HSBC Holdings plc

Annual Report and Accounts 1995

A WORLD OF FINANCIAL SERVICES

HSBC

The HSBC Group

Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises more than 3,000 offices in 71 countries, operating under well-established names in the Asia-Pacific region, Europe, the Middle East and the Americas. The Group is strongly represented in the United Kingdom and continental Europe, where it has some 2,000 offices in 21 countries, and in the Asia-Pacific region with more than 600 offices in 20 countries.

With a dual primary listing on the London and Hong Kong stock exchanges, shares in HSBC Holdings plc are held by over 160,000 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, investment banking, private banking, trustee services, pension and investment fund management, treasury and capital markets services, consumer and business finance, securities and custody services, and insurance.

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Registered in England: number 617987

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Financial Highlights

1994		**1995**	*1995*	*1995*
£m	**For the year**	**£m**	*HK$m*	*US$m*
3,166	Profit before tax	**3,672**	*44,809*	*5,794*
2,053	Profit attributable	**2,462**	*30,044*	*3,885*
703	Dividends	**843**	*10,287*	*1,330*
	At year-end			
10,790	Shareholders' funds	**13,387**	*160,644*	*20,776*
18,098	Capital resources	**21,324**	*255,888*	*33,095*
147,834	Customer accounts and deposits by banks	**162,814**	*1,953,770*	*252,688*
201,518	Assets	**226,818**	*2,721,816*	*352,022*
125,823	Risk-weighted assets	**145,218**	*1,742,616*	*225,378*
Pence	**Per share**	**Pence**	*HK$*	*US$*
79.60	Earnings	**94.01**	*11.47*	*1.48*
76.84	Headline earnings	**93.89**	*11.46*	*1.48*
27.00	Dividends	**32.00**	*3.84**	*0.50**
414.04	Net asset value	**508.05**	*60.97*	*7.88*
	Number of ordinary shares in issue at year-end			
1,754m	HK$10	**1,775m**		
852m	£0.75	**860m**		
%	**Ratios**	**%**		
20.4	Return on average shareholders' funds	**20.7**		
1.14	Post-tax return on average assets	**1.28**		
	Capital ratios			
14.4	— total capital	**14.7**		
9.1	— tier 1 capital	**9.5**		
59.9	Cost:income ratio	**55.9**		

* *The dividends per share are translated at the closing rate. Shareholders who receive dividends in Hong Kong dollars received an interim dividend of HK112.5 cents per share. The proposed final dividend of 22.75 pence per share will, where required, be converted into Hong Kong dollars at the exchange rate on 17 May 1996.*

Five-Year Comparison

At year-end *(£m)*	1991*	1992*	1993	1994	**1995**
Share capital	1,120	2,054	2,111	2,090	**2,124**
Shareholders' funds	4,819	8,011	9,334	10,790	**13,387**
Capital resources	6,336	13,005	16,510	18,098	**21,324**
Customer accounts	59,996	119,674	128,843	128,707	**142,121**
Loans and advances to customers	35,196	93,111	97,753	98,795	**109,373**
Total assets	85,786	185,141	207,447	201,518	**226,818**
For the year *(£m)*					
Operating profit before provisions	1,326	2,024	3,588	3,060	**3,772**
Provisions for bad and doubtful debts	(529)	(905)	(1,158)	(275)	**(416)**
Pre-tax profit	920	1,465	2,584	3,166	**3,672**
Profit attributable to shareholders	611	1,027	1,806	2,053	**2,462**
Dividends	(221)	(472)	(594)	(703)	**(843)**
HK$/£ average exchange rate	13.749	13.664	11.582	11.853	**12.203**
Per ordinary share *(pence)*					
Earnings	37.26	51.74	71.13	79.60	**94.01**
Headline earnings	30.00	39.75	68.77	76.84	**93.89**
Dividends	13.57	19.00	23.50	27.00	**32.00**

* *Figures for 1991 and 1992 have been restated to reflect the change in accounting policy for the translation of the results of overseas branches and subsidiary and associated undertakings at average exchange rates, but have not been restated to reflect the UK reporting requirements applicable under Financial Reporting Standard 5, 'Reporting the Substance of Transactions'.*

Figures for 1991 have not been restated to reflect the UK 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'.

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Group Chairman's Statement

1995 was another record year for the HSBC Group. Profit attributable to shareholders rose by 20 per cent to £2,462 million (HK$30,044 million or 23 per cent).

Your Directors have recommended a final dividend of 22.75 pence per ordinary share which, together with the interim dividend of 9.25 pence, will make a total distribution of 32 pence per share in respect of 1995. The dividend, which is 18.5 per cent higher than in 1994 (16.7 per cent higher in Hong Kong dollar terms), is payable on 3 June 1996 in cash, in sterling or in Hong Kong dollars, with a scrip alternative.

Net interest income and other operating income, including dealing profits, grew in all geographic regions, and our costs were well contained.

Our activities in 1995 were punctuated by small acquisitions and by reshaping our operations to take full advantage of the benefits afforded by our size and scope.

Strong growth in the Asia-Pacific region contributed significantly to our success, but competition was fierce. Our expansion in China continued, with HongkongBank's Beijing office achieving full branch status and Hang Seng Bank opening its first branch, in Guangzhou.

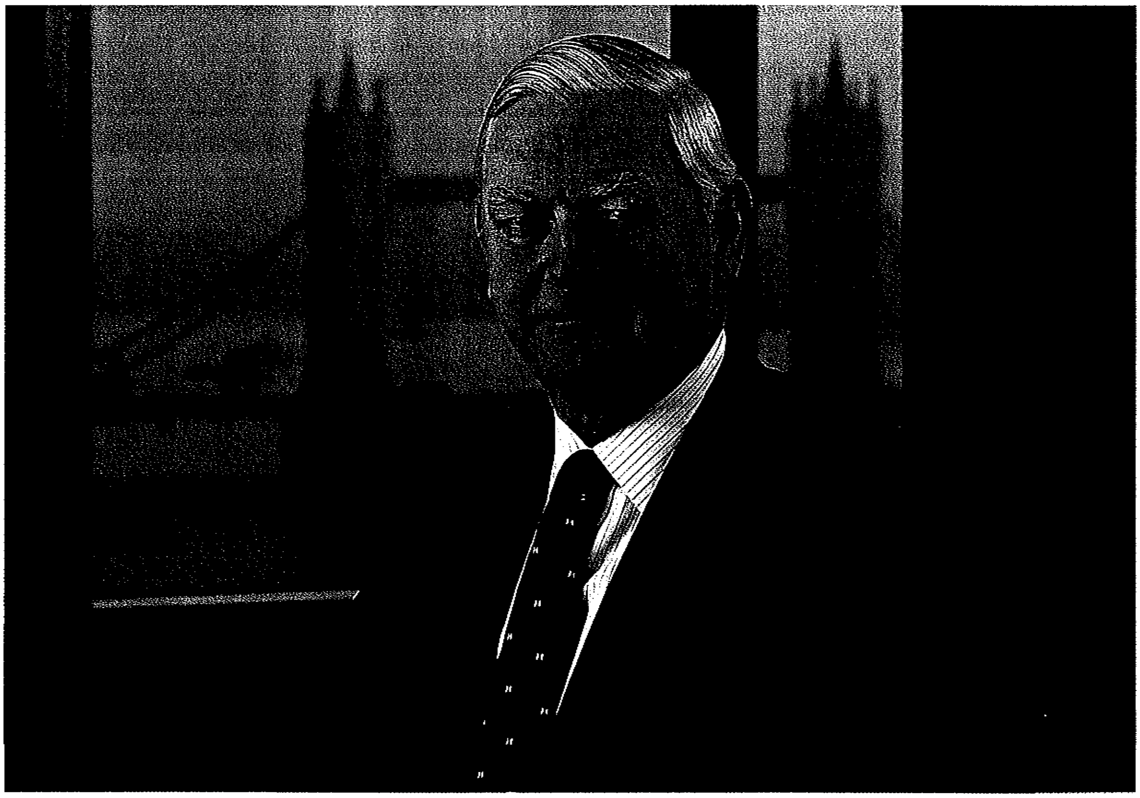
Hong Kong remained our centrepiece in Asia. Despite the slight decline in economic growth and partial interest-rate deregulation, both HongkongBank and Hang Seng Bank reported solid growth in operating profit. The Group's Asian investment banking arm, Wardley, assumed the HSBC identity as HSBC Investment Bank Asia.

In Thailand, HongkongBank launched the first issue by a foreign borrower in that country's domestic bond market and opened an office in Chon Buri, with another in Chiang Mai in February 1996.

Following the opening of Singapore's financial markets to eligible foreign fund managers, HSBC Asset Management expanded its operations there.

Our equity securities broker, HSBC James Capel, acquired seats on the stock exchanges in the Philippines, India and South Africa and launched a Hong Kong Futures Exchange floor operation. In Australia, it acquired 50 per cent of Thonemann Robertson Thompson.

In the Middle East, economic growth was modest, but The British Bank of the Middle East performed well.



A representative office in Jericho and an investment banking unit in Dubai were opened in 1995.

In the United Kingdom and Europe, growth was less robust than in Asia, but our businesses made progress despite competitive pressures. Midland Bank's UK operations, including its 24-hour telephone bank, First Direct, recorded a significant rise in operating profit after provisions.

The trial of Mondex, the electronic cash-on-a-card system Midland has been helping to develop, was launched in Swindon, England, while Wells Fargo began the first US pilot scheme in San Francisco. Other Group members will be launching test projects in 1996.

In continental Europe, business growth was particularly strong in Germany and good in Switzerland, Turkey, Greece and Spain, but unsatisfactory in France and Sweden. Midland opened a branch in Milan and, in March 1996, a new subsidiary in Yerevan, Armenia. Samuel Montagu's operations in Warsaw, Prague and Budapest were renamed HSBC Investment Services to reinforce their links with the Group.

In North America, economic growth in the United States was sluggish, but conditions in Canada were somewhat better. Our US holding company was renamed HSBC Americas, Inc., and Concord Leasing was combined with Marine Midland Bank's leasing business. Marine also acquired HongkongBank's six New York branches and United Northern Federal Savings Bank, which has two branches and a mortgage business, and will acquire 11 branches from East River Savings Bank in mid-1996.

To exploit growing trade flows between the western USA and the Asia-Pacific region, we established a joint venture with Wells Fargo Bank, Wells Fargo HSBC Trade Bank, into which HongkongBank's four Californian offices were merged.

In February 1996, we received US regulatory approval to underwrite and distribute debt and equity securities. The vehicle for that business, HSBC Securities, Inc., acquired James Capel Inc. and a research firm, HSBC Washington Analysis.

