Shanghai Bank Nominees (Jersey) Limited	1	Guam	
Hongkong and Shanghai Bank Trustee (Jersey) Limited	1	HongkongBank	1

Hong Kong	<i>Offices</i>	Japan	<i>Offices</i>
The British Bank of the Middle East	1	CM&M Futures (Singapore) Pte Limited	1
Carlingford Insurance Company Limited	8	HongkongBank	3
Carlingford Medical Insurance Limited	1	Hongkong International Trade Finance (Japan) KK	1
CM&M Futures (Singapore) Pte Limited	1	HSBC Asset Management Japan KK	1
Eltis Precision Printing Limited	1	Midland Bank plc	1
Gibbs Insurance Consultants Limited	1	Midland Global Securities Limited	1
Hang Seng Bank Limited	129	Wardley Limited	1
Hongkong & Shanghai Banking Corporation (Nominees) Limited	1	<i>James Capel Pacific Limited</i>	1
HongkongBank	233	Jordan	
HongkongBank International Trustee Limited	1	The British Bank of the Middle East	5
Hongkong Bank Trustee Limited	1	Kenya	
HSBC Asset Management Hong Kong Limited	1	Equator Advisory Services Limited	1
HSBC Life (International) Limited	1	Korea, Republic of	
HSBC Life Limited	1	HongkongBank	2
HSBC Private Equity Management Limited	1	James Capel & Co. Limited	1
HSBC Securities Hong Kong Limited	1	MidAval Asia Pte Ltd	1
James Capel Asia Limited	1	Lebanon	
Lion International Management Limited	1	The British Bank of the Middle East	3
Wardley Brokers Limited	1	Luxembourg	
Wardley Capital Limited	1	HSBC Bank (Luxembourg) S.A.	1
Wardley Corporate Finance Limited	1	HSBC Investment Funds Luxembourg S.A.	1
Wardley Data Services Limited	1	Trinkaus & Burkhardt (International) S.A.	1
Wardley Financial Services Limited	1	Macau	
Wardley Futures (H.K.) Limited	1	Carlingford Insurance Company Limited	1
Wardley Limited	1	HongkongBank	6
Wardley Nominees Limited	1	Malaysia	
Wardley Securities (H.K.) Limited	1	Hongkong Bank Malaysia Berhad	36
Wardley Shipping Services Limited	1	HSBC Finance (Malaysia) Berhad	5
Wayfoong Credit Limited	1	HSBC (Kuala Lumpur) Nominees Sdn Bhd	1
Wayfoong Finance Limited	1	HSBC (Malaysia) Trustee Berhad	1
Wayfoong Property Limited	1	James Capel & Co. Limited	1
<i>Arabian Gulf Investments (Far East) Limited</i>	1	Mauritius	
<i>Central Registration Hong Kong Limited</i>	1	HongkongBank	11
<i>Fortway Finance Limited</i>	1	Mexico	
<i>Hongkong and Shanghai Thomas Cook Limited</i>	1	James Capel Research Mexico S.A. de C.V.	1
<i>Wardley Nikko Management Limited</i>	1	Midland Bank plc	1
<i>Way Chong Finance Limited</i>	1	Samuel Montagu & Co. Limited	1
Hungary		Netherlands	
Samuel Montagu Financial Advisory and Securities Ltd	1	Van Meer James Capel N.V.	1
India		New Zealand	
The British Bank of the Middle East	2	HongkongBank	3
HongkongBank	21	Norway	
Indonesia		Samuel Montagu & Co. AS	1
HongkongBank	5	Oman	
PT Wardley James Capel Indonesia	1	The British Bank of the Middle East	4
Ireland		Pakistan	
Midland Bank plc	1	HongkongBank	2
Midland International Financial Services (Ireland) Limited	1	Panama	
Isle of Man		HongkongBank	2
Midland Bank plc	1	HongkongBank (Bahamas) Limited	1
Midland Bank Trust Corporation (Isle of Man) Ltd	1	Philippines	
Italy		HongkongBank	2
Banca Euromobiliare SpA	2	Wardley James Capel (Philippines) Inc.	1
Euromobiliare Montagu SpA	1		
Euromobiliare SpA	1		
Midland Bank plc	1		