Hongkong Bank of Canada acquired BBN James Capel Inc. and Metropolitan Trust Company, expanded into discount brokerage and mortgage investment services and began to develop telephone banking similar to Midland's First Direct.

In Latin America, Midland Bank acquired the two Panamanian branches of HongkongBank and a 6.14 per cent stake in Banco Bamerindus do Brasil, one of Brazil's largest banks.

HSBC Group members continued to demonstrate community support through charitable and environmental activities. HongkongBank was particularly active, conducting ecological surveys in Indonesia, animal conservation projects in China and volunteer efforts to save coral reefs in Singapore and launching a fifth series of Care-for-Nature postage stamps. Hongkong Bank Malaysia sponsored an environmental quiz for secondary schools and participated in the Turtle Awareness Campaign. The Hongkong Bank Foundation continued its education programmes, built a home for the elderly in Hong Kong and participated in many other community projects.

HSBC Holdings contributed to a variety of organisations, including the British Red Cross, Royal Geographical Society, Corporate Action Trust (for spinal injuries) and the Macmillan Fund. In September, we announced funding for the British Museum to establish the HSBC Money Gallery, which will open in January 1997. Midland Bank formulated a new sponsorship and donations policy focusing on education, sport, popular culture and economic regeneration, and was one of the top 15 corporate givers to community-led activities in the UK.

The Group's success was marked by numerous awards. Samuel Montagu received the Queen's Award for Export Achievement. *Euromoney* named HongkongBank as Hong Kong's best domestic bank and Hongkong Bank Malaysia as Malaysia's best foreign bank. First Direct received the Unisys/*Sunday Times* Customer Champion Award, and Marine Midland was *Money Magazine's* best bank in New York State. For the third successive year, Hang Seng Bank was named Asia's best performing bank by Thomson BankWatch, one of several awards it received in 1995. The People's Bank of China rated HongkongBank first in export settlements and the most profitable foreign bank in Shanghai.

None of these achievements would have been possible without the dedication and loyalty of our

101,000 staff. I thank them for their diligence and commitment in a climate of cost consciousness and stiff competition.

To provide the best products and service, we must have highly-trained staff capable of competing locally and internationally, and the special section of our report this year describes our activities in this field.

In March 1995, we made the second offer to staff under our award-winning Savings-Related Share Option Scheme, and about 30,000 employees in more than 40 countries now participate.

In February 1995, Sir Adrian Swire joined the Board. In November, after several years of dedicated service to Midland and HSBC Holdings, Richard Delbridge retired as an executive director. He was succeeded by Douglas Flint, who joined us from KPMG. In March 1996, Charles Miller Smith, Chief Executive of ICI, and Carl Reichardt, former Chairman of Wells Fargo & Company, joined the Board. Geoffrey Maitland Smith, who was appointed a non-executive director in 1993, will step down from the Board at our Annual General Meeting on 31 May 1996. We thank him for his wise counsel.

Also at our Annual General Meeting, John Gray will retire after a distinguished career in the Group spanning 44 years, most recently as Chairman of HongkongBank. We thank John for his hard work and dedicated service and wish him a long and happy retirement. He will be succeeded by John Strickland, currently Executive Director Services. David Eldon succeeded John Gray as Chief Executive Officer of HongkongBank on 1 January 1996.

Many factors in 1996 could affect the world's financial markets: a number of countries are holding national elections; the European Union is convening the Intergovernmental Conference to consider further integration; China is continuing its economic reforms, while Hong Kong prepares for the change in sovereignty in 1997; and Japan's banking industry continues to address bad debt problems.

In an environment where margins remain under competitive pressure, our challenge will be to keep revenue growing faster than costs. We continue to invest in training and technology, and with the commitment of our staff in 71 countries, we shall strive to sustain customer and shareholder satisfaction throughout 1996.

Sir William Purves, *Group Chairman*

Group Chief Executive's Report

Quality of profits and productivity gains were the hallmarks of our performance.

Our pre-tax profit of £3,672 million in 1995 was 16 per cent greater than 1994. After a tax charge of £897 million, 8 per cent higher than 1994, and after deducting minority interests, our net profit attributable to our shareholders was £2,462 million. Earnings per share rose by 18 per cent to 94 pence.

Our productivity improved in 1995, and our cost-to-income ratio declined by 4 percentage points to 55.9 per cent, as revenues rose faster than costs. We retained 66 per cent of net profits to support future growth in our business, to invest in new sources of income and to maintain efficiency.

The Group's tier 1 capital ratio was strong at 9.5 per cent. Capital strength gives confidence to our depositors around the world, as well as to our regulators and rating agencies. It also enables us to take advantage of opportunities in the market-place.

A detailed review of the performance of our major subsidiaries and lines of business follows my Report.

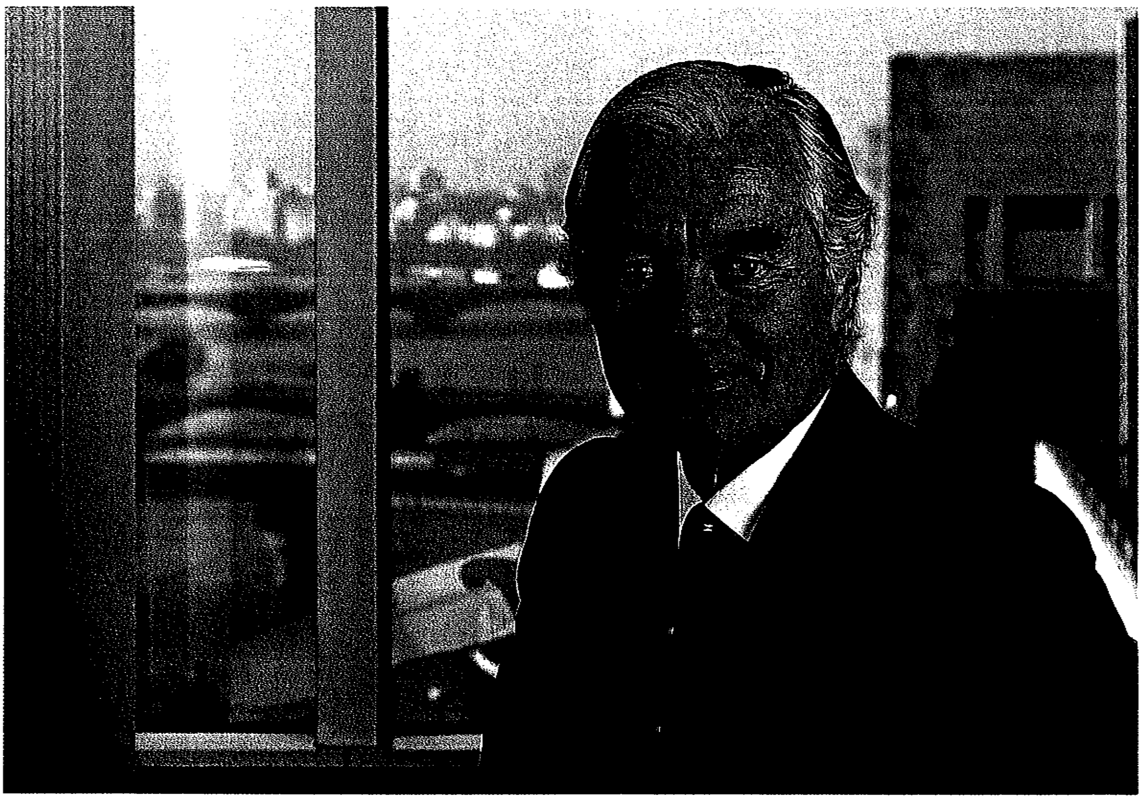
Results Commentary

Operating profit before provisions improved by 23 per cent to £3,772 million. This was due to 11 per cent growth in net interest income, which accounts for 60 per cent of our total operating income. This resulted from a larger volume of loans and an improvement in the overall net interest margin.

Our dealing profits recovered well from £261 million to £533 million. Our proprietary trading declined and we increased our business with customers. There were fewer extraordinary sources of income and there was more balance geographically.

Our operating expenses increased by 5 per cent. We maintained good control of overall staff numbers, but allowed growth where we were attracting new customers. We invested in new products and we increased marketing efforts to gain market share, notably in Hang Seng Bank and Midland Bank.

The trends in the quality of our loan portfolio were positive during 1995; non-performing loans declined by 17 per cent, although the bad and doubtful debt charge increased to £416 million, or 0.37 per cent of customer advances. This included £130 million in additional general provisions.



In our customer lending during the year, we experienced growth of 10 per cent which was well-spread geographically, with the fastest rate of 18 per cent being in Asia-Pacific outside Hong Kong.

At the year-end, the Group's total assets had risen by 13 per cent to £226.8 billion. The distribution of our assets continued to shift towards Asia with a slight decline in the UK, while the level in North America remained constant.

Technology

Since the late 1960s, our strategy has been to develop our own computer systems to support the core activities of our Group. We attach great importance to having common systems around the world wherever possible. These enable us to impose consistent accounting and operating practices and to gain economies of scale.

We have four main systems development centres: Hong Kong, Sheffield, Buffalo and Vancouver.

In addition to our large mainframe computers, we use mini-computers operating a common system called HUB (HongkongBank Universal Banking system). During 1995, HUB was installed in Armenia, Canada, the Channel Islands, the People's Republic of China, Greece, Italy, Lebanon, Saudi Arabia, Spain and Vietnam.

Our Group system for our treasury dealing rooms is called TREATS (Treasury Trading System). It was installed in Istanbul, Jersey, Madrid, Manila and Singapore during the year. We are improving our systems continually, and upgraded versions of TREATS were installed in 17 countries in 1995.

Hexagon is our personal computer-based electronic banking system. It marked its 10th anniversary in November 1995 by gaining one of its largest customers, the Hong Kong Government's Treasury Department. Hitherto, Hexagon has been used mainly by corporate customers worldwide. Now, to make it an attractive way for our personal customers to conduct their banking with us, we signed an agreement early in 1996 with Microsoft to enable those outside the USA to use Microsoft's MONEY software in conjunction with Hexagon. We have been able to deliver home banking to personal clients for more than 10 years, but only recently has there been sufficient interest on the part of our personal customers for us to broaden our offering of the innovative Hexagon product.

Global and Local Names

The HSBC Group comprises some of the best known names in commercial banking. Indeed, we believe these 'brand' names have considerable value in the eyes of our customers in various countries around the world.

Banks in our Group have operated in Hong Kong and the rest of Asia, the UK, USA, Canada and the Middle East for many years. They are viewed by their customers as domestic banks and their names have come to represent quality of service and excellent value.

However, some of our important businesses operate in international markets, including investment banking, treasury and capital markets, securities trading and fund management. They serve customers around the world and around the clock and they are increasingly coming to be known under the HSBC identity.

We believe in retaining local names for local businesses and in using 'HSBC' to brand our global businesses.

We have developed into one of the world's largest financial services organisations by following our customers and the flow of money and goods around the world.

What you cannot see from this *Annual Report and Accounts* is the 'business glue' which binds our Group together. Let me illustrate some of the intra-Group business flows which afford our customers the security, confidence and efficiency of doing business with *one* financial services family around the world.

- HongkongBank directs 70 per cent of its export business to Group offices around the world;
- 30 per cent of HongkongBank Singapore's deposits are sourced through other members of the Group;
- 65 per cent of Midland Bank's trade business is directed to other Group members;
- Midland has built a large residential mortgage portfolio in the UK from Group customers from around the world;
- Marine Midland Bank is the largest foreign-owned user of the Clearing House International Payments System (CHIPS) in New York. The Group accounts for 80 per cent of its business, averaging more than us$80 billion per day;
- 40 per cent of HSBC Asset Management's funds under management are derived from Group sources;

- A significant percentage of Hongkong Bank of Canada's deposits and loans is generated by customers of other Group members;
- Hongkong Bank of Canada directs substantial commercial business to Group members in the USA, both in New York State and Washington State;
- Members of the Group in 10 countries account for nearly us$1 billion of non-resident deposits held by our operations in India;
- In 1995, our GlobalAccess cardholders made over 1.1 million cross-border transactions within our proprietary network of over 3,900 automated teller machines;
- 90 per cent of Hongkong Bank Malaysia's securities safe custody business was referred by other parts of the Group;
- Midland introduced more than 800 business customers to our insurance arm, HSBC Gibbs, who, in turn, advises other Group operations around the world on offering insurance services to customers.

These are but a few examples of how members of our Group, working together, generate value for our customers and shareholders.

We face interesting challenges as banks compete internationally to meet the ever-changing needs and expectations of their customers. In Europe and North America, commercial banking is a comparatively mature business where the challenge is to increase market share and productivity. In other parts of the world, particularly Asia, the market for banking is growing and the challenge is to make sure that we have the trained people and proper systems in place to handle that growth.

A strong investment banking arm is vitally important as our customers around the world seek innovative market solutions to their financial needs. We are fortunate to have an excellent team who are leaders in the area of securities underwriting and trading backed by quality research, venture capital, project finance and private banking.

In recent years our expansion has enabled us to balance the geographical and business distributions of our profits and our assets. This helps to insulate us from shifting economic cycles around the world: we have benefited from growth in Asia while conditions in Europe were slower. Our diversity helps to deliver stable earnings flows despite the changing conditions in individual countries.

Of course, financial services is a business with inherent risks, and effective credit and market risk management remains one of our highest priorities. Our risk-management procedures are described on pages 40, 42-45 and 47.

In addition, our business is regulated in every market in which we operate. The Group has continued to comply with the operative provisions of the Code of Best Practice in the Report of the Committee on the Financial Aspects of Corporate Governance (the Cadbury Committee). Following the issuance of guidance for directors of listed companies by the Institute of Chartered Accountants, the Group has complied with the provisions of the Code on Internal Financial Controls. We have also complied with new requirements introduced into the listing rules of the London Stock Exchange in response to the recommendations of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury and with new requirements introduced into the listing rules of the Hong Kong Stock Exchange. Compliance with the European Union's Capital Adequacy Directive is discussed on pages 18 and 40.

Looking Ahead

1996 will be marked by continuing changes and challenges. But change brings uncertainty, which is not easy for our staff. Nevertheless, they have worked extremely hard in difficult circumstances to produce consistently good results for our shareholders. I am grateful to my colleagues for their dedication to improving customer service and financial performance.

One of the most satisfying parts of my job is to participate when staff from all over the world congregate in our Management Training College to study together, to share experiences and to build a multicultural network of business and customer service contacts. This is one of the many ways we are working to achieve *A World of Financial Services.*

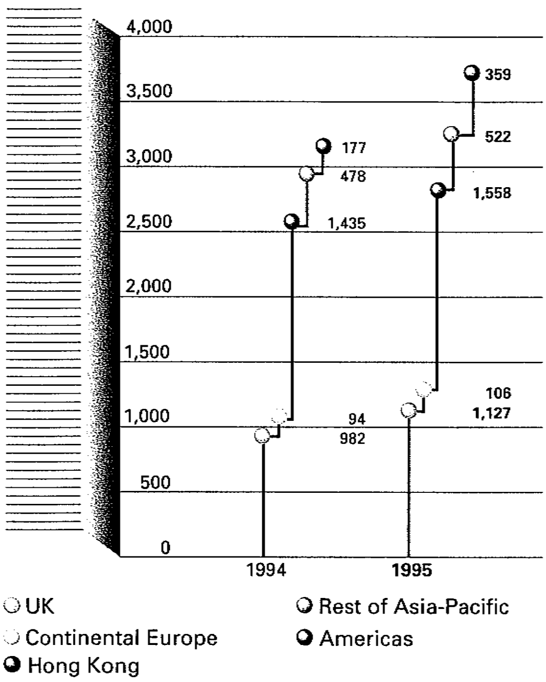
J R H Bond, *Group Chief Executive*

Geographical performance

While Hong Kong still accounted for over 40 per cent of the Group's pre-tax profits, the proportion of pre-tax profits earned in the Americas increased to 10 per cent as a result of higher margins and a significant improvement in the cost:income ratio.

The Group's operations in the United Kingdom made pre-tax profits of £1,127 million, an increase of £145 million compared with 1994, with improved net interest income and operating income. HSBC Holdings plc reported significant growth in net interest income, mainly resulting from the investment of dividends received from subsidiaries. Midland Bank's net interest income benefited from higher mortgage and current account balances and increased corporate lending. In the UK, other operating income rose by £187 million, with customer-driven business in a more stable bond market leading to a recovery in dealing profits to £186 million, while volume growth in First Direct, Griffin Factors and Midland's cards business resulted in a £47 million increase in net fees and commissions.

Geographical distribution of pre-tax profits (£m)



Pre-tax profits from the Group's operations in continental Europe of £106 million were 13 per cent higher than 1994, mainly because of higher dealing profits.

Pre-tax profits in Hong Kong increased by £123 million to £1,558 million. Net interest income rose by £229 million as encouraging growth in loans and advances and higher yields on net free funds more than offset the increased costs associated with the partial deregulation of Hong Kong dollar deposit interest rates. A recovery in dealing profits and increased fees and commissions from higher transaction volumes also contributed to the overall improvement in the pre-tax profit in Hong Kong, but disposals of equity investments by Hang Seng Bank were £97 million lower than in 1994.

In the rest of Asia-Pacific, pre-tax profits rose to £522 million, up by £44 million on 1994. Encouraging growth in net interest income was reported in most principal areas of business, particularly Thailand, India, Taiwan, Malaysia and the Middle East. Good growth in card services and trade finance fee income resulted in net fee income rising by £29 million. Doubtful debt charges rose by £57 million, reflecting higher specific charges in a number of locations accentuated by lower recoveries.

In the Americas, pre-tax profits were £359 million, up by £182 million over 1994. Net interest income increased, due to improved margins and a lower level of non-performing loans. A substantial reduction in costs was achieved by HSBC Americas, Inc., mainly because of lower operating expenses in Concord Leasing, the full benefit of previous disposals of surplus space and the non-recurrence of the 1994 expenses relating to the voluntary retirement programme.

Review of the Group *(continued)*

Attributable profit by subsidiary and by line of business

£m	1995	1994
i By subsidiary		
Hang Seng Bank Limited	655	626
less: minority interests	(252)	(241)
	403	385
HSBC Investment Bank Asia Holdings Limited	53	51
HongkongBank and other subsidiaries	907	775
HongkongBank and subsidiaries	1,363	1,211
Midland Bank plc	610	595
— preference dividend	(22)	(13)
	588	582
HSBC Americas, Inc.*	185	22
— preference dividend	(4)	(4)
	181	18
The British Bank of the Middle East	58	51
Hongkong Bank Malaysia Berhad	55	44
Hongkong Bank of Canada	47	41
Other†	170	106
Group profit	2,462	2,053
ii By line of business		
Commercial banking	2,275	1,843
Investment banking	171	210‡
Provision release following the British & Commonwealth settlement (after tax)	16	—
Group profit	2,462	2,053

** Formerly Marine Midland Banks, Inc. On 1 January 1995, Concord Leasing became a subsidiary of HSBC Americas, Inc. Comparative figures have been restated.*

† The 'other' amounts above are made up of two major components: those entities within HSBC Investment Banking not reported within one of the major subsidiaries (1995: £87 million; 1994: £120 million) and entities within the holding company subgroup, comprising HSBC Holdings plc and its immediate subsidiaries (1995: £36 million; 1994: £53 million loss). The balance of £47 million (1994: £39 million) is made up of several smaller subsidiaries and associates.

‡ On 1 January 1995, the Group's Asian and European offshore private banking businesses became a division of HSBC Investment Banking. Comparative figures have been restated accordingly.

Commercial Banking

The Hongkong and Shanghai Banking Corporation Limited

Most economies in the Asia-Pacific region expanded robustly in 1995, driven by strong foreign (particularly intra-Asian) direct investment, rising domestic demand, expanding trade and further market liberalisation. Although the rapid pace of expansion in Indonesia, Malaysia and Thailand raised concerns about the possible overheating of their economies, consolidation in China, Hong Kong and Taiwan pointed to a more sustainable rate of growth. Strong growth for the region is expected in 1996, albeit at a slower pace than in 1995.

In Hong Kong, following a relatively strong performance in the first quarter of 1995, the economy slowed for the remainder of the year. Real gross domestic product growth eased to 4.6 per cent from 5.4 per cent in 1994. External trade and infrastructure-related development continued to fuel expansion. The momentum was constrained, however, by a weak property market and sluggish consumer spending. Inflation rose to 8.7 per cent, compared with 8.1 per cent in 1994. Unemployment also rose after several years of a tight labour market, reaching a 10-year high of 3.6 per cent at the year-end.

In 1995, HongkongBank and its subsidiaries reported an attributable profit of HK$16,627 million, an increase of 16 per cent on HK$14,348 million in 1994. The 1994 result excluded an exceptional profit of HK$4,559 million from the sale in January 1994 of HongkongBank's Malaysian banking business to a fellow Group member. Return on shareholders' funds rose to 29.2 per cent from 28.6 per cent (excluding the exceptional item).