The HSBC Group

Geographical Distribution of Offices (at 28 February 1994) (continued)

	Offices		Offices
Poland		United Kingdom	
Samuel Montagu Financial Services Sp.zo.o.	1	Antony Gibbs Benefit Consultants Limited	10
Qatar		The British Bank of the Middle East	1
The British Bank of the Middle East	2	Carroll McEntee & McGinley Incorporated	1
Russia		Equator Bank Limited	1
Midland Bank plc	1	Equator Trade Services Limited	1
Saudi Arabia		Forward Trust Limited	1
<i>The Saudi British Bank</i>	56	Gibbs Hartley Cooper Limited	17
Singapore		Greenwell Montagu Gilt-Edged	1
CM&M Futures (Singapore) Pte Limited	1	Griffin Factors Limited	1
Concord Leasing (Asia) Pte Limited	1	Honggroup Nominees Limited	1
Gibbs Insurance Brokers Singapore Pte Limited	1	HongkongBank	3
HKIT (Singapore) Limited	1	HongkongBank International Trade Finance Limited	1
HongkongBank	11	HSBC Asset Management Europe Limited	1
HongkongBank International Trustee Limited	1	HSBC Asset Management Limited	1
HSBC Asset Management Singapore Limited	1	HSBC Holdings plc	1
HSBC (Singapore) Nominees Private Limited	1	HSBC Unit Trust Management Limited	1
HSBC Trustee (Singapore) Limited	1	James Capel & Co. Limited	2
MidAval Asia Pte Ltd	1	James Capel Investment Services Limited	1
Midland Bank plc	1	Midland Bank plc	1,740
Wardley James Capel Singapore Pte Limited	1	Midland Bank Aval Limited	1
Wardley Limited	1	Midland Bank Trust Company Limited	18
Wayfoong Mortgage And Finance (Singapore) Limited	1	Midland Private Banking International	1
<i>Banking Computer Services Pte Limited</i>	1	Midland Life Limited	1
<i>Kay Hian James Capel Pte. Ltd.</i>	1	Montagu Private Equity Limited	1
Spain		Samuel Montagu & Co. Limited	1
James Capel-Midland Agencia de Valores S.A.	1	Samuel Montagu Private Bank	1
Midland Bank plc	2	Wardley Capital Limited	1
Sri Lanka		Wardley Shipping Services Limited	1
HongkongBank	5	<i>The Cyprus Popular Bank Limited</i>	5
Sweden		<i>The Saudi British Bank</i>	1
James Capel & Co. Limited	1	<i>UBAF Bank Limited</i>	1
Midland Bank plc	1	United States of America	
Samuel Montagu & Co. AB	1	Carroll McEntee & McGinley Incorporated	6
Switzerland		Concord Leasing, Inc.	8
The British Bank of the Middle East	1	Equator Advisory Services Limited	2
Guyertzeller Bank AG	2	Equator Bank Limited	1
James Capel & Co. Limited	1	Equator Limited	1
Trinkaus & Burkhardt (Schweiz) AG	1	Hang Seng Bank Limited	3
Taiwan		HongkongBank	16
HongkongBank	4	HSBC Asset Management Americas Inc.	1
James Capel Asia Limited	1	James Capel Incorporated	1
Midland Bank plc	1	Marine Midland Bank	313
Wardley James Capel Taiwan Limited	1	Marine Midland Business Loans, Inc.	10
Thailand		Marine Midland Leasing Corporation	1
HongkongBank	2	Marine Midland Mortgage Corporation	6
HSBC Finance & Securities (Thailand) Limited	1	Marine Midland Mortgage (USA), Inc.	2
James Capel Asia Limited	1	Marine Midland Realty Credit Corporation	1
Turkey		Marine Midland Securities, Inc.	2
Midland Bank AS	1	Marmid Life Insurance Company	1
United Arab Emirates		Midland Bank plc	1
The British Bank of the Middle East	8	Midland International Trade Services (USA) Corporation	1
Gibbs Gulf Insurance Consultants Limited	1	Public Financial Management, Inc.	9
Middle East Finance Company Limited	4	Samuel Montagu Inc.	1
		Venezuela	
		Midland Bank plc	1
		Vietnam	
		HongkongBank	2
		Zambia	
		Equator Advisory Services Limited	1