Financial highlights*	1995 £m	1995 HK$m	1994 £m	1994 HK$m
Share capital and reserves	**5,653**	**67,840**	4,247	51,339
Profit before taxation	**1,925**	**23,489**	1,750	20,744†
Profit attributable to shareholders	**1,363**	**16,627**	1,211	14,348†
Dividends paid and proposed	**860**	**10,500**	1,189	14,090
Total assets	**97,710**	**1,172,516**	89,245	1,078,978
Return on average shareholders' funds (%)	**29.2**		28.6†	
Total capital ratio (%)	**15.1**		14.9	

** Figures for HongkongBank and its subsidiaries.*

† On 1 January 1994, HongkongBank sold its Malaysian banking business to a fellow subsidiary of HSBC Holdings plc. The 1994 profit figures shown above exclude the exceptional gain of HK$4,559 million arising from that sale. Dividends for 1994 included a special dividend of HK$5,090 million in respect of the profit on, and reserves realised as a result of, the sale of the Malaysian banking business.

Total assets increased by 9 per cent from HK$1,079 billion in 1994 to HK$1,173 billion in 1995, despite the slow-down in Hong Kong's economy. Advances to customers and other accounts rose by 8 per cent, or HK$43 billion, mainly reflecting growth in residential mortgages and in trade-related lending. Other corporate lending remained relatively subdued. Cash and short-term funds rose by 10 per cent as deposit growth exceeded loan growth.

Operating income was HK$38,133 million in 1995, an increase of 18 per cent on HK$32,435 million in 1994. The cost:income ratio improved to 40.2 per cent, compared with 42.7 per cent in 1994, reflecting a strong recovery at HSBC Markets, the bank's foreign exchange, treasury and capital markets operation. The net charge for bad and doubtful debts was HK$647 million, compared with a net release of HK$70 million in 1994. New specific provisions were slightly higher than in 1994, with reduced levels of releases of provisions. Most of the increase in the net specific charge was in the Asia-Pacific region outside Hong Kong.

HongkongBank itself reported a profit after tax of HK$14,895 million, an increase of 23 per cent on HK$12,097 million in 1994, excluding the exceptional profit on the 1994 sale of its Malaysian banking business.

Hong Kong continued to be the major contributor to HongkongBank's earnings, recording satisfactory results in an environment marked by increased competition and further deregulation of interest on retail deposits. Narrower interest-rate spreads on deposits were offset by an increase in the value of net free funds resulting in a slight increase in the net interest margin.

Despite a slow-down in re-export growth from China in the second half of the year, the trade finance business performed well. Corporate banking produced satisfactory results, with lending picking up in the third and fourth quarters.

In the retail sector, the bank continued to develop products aimed at higher-income customers.

Increased emphasis was placed on providing personal financial services, such as HSBC Group unit trusts and insurance products. In early 1996, the bank introduced a computer-based personal financial analysis service to enable bank staff to help customers analyse their financial needs and goals and to recommend investment strategies. Satisfactory growth was registered in the credit card business, despite Hong Kong's weak retailing environment.

In China, HongkongBank performed satisfactorily despite greater competition, tight credit conditions and the expected slowing of the economy. The Beijing representative office was upgraded to full branch status in August and, since the year-end, approval has been granted to establish a representative office in Chengdu, bringing the network to a total of six branches and four representative offices. Enhanced computer systems and additional corporate lending personnel strengthened the network.

Elsewhere in the Asia-Pacific region, most operations performed well, with expansion of retail and treasury activities in India, Indonesia, the Philippines, South Korea, Taiwan and Thailand. Securities custody operations continued to grow, although overseas interest in the emerging equity markets in 1995 was weak. The bank contained costs despite pressure on salaries resulting from strong competition for skilled staff.

In Singapore, the bank faced challenging market conditions, characterised by strong competition and continued pressure on margins. The results, which were adversely affected by reduced spreads in money market activities and an increased general provision for bad and doubtful debts, were below the strong performance achieved in 1994.

Strong profit growth was recorded in India, the Philippines, South Korea and Taiwan. Good results were also recorded in Thailand, notwithstanding an increase in provisions. The bank was the first foreign borrower in that country's domestic debt market with a Bt3 billion five-year bond issue, and it opened provincial international banking facilities in Chon Buri in July 1995 and in February 1996 in Chiang Mai. A new representative office was opened in Yangon, Myanmar, and the Ho Chi Minh City, Vietnam, representative office was upgraded to a branch. Since the end of 1995, new branches have been established in New Zealand, the Philippines and Sri Lanka, with further extensions of the network planned for later in 1996.

Outside the Asia-Pacific region, the performance of the bank's operations in the United Kingdom improved, mainly due to debt recoveries and significantly better results from the bank's treasury business. As part of the rationalisation of operations outside Asia, and to achieve better operating synergies, the bank reduced its presence in the United States to a wholesale business, and transferred its six New York City retail branches to Marine Midland Bank. In California, two branches and two representative offices were transferred to Wells Fargo HSBC Trade Bank, and the bank's two branches in Panama were transferred to Midland Bank.

HongkongBank's subsidiaries continued to produce satisfactory results. In Hong Kong, **Hang Seng Bank Limited** (61.51 per cent owned by HongkongBank) reported a 26 per cent increase in operating profit, aided by continued growth in deposits and advances. Advances to customers and other accounts increased by 17 per cent. Hang Seng Bank's attributable profit rose by 8 per cent to HK$7,984 million, reflecting a lower level of disposals of long-term investments.

HSBC Investment Bank Asia Holdings Limited reported an attributable profit of HK$643 million, compared with HK$601 million in 1994, reflecting increased fee income from corporate finance and structured finance activities.

HongkongBank's insurance subsidiaries performed well. The bank's insurance businesses in Hong Kong were renamed to include the HSBC initials to achieve a more consistent identity and market presence: **HSBC Insurance Limited** (formerly Carlingford Insurance Company Limited), **HSBC Medical Insurance Limited** (Carlingford Medical Insurance Limited), **HSBC Lombard Insurance Limited** (Lombard General Insurance Limited) and **HSBC Insurance (International) Limited** (Lombard Insurance Company Limited).

In Australia, **HongkongBank of Australia Limited** reported a small increase in attributable profit to A$13 million, compared with A$12 million in 1994, helped by the good performance of its retail business.

Wayfoong Finance Limited, which specialises in hire purchase, leasing and mortgage finance, continued to be adversely affected by interest-rate deregulation and soft demand for vehicle financing. HongkongBank's other finance subsidiaries, **Wayfoong Mortgage And Finance (Singapore)**

Limited in Singapore and **Mortgage And Finance Berhad** in Brunei, performed well.

Hang Seng Bank Limited

Hang Seng Bank Limited (Group interest 61.51 per cent) and its subsidiaries reported an operating profit of HK$7,895 million for 1995, an increase of 26 per cent on HK$6,284 million in 1994. Pre-tax profit increased by 6 per cent to HK$9,025 million. Profit attributable to shareholders was HK$7,984 million, an increase of 8 per cent on 1994. The overall result was affected by a much smaller contribution from profit on the disposal of fixed assets and investments.

Operating profit benefited from impressive growth in net interest income, fees and commissions. Net interest income increased as a result of encouraging growth in advances to customers and a higher yield on interest-free funds. There was also an improvement in the net interest margin through better management of both the return on assets and the cost of funds and despite the partial deregulation of Hong Kong dollar deposit interest rates. The increase in fees and commissions receivable was mainly derived from trade finance, credit facilities, card services and account services.

Advances to customers, net of provisions, rose to HK$134,788 million, an increase of 17 per cent on HK$115,532 million in 1994. Trade finance and residential mortgages, including those under the Hong Kong Government's Home Ownership Scheme, were the main sources of growth. The advances-to-deposits ratio rose to 47.1 per cent, compared with 44.8 per cent at year-end 1994, and the quality of the bank's loan book remained high. The ratio of non-performing advances improved from 0.7 per cent of total advances in 1994 to 0.5 per cent.

Despite a rise in operating expenses due to annual pay awards, increased staffing and higher marketing expenditures, solid income growth helped to improve the cost:income ratio to 27.2 per cent, compared with 28.7 per cent in 1994.

Hang Seng Bank continued to strengthen its market position through innovative retail deposit products, mortgages and investment services. The Hang Seng Index Fund, which aims to track the performance of the Hong Kong stock market, was launched and the Bank-in-One integrated account introduced to promote new telephone banking services. **Hang Seng Life Limited**, a joint venture with a fellow member of the HSBC Group, was established to tap the growing retail life insurance and retirement plan markets.

Four new branches were opened in Hong Kong, bringing the total to 138. Hang Seng Bank opened its first branch in China — in Guangzhou. In line with the policy of focusing its business in Hong Kong and China, the bank closed its branch in San Francisco in October 1995, and is finalising the transfer of its two New York City branches to Marine Midland Bank.

Financial highlights	**1995**		1994	
	£m	**HK$m**	£m	HK$m
Share capital and reserves	**3,586**	**43,031**	2,941	35,547
Profit before taxation	**740**	**9,025**	716	8,483
Profit attributable to shareholders	**655**	**7,984**	626	7,415
Dividends paid and proposed	**459**	**5,602**	438	5,196
Total assets	**28,764**	**345,167**	25,169	304,172
Return on average shareholders' funds (%)	**20.3**		21.5	
Total capital ratio (%)	**24.8**		25.2	

Hang Seng Bank's consistently strong performance continued to be recognised. It received awards by two credit-rating agencies: for the 'Best Performing Bank in Asia' by Thomson BankWatch and for the 'World's Number 1 Bank for Real Banking Profitability' by IBCA. The 'Award for Financial Management' in the Asian Management Awards and the 'Hong Kong Commercial Bank of the Year Award' by *Asiamoney* magazine were also conferred on Hang Seng Bank.

Midland Bank plc

The UK economy slowed gradually during 1995 — a result of higher interest rates and taxes which followed a 4 per cent growth in gross domestic product in 1994. The slow-down was felt mainly in the consumer sector. Economic activity was sustained by strong export performance and greater investment, although corporate borrowing was subdued. Inflation was kept low, at 2.8 per cent.

Midland Bank reported a pre-tax profit of £998 million in 1995, an increase of 10 per cent on £905 million in 1994. Operating profit after provisions in

Review of the Group *(continued)*

UK Banking — which covers the personal and corporate sectors — was £553 million, an increase of 20 per cent on £460 million. Attributable profit grew by £15 million, or 3 per cent, to £610 million.

Operating income was £3,428 million, 11 per cent higher than £3,091 million in 1994. There was a £79 million, or 4 per cent, increase in net interest income and a £258 million, or 20 per cent, increase in other operating income. Operating expenses at £2,307 million were 7 per cent higher than 1994. The 1995 figure included £110 million in redundancy and restructuring costs associated with the reorganisation of Midland's domestic retail and corporate operations. The charge for bad and doubtful debts was £198 million, compared with £98 million the previous year, and included £35 million for general provisions, compared with a release of £19 million in 1994.