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Wardley Corporate Finance Limited
Wardley Holdings Limited
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**INVESTMENT BANKING —
ASSET MANAGEMENT**

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Facsimile: (613) 629 2979

**HSBC Asset Management Hong Kong
Limited**
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12/F, Bank of America Tower
12 Harcourt Road
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**HSBC Asset Management Europe
Limited**
**HSBC Unit Trust Management
Limited**
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PRIVATE BANKING

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Guyerzeller Bank AG
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Genferstrasse 6-8
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Facsimile: (1) 206 7397

**The Hongkong and Shanghai
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Telephone: (0534) 71460
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FINANCE

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UNITED STATES OF AMERICA
40 Richards Avenue
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Telephone: (203) 854-5454
Facsimile: (203) 838-4810

Forward Trust Limited
UNITED KINGDOM
145 City Road, London EC1V 1JY
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Facsimile: (071) 490 0993

Griffin Factors Limited
UNITED KINGDOM
21 Farncombe Road
Worthing, Sussex BN11 2BW
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Facsimile: (0903) 214101

Hang Seng Finance Limited
HONG KONG
83 Des Voeux Road Central
Telephone: 825 5111
Facsimile: 845 9301

HongkongBank International Trade Finance Limited
UNITED KINGDOM
1/F, St Magnus House
3 Lower Thames Street
London EC3R 6HA
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Facsimile: (071) 260 4829

HSBC Finance (Malaysia) Berhad
MALAYSIA
3/F, Plaza See Hoy Chan
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UNITED KINGDOM
10 Lower Thames Street
London EC3R 6AE
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Facsimile: (071) 623 6174

Mortgage And Finance Berhad
BRUNEI DARUSSALAM
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Mile 2 Jalan Gadong
Bandar Seri Begawan 3180
Telephone: (02) 427969, 427970
Facsimile: (02) 448474

Wayfoong Credit Limited
Wayfoong Finance Limited
HONG KONG
18/F, Leighton Centre
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Facsimile: 895 4845

Wayfoong Mortgage And Finance (Singapore) Limited
SINGAPORE
6 Claymore Hill
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Singapore 0922
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Facsimile: 7378997

INSURANCE, RETIREMENT BENEFITS, ACTUARIAL AND PERSONAL FINANCIAL SERVICES

Carlingford Insurance Company Limited
HONG KONG
40/F, Sun Hung Kai Centre
30 Harbour Road, Wanchai
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Facsimile: 827 7636

Gibbs Hartley Cooper Limited
UNITED KINGDOM
Bishops Court
27/33 Artillery Lane
London E1 7LP
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Facsimile: (071) 377 2139

HSBC Insurance Holdings Limited
UNITED KINGDOM
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Facsimile: (071) 247 7373

HSBC Life Limited
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Midland Life Limited
UNITED KINGDOM
Norwich House, Nelson Gate
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BULLION DEALING AND COMMODITY/BROKERAGE SERVICES

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Singapore 0104
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NY 10005
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Greenwell Montagu Gilt-Edged
UNITED KINGDOM
Thames Exchange
10 Queen Street Place
London EC4R 1BQ
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Facsimile: (071) 220 7113

PROPERTY

Wayfoong Property Limited
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SHIPPING SERVICES

Wardley Shipping Services Limited
HONG KONG
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TRUSTEE SERVICES

Hongkong and Shanghai Bank Trustee (Jersey) Limited
CHANNEL ISLANDS
HongkongBank Building
Grenville Street, St Helier, Jersey
Telephone: (0534) 606500
Facsimile: (0534) 606504

HongkongBank International (Cayman) Limited
CAYMAN ISLANDS
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Facsimile: (809) 949-9554

HongkongBank International Trustee Limited
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Midland Bank Trust Company Limited
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Chinese Translation

A Chinese translation of this *Annual Report and Accounts* is available on request from:

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