Competition within the UK financial services industry remained intense, both in the retail and corporate markets, but Midland recruited and retained more customers. In large part, this was due to better customer service resulting from the appointment of additional senior managers within the branch network, longer banking hours at more than 400 branches, and expansion in the number of 24-hour self-service lobbies from 140 to 221.

The bank is improving its technology and centralising routine administrative tasks to allow staff more time to devote to customers.

First Direct, Midland's telephone banking division, reported its first full year of profitability and strengthened its position as the market leader in direct banking, adding 108,000 new customers.

The value of UK mortgages booked by Midland rose by 14 per cent, four times the national market rate. Similarly, Midland's share of the life and pensions market increased, contrary to prevailing market trends. General insurance sales were especially buoyant, producing record results.

Midland Private Banking, which caters to more affluent personal customers, completed its first full year of operations, and now offers a network of 30 offices in England and Wales.

Card services recorded increases in both profitability and market share. New corporate credit cards and purchasing cards, which provide businesses with a cost-effective alternative to using invoices, were launched. The Choice cardholder loyalty programme linked to other banking services and products was expanded.

A large amount of new business was won in securities safe custody, and Midland is now recognised as the premier custodian in the UK.

Midland Corporate Banking, which manages relationships with large commercial customers, was involved in a number of the UK's major merger and acquisition transactions. A significant number of new corporate account relationships were also established. The small business tariff was reduced and free banking introduced for start-up businesses, improving Midland's market share among small and medium-sized corporate customers. There was an encouraging increase of almost 50 per cent in the amount lent under the UK Government's Small Firms Loan Guarantee Scheme.

HSBC MIDLAND, which comprises the HSBC Group's treasury operations in London, New York and Tokyo, increased business volumes and consolidated its position in foreign exchange and government bond trading. Operating profit was £114 million, compared with a loss of £25 million in 1994.

Financial highlights	1995 £m	1994 £m
Share capital and reserves*	**3,239**	2,858
Profit before taxation	**998**	905
Profit attributable to shareholders	**610**	595
Dividends paid and proposed†	**472**	413
Total assets	**93,627**	80,375
Return on average shareholders' funds (equity) (%)	**20.0**	21.2
Total capital ratio (%)	**10.8**	11.5

** Includes non-equity interests of £389 million (1994: £156 million).*
† Includes amounts payable to non-equity shareholders.

Midland's international network in continental Europe and Latin America expanded, with representation in Italy and acquisition of two HongkongBank branches in Panama. The branches in Greece, Spain and Turkey recorded good results, but there were poor performances in France and Sweden.

In Germany, **Trinkaus & Burkhardt KGaA** enjoyed excellent results and completed its 1,000th new bond issue in under 10 years. In Switzerland, **Guyerzeller Bank AG**, a private banking subsidiary, also had another successful year. Midland acquired a

6.14 per cent shareholding in **Banco Bamerindus do Brasil S.A.**, one of Brazil's largest banks. A subsidiary, **Midland Armenia Bank jsc**, was established in the Armenian capital of Yerevan in early 1996.

Forward Trust Group Limited achieved record operating profits of £91 million, compared with £82 million in 1994. **Forward Trust Personal Finance Limited** acquired nearly 200,000 new customers and the rate of customer retention doubled. **Forward Trust Business Finance Limited** concluded a multi-million pound lease for new rolling stock for the London Underground. **Griffin Factors Limited** increased its turnover by 24 per cent and confirmed its position as the UK's most profitable factoring organisation. **Swan National Motor Finance Limited**'s contract hire fleet — the third largest in the UK and totalling more than 40,000 cars — was supplemented by 48,000 cars sold through car dealers.

Financial highlights	1995		1994*	
	£m	us$m	£m	us$m
Share capital and reserves†	**1,073**	**1,665**	960	1,500
Profit before taxation	**225**	**355**	98	151
Profit attributable to shareholders	**185**	**292**	22	33
Dividends paid and proposed‡	**99**	**156**	69	106
Total assets	**13,479**	**20,920**	12,457	19,458
Return on average shareholders' funds (equity) (%)	**18.6**		0.8	
Total capital ratio (%)	**16.2**		17.3	

** Figures are restated for the consolidation of Concord Leasing, Inc., effective from 1 January 1995. Marine Midland Banks, Inc., on a stand-alone basis, reported profit attributable to shareholders of us$229 million in 1994.*
† Includes preference shares of us$98 million.
‡ Includes preference dividends.

HSBC Americas, Inc.

The US economy recorded sluggish growth of 1.4 per cent in 1995, and New York State, with a weak labour market, trailed national statistics. Consumer spending rose by 1.9 per cent. Tight monetary and fiscal policies kept inflation low, at 2.5 per cent. In New York State, the combination of slow growth and reduced government spending led to a drop in business confidence. Despite this, HSBC Americas, Inc. (formerly Marine Midland Banks, Inc.) produced satisfactory asset growth and sharply higher net income during the year. **Marine Midland Bank** is HSBC Americas' principal subsidiary.

HSBC Americas reported attributable profit of us$292 million in 1995, a significant increase on us$33 million in 1994 (which was restated to reflect the integration of Concord Leasing, Inc. into Marine Midland). Return on average shareholders' funds (equity) rose to 18.6 per cent, comparing favourably with the average of less than 17 per cent for other US regional banks. The total capital ratio was 16.2 per cent, placing HSBC Americas among the most strongly-capitalised banks in its sector. Assets grew by 8 per cent to us$20.9 billion, due to loan growth in core businesses and acquisitions. Expenses continued to decline, with the cost:income ratio improving to 56.6 per cent from 72.2 per cent.

New and enhanced card products and aggressive marketing of relationship products yielded positive results in 1995: consumer loans increased by 10 per cent and customer deposits by 6 per cent. Performing commercial loans rose by 12 per cent, while non-performing loans fell by 58 per cent. Although the New York State economy limited commercial lending opportunities there, national asset-based lending grew steadily.

Concord Leasing's assets were divided into a 'growth' portfolio of ongoing businesses, and an 'exit' portfolio of businesses targeted for divestment. The 'growth' portfolio increased by 19 per cent in 1995 to us$1.1 billion, enhancing Marine's revenue. Non-performing assets in the 'exit' portfolio, gross of specific provisions, were reduced by us$326 million, or 42 per cent, through a combination of asset disposals and charge-offs. Provisions of us$113 million directly related to Concord were largely offset by tax benefits within HSBC Americas.

HSBC Americas made other acquisitions, focusing on return on equity and market share. Among the purchases was United Northern Federal Savings Bank, with two branches in upstate New York. Six HongkongBank branches in New York City were transferred to Marine which, together with the proposed acquisition of Hang Seng Bank's two New York City branches, offers the opportunity to develop a stronger Asian banking business.

The planned acquisition of 11 East River Savings Bank branches will further enhance Marine's presence in New York City.

The **Wells Fargo HSBC Trade Bank** joint venture opened in California in October 1995, the only nationally-chartered bank in the United States devoted entirely to international trade finance. The HSBC Group's share in the Trade Bank is held by HSBC Americas. With assets of US$200 million, the Trade Bank has offices in San Francisco, Los Angeles and El Monte to serve exporters and importers.

Marine Midland's acquisition of the naming rights for Buffalo's major professional sports and entertainment complex, to be known as the Marine Midland Arena, will enhance the bank's name recognition.

Hongkong Bank of Canada

The Canadian economy continued to expand in 1995, with particularly strong growth in British Columbia, where almost half of Hongkong Bank of Canada's branches are located. The national economy grew by 2.1 per cent, while that of British Columbia expanded by 2.6 per cent, the highest in Canada. The Canadian Government made increased efforts to reduce the level of deficit financing and price stability was maintained. As a result, short-term interest rates held steady. Political stability returned after the people of Quebec rejected in a referendum the separation of that province from Canada.

Hongkong Bank of Canada reported growth in all operations in 1995, with attributable profit of C$102 million for the fiscal year ended 31 October 1995, a 19 per cent increase on C$86 million in 1994. Total assets at 31 October were C$18.9 billion, 22 per cent higher than 1994. The charge for bad and doubtful debts was unchanged, at C$62 million. The cost:income ratio improved to 57.1 per cent, from 58.2 per cent in 1994.

Loans and advances to customers — principally consumer and commercial loans — increased by C$1.8 billion, or 15 per cent. Residential mortgages, excluding acquisitions, rose by 18 per cent, and personal loans by 17 per cent. Lending growth was funded by a 33 per cent increase in customer accounts, with personal core deposits growing by C$1.3 billion, or 16 per cent. The return on equity increased from 16.7 per cent to 17.8 per cent.

The bank undertook a number of new initiatives during 1995, including investment in the HongkongBank Universal Banking (HUB) system; acquisition of Metropolitan Trust Company of Canada (now called **Hongkong Bank Trust Company**); purchase of a portion of the deposits of the defunct Income Trust Company of Hamilton; and purchase of the outstanding shares of the institutional research broker, BBN James Capel Inc. (renamed **HSBC James Capel Canada Inc.**).

Financial highlights	1995*		1994*	
	£m	c$m	£m	c$m
Share capital and reserves	273	577	240	526
Profit before taxation	79	172	65	136
Profit attributable to shareholders	47	102	41	86
Dividends paid and proposed	24	50	29	60
Total assets	8,940	18,915	7,090	15,563
Return on average shareholders' funds (%)	17.8		16.7	
Total capital ratio (%)	9.4		8.7	

* *Fiscal year to 31 October.*

The bank launched a discount brokerage service, **Hongkong Bank Discount Trading Inc.**, and applied for a licence to sell property and casualty insurance. It also took initial steps towards developing a direct banking service called Service Plus, offering customers the convenience of at-home telephone banking similar to Midland's First Direct.

Hongkong Bank Malaysia Berhad

The Malaysian economy continued to expand in 1995, with gross domestic product growing by 9 per cent. There was strong expansion in the manufacturing, construction and service sectors, and the country benefited from higher prices for palm oil and rubber. Consumer spending also gathered pace as disposable incomes rose.

In 1995, its second year of operation as a locally-incorporated bank, Hongkong Bank Malaysia Berhad and its subsidiaries reported an attributable profit of M$214 million, an increase of 20 per cent on M$178 million in 1994.

Customer advances grew in line with deposits. The net interest margin improved slightly, to 3.77 per cent, despite intense competition. Overheads were well-contained. Trade-related business continued to be a

Financial highlights	1995		1994	
	£m	M$m	£m	M$m
Share capital and reserves	**302**	**1,189**	257	1,025
Profit before taxation	**84**	**332**	73	293
Profit attributable to shareholders	**55**	**214**	44	178
Dividends paid and proposed	**13**	**50**	10	42
Total assets	**3,948**	**15,557**	3,144	12,547
Return on average shareholders' funds (%)	**19.3**		19.9	
Total capital ratio (%)	**9.2**		9.8	

major contributor, as did income from securities custody services which grew despite a sluggish stock market. The cost:income ratio improved to 43 per cent, compared with 45.4 per cent in 1994.

In 1995, *Euromoney* magazine voted the bank the 'Best Foreign Bank in Malaysia'; a custodians' poll conducted by *Asiamoney* magazine accorded it 'Top Custodian' status in the country; and the annual *Global Custodian Agents Review* polled the bank the 'Top-Rated Custodian' for 1995.

The British Bank of the Middle East

Middle Eastern countries enjoyed only modest economic growth in 1995. Oil prices rose slightly, but the effects of inflation neutralised any nominal growth in gross domestic product. However, Lebanon's economy expanded strongly due to high levels of foreign investment.

The British Bank of the Middle East reported an attributable profit of £58 million in 1995, an increase of 14 per cent on £51 million in 1994. This resulted mainly from a 17 per cent increase in net interest income due to the favourable impact of higher average interest rates on the contribution from net free funds. In addition, net fees and commissions increased by 14 per cent, largely because of higher income from trade finance-related services.

Operating expenses increased by 12 per cent over 1994. Staff costs grew by 7 per cent, partly reflecting a 2 per cent growth in headcount. Other expenses rose by £5 million, exacerbated by a write-back in 1994 of an excessive provision for expenses related to the move to new premises by the London branch. The growth in operating expenses also reflected investment in new products and services and expansion of the branch network. Charges for bad and doubtful debts rose significantly as a result of an increase in the rate of general provisioning and higher provisions in Oman and the United Arab Emirates.

Loans and advances to customers increased by 13 per cent, contributing to a 5 per cent increase in the bank's total assets.

The bank plans to open a branch in Baku, Azerbaijan, in the second half of 1996, and its existing office network benefited from investment in technology and refurbishment. In November 1995, the bank's investment banking unit, **HSBC Financial Services (Middle East) Limited**, was opened in Dubai to serve customers in the region.

Financial highlights	1995	1994
	£m	£m
Share capital and reserves	**157**	154
Profit before taxation	**77**	73
Profit attributable to shareholders	**58**	51
Dividends paid and proposed	**56**	40
Total assets	**3,222**	3,056
Return on average shareholders' funds (%)	**33.0**	31.5
Total capital ratio (%)	**10.3**	11.7

The British Bank of the Middle East has adopted the Group's hexagon symbol and other corporate identity elements to emphasise its membership of the HSBC Group.

Associated Commercial Banks

The Saudi British Bank (Group interest 40 per cent) reported a net profit of SR403 million, an increase of 15 per cent on SR350 million in 1994. The balance sheet was restructured following a decline in investment income in 1994. International investments were liquidated and the funds redeployed within Saudi Arabia as profitable opportunities arose.

Commercial activity remained at a relatively subdued level in the first half of the year. However, a gradual improvement in market sentiment and liquidity generated a modest increase in demand for both medium-term and working-capital finance during the second half. Total lending increased by 8 per cent, from SR9.7 billion in 1994 to SR10.5 billion in 1995. Customer deposits rose by 12 per cent.

The bank expanded the number of branches from 60 to 61, and implemented the HongkongBank Universal Banking system (HUB) and an updated version of the Group Treasury Trading System (TREATS) during 1995.

The Cyprus Popular Bank Limited (Group interest 21.96 per cent) reported an attributable profit of C£18 million, an increase of 20 per cent on C£15 million in 1994. Market share in Cyprus, especially in customer deposits, increased. Subsidiaries and overseas operations made greater contributions to profitability. The bank strengthened its position in the insurance market through two acquisitions and the establishment of a life subsidiary, Cyprialife.

Egyptian British Bank S.A.E. (Group interest 40 per cent) reported an attributable profit of E£17 million, an increase of 6 per cent on E£16 million in 1994. Growing economic activity, particularly a recovery in the tourism industry, contributed to higher foreign exchange and fee income. However, currency devaluation fears and competition among banks depressed interest margins. During the year, the bank increased its paid-up capital by 10 per cent. It expanded its securities custody operations and it opened a fifth branch in Cairo which, together with a branch in Alexandria, brought the total network to six.

British Arab Commercial Bank Limited, formerly known as UBAF Bank Limited (Group interest 46.51 per cent), reported a pre-tax profit of £37 million, an increase of 28 per cent on £29 million in 1994. A release of surplus provisions for doubtful debts boosted this result. Profit after tax was £23 million, 10 per cent higher than £21 million in 1994. Disappointing income from trade-related lending was counter-balanced by record commissions from banking operations and by dealing profits. At £11 million, expenses remained constant.

Treasury and Capital Markets

The Group's treasury and capital markets business is conducted through divisions of its commercial banking subsidiaries and co-ordinated functionally from the Group Head Office in London.

Group Treasury sets overall business strategy, specifies appropriate internal controls, and determines risk limits. Risk levels and financial performance are monitored on a daily basis, using information provided by finance staff in each location who are independent of the dealers. Specialist finance staff also make regular inspections to ensure that treasury dealing activities and back-office processing and financial controls are working effectively.

In 1995, there was a marked recovery from the unsatisfactory level of earnings generated in 1994, with most of the £272 million increase in dealing profits relating to treasury activities. Interest-rate and securities trading losses experienced in 1994 were eliminated. This, together with more favourable conditions in the world's bond markets, resulted in higher interest-rate trading profits. Foreign exchange profits also improved, with corporate and retail revenues providing an increased contribution.

In addition to improved net income, the strategic restructuring of treasury activities continued. The integration of treasury operations in Hong Kong under the HSBC Markets name was completed. The infrastructure to support the creation and development of a US-dollar debt origination and distribution capability in the United States was put in place to enable the Group to take advantage of the underwriting and dealing powers granted by the US Federal Reserve Board in February 1996. Value-at-risk reporting, covering all of the Group's market risk exposures, was implemented.

A substantial amount of work was undertaken to implement the new regulatory capital requirements of the European Union's Capital Adequacy Directive, effective from 1 January 1996. The directive assesses regulatory capital using market risk characteristics inherent in trading positions, whereas the previous approach focused on credit risk related to outstanding deals. As at 1 January 1996, the change did not have a material impact on the Group's capital ratios.

Insurance

The HSBC Group's insurance services comprise life and pension underwriting, general underwriting, agency business, Lloyd's insurance broking and premium financing. Insurance businesses are co-ordinated functionally by the Group Insurance Head Office but are managed within commercial banking subsidiaries or through insurance holding companies.

In 1995, the overall profit contribution from the insurance businesses showed good growth over 1994.

Life insurance profits remaining broadly constant, but underwriting profitability in the non-life sectors improved. There were reductions in premiums for many classes of risk. Profits in the life businesses were affected by a tighter regulatory and sales environment in the United Kingdom but, to some extent, this was offset by strong investment performance and by higher sales levels, especially in the last quarter.

At the year-end, Midland Bank acquired Commercial Union's remaining 20 per cent shareholding in **Midland Life Limited**. The bank established Midland Direct, a telephone-based household insurance service. A motor insurance business, **Corinthian**, was acquired from a Lloyd's managing agency and merged with the HSBC Group's Irish non-life underwriting company, **HSBC Insurance (Ireland) Limited** (formerly Griffin Insurance Company Limited). The Group's Lloyd's insurance broker, **HSBC Gibbs Limited** (formerly Gibbs Hartley Cooper Limited), acquired Holmwoods, which includes a profitable schools insurance broking capability.

Most of the Group's other insurance entities have now changed their names and adopted the HSBC identity. For example, the principal company in Asia, Carlingford Insurance Company Limited, is now known as **HSBC Insurance Limited**.

Investment Banking

HSBC Investment Banking, comprising the merchant banking, equity securities, asset management, and private banking and trustee activities of the HSBC Group, reported a pre-tax profit of £227 million in 1995, a decrease of 10 per cent on £253 million in 1994. Attributable profit was £171 million, compared with £210 million in 1994, a decrease of 19 per cent. Return on average shareholders' funds was 21.3 per cent.

This result reflects the low volumes and fewer new issues in many securities markets during the first half of the year. However, merchant banking advisory activity in Europe and Asia increased, and good trading profits were also achieved.

Financial highlights	**1995 £m**	1994 £m
Share capital and reserves	**787**	799
Merchant banking	**125**	119
Equity securities	**27**	59
Asset management	**28**	25
Private banking	**47**	50
Profit before taxation	**227**	253
Profit attributable to shareholders	**171**	210
Total assets	**11,267**	11,130
Return on average shareholders' funds (%)	**21.3**	25.7

Comparative figures have been restated to include the results of the Group's Asian and European offshore private banking businesses.

New investment banking operations were begun in Dubai, the Philippines, South Africa and India. HSBC Investment Banking's Eastern European companies in Warsaw, Prague and Budapest were renamed as HSBC Investment Services to emphasise their membership of the HSBC Group.

With effect from 1 April 1996, the institutional equity securities activities of James Capel & Co. Limited and the merchant banking activities of Samuel Montagu & Co. Limited were consolidated within **HSBC Investment Bank plc** to improve client services, concentrate product expertise and utilise capital better to facilitate client business. The trading name **HSBC James Capel** covers the institutional securities business and **HSBC Samuel Montagu** the UK corporate advisory activities.

Merchant Banking

Merchant banking made a pre-tax profit of £125 million in 1995, an increase of 5 per cent on £119 million in 1994.

Samuel Montagu had a good year, with strong performances in Corporate Finance, Specialised Financing, HSBC Private Equity Europe Limited (formerly Montagu Private Equity Limited) and Project and Export Finance.

Corporate Finance continued to advise the UK Government on divestments and rail privatisation. Specialised Financing completed 35 transactions in seven countries and the Banking Syndicate department arranged or co-arranged facilities which raised over £17 billion. **HSBC Private Equity Europe Limited** made four major new investments and continued to benefit from gains when companies in which it had investments were either sold or floated.

Samuel Montagu received the Queen's Award for Export Achievement, the only British merchant bank to be so honoured.

HSBC Investment Bank Asia Limited, whose results are reported within the HongkongBank Group, was recognised as 'Asian Equity House of the Year' by *World Equity* magazine and 'Adviser of the Year' by *Project Finance International* magazine's Asia-Pacific awards. Already a leader in Hong Kong and China, HSBC Investment Bank Asia expanded its activities in Singapore, Indonesia and the Philippines.

The Project Finance and Syndications Division advised on or arranged transactions totalling US$5.8 billion in 1995. It acted as financial adviser to sponsors of major infrastructure projects: the first toll road in Hong Kong and a power-station in the Philippines.

The Corporate Finance Division was the adviser and sole placing agent for the largest-ever private placement in Hong Kong. It was also the 1995 market leader in the sponsorship of initial public offerings in Hong Kong.

Equity Securities

Equity securities reported a pre-tax profit of £27 million, 54 per cent lower than £59 million in 1994. This was a result of lower volumes in Asian equity markets and additional costs incurred from investments in South Africa, India and Australia.

HSBC James Capel set up global equity derivatives and convertibles units, drawing together teams from around the world to improve client service. From 2 January 1996, it began UK market-making in the top 200 shares on the Financial Times-Stock Exchange Index. **James Capel Investment Management** increased its client base and now has £5 billion of assets under management, compared with £4.5 billion in 1994.

In South Africa, **Simpson McKie James Capel (Pty) Limited**, a joint venture, commenced operations following the deregulation of the Johannesburg Stock Exchange. It is one of the largest securities firms in that country.

On 1 January 1996, **James Capel Incorporated** in New York was merged with **HSBC Securities, Inc.** In February, HSBC Securities received US Federal Reserve Board authorisation to underwrite both debt and equity. The four Canadian brokerage offices of **HSBC James Capel Canada Inc.** (formerly BBN James Capel Inc.), which were acquired by Hongkong Bank of Canada, expanded their product range to include private client stockbroking.

HSBC James Capel Asia Limited (formerly James Capel Asia Limited) and **Wardley Financial Services Limited** were adversely affected by lower volumes in Asian securities markets, particularly in the first half of the year. HSBC James Capel Asia activated its stock exchange membership in the Philippines. An Indian joint venture, **James Capel Batlivala & Karani Private Limited**, began operations in Bombay (now known as Mumbai).

Asset Management

HSBC Asset Management, the Group's investment advisory and fund management business, reported a pre-tax profit of £28 million, an increase of 12 per cent on £25 million in 1994, due to higher investment returns, a net inflow of new funds and cost containment. Funds under management increased by US$3 billion, from US$31 billion to US$34 billion.

New investment fund product development was a key focus, with an Asian bond fund, capital-guaranteed product, India fund and Thai fund being structured for the market-place. In the UK, a new tax-exempt special savings account, HSBC TESSA Plus, which is linked to the Financial Times-Stock Exchange 100 Index, was launched.

HSBC Private Equity Fund L.P., which makes equity investments primarily in unlisted companies in Asia, was fully subscribed, with total committed capital of US$250 million.

Private Banking and Trustee

The Group's private banking and trustee operations were reorganised in 1995 into two inter-related businesses based in Asia and in Europe/the Middle East, and employing over 900 people in seven locations. Private banking and trustee made a pre-tax profit of £47 million, a decrease of 6 per cent on £50 million in 1994, due to a downturn in Asian stock markets. However, total assets increased by 7 per cent, to £9.3 billion, and customer deposits rose by 6 per cent, to £5.2 billion.

Although the performance of regional stock markets was lacklustre, **HSBC Private Banking** in Asia had a satisfactory year. Commission income experienced a small decline, but the international private banking operations in London performed well, with good growth in business.

Compliance procedures were strengthened in continental Europe to meet stricter regulatory requirements.

The HSBC Group Approach to Training

Global financial markets, increasingly complex products and rising customer expectations make it essential that the HSBC Group continues to recruit, develop and retain skilled and highly-motivated staff to serve customers in all of the 71 countries in which it operates.

The process demands quality training programmes, and through the HSBC Group Management Training College at Bricket Wood near St Albans, England, and 10 regional training units around the world, that is exactly what the HSBC Group provides.

The Group employs more than 350 dedicated trainers across the globe, with training viewed as a top-down line management responsibility. Business managers throughout the Group are closely involved in developing, delivering and evaluating training programmes, and both the Group Chairman and Group Chief Executive contribute regularly to courses and conferences.

The operational heart of the Group training programme is Bricket Wood, home of Group Training and Management Development (GTMD). It is a microcosm of the Group as a whole, with around 15 different nationalities represented there at any one time.

Bricket Wood's residential courses are not simply about studying. They are also exercises in living together, imbuing delegates with a keener international perspective and an increased awareness of the Group and their colleagues around the world.

This 'networking' helps spread good ideas and best practice. It assists staff in one business to help colleagues in other businesses, often in different countries on different continents, in different time zones, and thus enables them to serve our customers more effectively.

The Bricket Wood facility was acquired in 1994 and expanded to include 143 guest bedrooms, 11 custom-built lecture rooms, more than 20 syndicate rooms, a library, self-development unit and a conference centre. It is also the training base for Midland Bank.

The site is open 365 days a year, of which some 350 are designated training days. In 1995, more than 5,000 HSBC Group delegates from across the world attended around 400 courses and conferences there, totalling 32,000 training days. GTMD's staff members, comprising experienced bankers and career trainers, ensure that eight or nine training courses are conducted simultaneously at Bricket Wood.

Most of the Group's considerable annual expenditure on training and management development is targeted towards improving current job performance, with an average of three training days annually per staff member. The remainder is used to develop individual leadership qualities and build teams for the future.

But Bricket Wood is only part of the training picture. Other regional training units are located in Dubai, Riyadh, Mumbai (formerly Bombay), Singapore, Kuala Lumpur, Vancouver, Buffalo and Hong Kong. In addition, HSBC James Capel and HSBC Asset Management have their own training staff in London, although they often use the Group's facilities at Bricket Wood.

GTMD's training programmes fall into three broad categories — graduate recruits, general management and financial and technical management — delivered through a combination of residential courses, computer-based programmes, distance-learning and on-the-job training. GTMD also provides information technology training support from Hong Kong.

Graduate recruit training

Training for newly-recruited graduates begins immediately. In 1995, over 240 participated in the 10-week Executive Trainee Development Programme at Bricket Wood. Launched in 1987 in Hong Kong, the Executive Trainee Development Programme was relocated to the United Kingdom in 1994, where each of the 15 annual courses attracts an average of 16 delegates, typically graduates in their early to mid-20s.

The programme has evolved into a compact and intensive series of modules designed to give graduate recruits an introduction to banking and the HSBC Group. It concentrates on four main areas: technical banking skills, such as trade finance, treasury, information technology, operations, sales and marketing; credit and retail management; management skills, with an emphasis on assessment; and Group culture and networking, designed to provide delegates with a sound basis for a first role in commercial banking. During 1995, delegates from 23 countries discussed Group issues with senior management and managers in the field. They visited Group offices and operations in the United Kingdom and learned about the Group's core business principles and values — integrity, teamwork and customer service.

General management training

GTMD provides general management training courses for middle and senior managers. They also include development centres, run in conjunction with Group Human Resources, in which middle and senior managers are assessed by senior line managers for career development and in which individual training requirements are highlighted. Increasingly, a tailored consultancy service helps business managers to solve organisational issues where it really matters — in the workplace.

Where considered appropriate for the development of individuals with senior management potential, use is made of certain external education programmes offered by premier international business schools.

Financial and technical management training

This embraces treasury and capital markets, trade finance, corporate and retail banking, asset management, securities, insurance, treasury systems (TREATS, as the Group treasury system is known), business development and specific management skills.

Financial and technical training aids produced at Bricket Wood and around the Group include texts for supervisors and junior managers covering specific topics, such as trade and credit, and computer-based training programmes. Midland Bank trainers at Bricket Wood have also produced training videos for the branch network. External consultants are occasionally brought in to help the Bricket Wood team and other training units in the Group with specialised courses, such as consumer banking and 'handling the media'. In view of the growing importance of China, particularly to organisations in Hong Kong, HongkongBank has been sending a number of senior executives to attend a familiarisation course at Tsinghua University in Beijing.

Training worldwide

Training is offered in all major businesses and geographical regions throughout the Group. Functional leadership and advice are provided by GTMD at Bricket Wood, with whom regional trainers are in daily contact. Regional training units vary in size and scope, and focus mainly on business-specific, local training needs. As part of the Group's policy of continuous training, GTMD and regional trainers travel extensively to tailor programmes for specific groups, products and functions.

In Hong Kong, GTMD's information technology training unit operates from the Harbourfront complex in Hung Hom. This serves HongkongBank's information technology training needs and is also used to support the residential training programmes run in the Asia-Pacific region for junior executives in commercial and technical management.

Midland Bank's training department, also based at Bricket Wood, is the largest of the Group's business training units. Midland and GTMD staff jointly develop and deliver a comprehensive range of training programmes and benefit from shared facilities and administration. This effective co-working has proven benefits in cost savings and improved productivity.

Distance-learning worldwide

Residential programmes involving time away from the job are not always the most effective method of training. The Group's training function produces and distributes computer-based learning packages and case-study, written and video materials. These are used in branches or offices, as well as at home. Such materials are designed to be user-friendly in the absence of direct tutor involvement and prove especially popular with clerical staff who cannot easily be released from their workplace, and in countries where attendance at a regional training centre is not always cost effective or possible if travel over long distances is involved.

The Group has a policy of developing its core banking systems technology in-house whenever possible. This has enabled it to develop 'systems-based training', a cost-effective, interactive approach in which training programmes are embedded in the system as they are produced. In this way, both the speed and efficiency of the training in the system operation can be increased without leaving the workplace.

We encourage and subsidise part-time, out-of-office study for professional qualifications for all staff grades. Every year, thousands of members of staff worldwide study for external examinations in banking and business, as well as in specialist areas such as law and accountancy.

Thinking globally, acting locally

As one of the world's largest banking and financial services organisations, the HSBC Group prides itself on its management's ability to think globally but to act locally in the best interests of its customers. Its training policy reflects this and aims to produce managers and other staff with a definite and distinct international perspective, coupled with the ability to operate effectively in their local markets.

Ultimately, we believe that it is not the volume or cost of training which is, in itself, important. Rather, it is the quality and effectiveness of that training in contributing to improved business results. That means training our people to put customers first, to offer the very best in service and, by so doing, to add value for our many thousands of shareholders around the world.

Board of Directors and Group General Managers

Directors

Sir William Purves, CBE, DSO, *Group Chairman*
Age 64. An executive Director and Group Chairman since 1990. Joined HongkongBank in 1954; an executive Director of HongkongBank since 1982 and Chairman and Group Chief Executive Officer from 1986 to 1992. Chairman of The British Bank of the Middle East and of Midland Bank plc and a Director of HSBC Americas, Inc. A non-executive Director of The 'Shell' Transport and Trading Company, plc and a Director of The East Asiatic Company Limited A/S.

*Baroness Dunn, DBE, *Deputy Chairman*
Age 55. A Director of Swire Pacific Limited, John Swire & Sons Limited and Cathay Pacific Airways Limited. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A non-executive Director of HongkongBank from 1981 to February 1996. Former senior member of the Hong Kong Executive and Legislative councils.

*Sir Peter Walters, *Deputy Chairman*
Age 64. Deputy Chairman of Thorn EMI plc, non-executive Chairman of Blue Circle Industries plc and of SmithKline Beecham plc and a non-executive Director of Cordiant plc. A non-executive Director since 1992 and a non-executive Deputy Chairman since 1993. Chairman of Midland Bank plc from 1991 to 1994.

B H Asher
Age 59. Executive Director Investment Banking. An executive Director since 1990. Joined HongkongBank in 1980 and a Director of HongkongBank from 1989 to 1992. Chairman of HSBC Investment Bank plc and a Director of Midland Bank plc.

J R H Bond
Age 54. Group Chief Executive. An executive Director since 1990. Joined HongkongBank in 1961; an executive Director of HongkongBank from 1988 to 1992. 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, HSBC Americas, Inc., Hang Seng Bank Limited, Hongkong Bank Malaysia Berhad, The Saudi British Bank, and a non-executive Director of the London Stock Exchange, British Steel plc, Orange plc and Visa International.

*D E Connolly, OBE
Age 64. Chartered Accountant. A Director of Kowloon-Canton Railway Corporation. A non-executive Director since 1990 and a non-executive Director of HongkongBank since 1985.

D J Flint
Age 40. Group Finance Director. An executive Director since December 1995. A former partner of KPMG.

J M Gray, CBE
Age 61. Chairman of HongkongBank. An executive Director since 1990. Joined HongkongBank in 1952; appointed Executive Director Finance in 1986, Deputy Chairman in 1990, Chief Executive Officer in 1992 (until December 1995) and Chairman since 1993. Vice-Chairman of Hang Seng Bank Limited, and a Director of Swire Pacific Limited and HSBC Investment Bank Asia Holdings Limited. Chairman of the Hong Kong Port Development Board and a member of the Governor's Business Council and the Hong Kong Airport Authority.

*Sir Joseph Hotung
Age 65. A Director of China & Eastern Investment Company Limited and Hongkong Electric Holdings Limited. A non-executive Director of the Company since 1991 and a non-executive Director of HongkongBank from 1991 to March 1996.

*N R Knox
Age 67. Chairman of HSBC Americas, Inc. A non-executive Director since 1990. A non-executive Director of HongkongBank from 1988 to 1992.

*C D Mackay
Age 55. Group Deputy Chairman of Inchcape plc. A non-executive Director of British Airways Plc. A non-executive Director of the Company since 1990. A non-executive Director of HongkongBank from 1986 to 1992 and of Midland Bank plc from 1992 to 1993.

*G Maitland Smith
Age 62. Chairman of Hammerson plc. A non-executive Director since 1993. A Director of Midland Bank plc since 1986 and non-executive Deputy Chairman since 1992.

*Sir Colin Marshall
Age 62. Chairman of British Airways Plc and Inchcape plc and Deputy Chairman of British Telecommunications plc. A non-executive Director since 1993. A Director of Qantas Airways Limited. Deputy President of the Confederation of British Industry and a member of the Board of the New York Stock Exchange. A non-executive Director of Midland Bank plc from 1989 to 1994.

*C Miller Smith *(appointed on 22 March 1996)*
Age 56. Chief Executive of Imperial Chemical Industries PLC and a former Director of Unilever plc and Unilever NV. A non-executive Director of Midland Bank plc since 1994.

*M Murofushi
Age 64. President and Chief Executive Officer of ITOCHU Corporation. A non-executive Director since 1992. Special Adviser and Chairman of the Policy, Planning and Co-ordination Committee of the Japan 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.

*Sir Wilfrid Newton, CBE
Age 67. Chairman of Raglan Properties plc, Jacobs Holdings PLC and Mountcity Holdings Limited. A non-executive Director of Maunsell Holdings Limited and Sketchley plc. A non-executive Director since 1990. Former Chairman of Mass Transit Railway Corporation and of London Regional Transport and a non-executive Director of HongkongBank from 1986 to 1992. A non-executive Director of Midland Bank plc since 1992.

*C E Reichardt *(appointed on 22 March 1996)*
Age 64. A Director and former Chairman and Chief Executive Officer of Wells Fargo & Company. Other non-executive directorships include Columbia/HCA Healthcare Corporation, Ford Motor Company and Pacific Gas and Electric Company.

*H Sohmen, OBE
Age 56. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited and World Finance International Limited. A non-executive Director since 1990. A non-executive Director of HongkongBank since 1984 and Deputy Chairman since February 1996.

J E Strickland
Age 56. Chairman designate of HongkongBank. Joined HongkongBank in 1971 (previous service 1966-69). An executive Director since 1989. Chairman of Wayfoong Property Limited and a Director of HSBC Americas, Inc., Marine Midland Bank and Midland Bank plc.

*Sir Adrian Swire
Age 64. Chairman of John Swire & Sons Limited and a Director of Swire Pacific Limited and Cathay Pacific Airways Limited. A non-executive Director since February 1995. A member of the General Committee of Lloyd's Register of Shipping. Former Chairman of the International Chamber of Shipping and former President of the General Council of British Shipping.

K R Whitson
Age 52. A Director since 1994. A Director of Midland Bank plc since 1992 and Chief Executive since 1994. Joined Hongkong-Bank in 1961. Chairman of Forward Trust Group Limited and Deputy Chairman of the Supervisory Board of Trinkaus & Burkhardt KGaA. A non-executive Director of BET plc.

* *Independent non-executive Directors*

Board of Directors and Group General Managers *(continued)*

Secretary

R G Barber

Age 45. Joined HongkongBank as Assistant Secretary in 1980; Corporation Secretary from 1986 to 1992. Appointed Group Company Secretary in 1990 and Company Secretary of Midland Bank plc in 1994.

Advisers to the Board

F R Frame

Age 66. Former Deputy Chairman of HongkongBank. Chairman of Wallem Group Limited and a non-executive Director of Baxter International Inc, Edinburgh Dragon Trust plc and The British Investment Trust plc.

Sir Quo-Wei Lee, CBE

Age 77. Chairman of Hang Seng Bank Limited and Deputy Chairman of Hysan Development Company Limited. A Director of Miramar Hotel and Investment Company Limited, Furama Hotel Enterprises Limited, New World Development Company Limited, Shaw Brothers (Hong Kong) Limited and The Kowloon Motor Bus Company (1933) Limited. Chairman and Life Member of the Council of The Chinese University of Hong Kong. A member of the Governor's Business Council and a Hong Kong Affairs Adviser appointed by the Chinese Government. A non-executive Director of HongkongBank from 1978 to 1984.

Group General Managers

A S K Au

Age 49. Vice-Chairman and Chief Executive, Hang Seng Bank. A non-executive Director of HongkongBank since 1994. Joined Hang Seng Bank in 1969.

D Beath

Age 57. General Manager and Group Audit Controller. Joined HongkongBank in 1960.

C Carr

Age 58. General Manager and Group Legal Adviser. Joined HongkongBank in 1989.

V H C Cheng, OBE

Age 47. Executive Director, HongkongBank. Joined HongkongBank in 1978.

J H Cleave

Age 53. President and Chief Executive Officer, HSBC Americas, Inc. Joined Hongkong Bank of Canada in 1981.

W R P Dalton

Age 52. President and Chief Executive Officer, Hongkong Bank of Canada. Joined Hongkong Bank of Canada in 1981.

A Dixon, OBE

Age 51. General Manager International, HongkongBank. Joined HongkongBank in 1965.

D G Eldon

Age 50. Chief Executive Officer, HongkongBank. Joined HongkongBank in 1968.

F J French

Age 57. Group General Manager Credit and Risk. Joined HongkongBank in 1959.

S K Green

Age 47. General Manager and Group Treasurer. Joined HongkongBank in 1982.

A P Hope

Age 48. General Manager Group Insurance. Joined Antony Gibbs & Sons Insurance in 1971.

H H Jacobi

Age 61. Chairman of the Managing Partners, Trinkaus & Burkhardt KGaA. Joined Midland Bank plc in 1981.

A W Jebson

Age 46. Group General Manager Technical Services. Joined HongkongBank in 1978.

C P Langley, OBE

Age 51. General Manager Hong Kong and China, Hongkong-Bank. Joined HongkongBank in 1961.

A Mehta

Age 49. Deputy Chairman, The British Bank of the Middle East. Joined HongkongBank in 1968.

T W O'Brien

Age 48. Deputy Chairman and Chief Executive Officer, Hongkong Bank Malaysia Berhad. Joined HongkongBank in 1969.

R M J Orgill

Age 57. Deputy Chief Executive, Midland Bank plc. Joined HongkongBank in 1958.

J C S Rankin

Age 54. General Manager and Chief Executive Officer Singapore, HongkongBank. Joined HongkongBank in 1960.

P E Selway-Swift

Age 51. Deputy Chairman of HSBC Investment Bank plc and Chairman of HSBC Investment Bank Asia Holdings Limited. Joined HongkongBank in 1962.

R A Tennant

Age 53. General Manager Group Human Resources. Joined Midland Bank plc in 1960.

Report of the Directors

Results for 1995

The Group profit for the year attributable to shareholders of the Company was £2,462 million, an increase of 20 per cent.

The Directors recommend the payment of a final dividend of 22.75 pence per ordinary share on 3 June 1996 to shareholders who are registered at the close of business on 2 April 1996. With the interim dividend of 9.25 pence per ordinary share paid on 27 October 1995, the total distribution for the year will amount to £843 million. The dividend will be payable in cash, in sterling, or in Hong Kong dollars at an exchange rate to be fixed on 17 May 1996, with a scrip dividend alternative. The reserves available for distribution before accounting for the final dividend of £600 million are £3,784 million.

Further information about the results is given in the accompanying consolidated profit and loss account on page 50.

Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of banking and related financial services through an international network of more than 3,000 offices in 71 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 9 to 21.

Taken together, the five largest customers of the Group do not account for more than 1 per cent of the Group's income.

Capital and Reserves

The following events occurred during the year:

1. 1,804,753 ordinary shares of 75p and 15,037,843 ordinary shares of HK$10 each were issued on 30 May 1995 at par in lieu of the 1994 final dividend to shareholders who 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 711.4 pence.

2. 580,823 ordinary shares of 75p and 5,369,047 ordinary shares of HK$10 each were issued on 27 October 1995 at par in lieu of the 1995 interim dividend to shareholders who 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 886.7 pence.

3. Options over 1,419,375 ordinary shares of 75p each were awarded at nil consideration on 7 March 1995 under the Company's executive share option scheme. The options were awarded at market value at the date of the award. The options are exercisable between the third and tenth anniversaries of the award at a price of 651.8 pence per share.

4. Options over 16,791,814 ordinary shares of 75p each were awarded at nil consideration on 10 April 1995 to Group employees resident in more than 40 countries under the Company's savings-related share option scheme. The options were awarded at a 15 per cent discount to market value at the date of the award. The options are exercisable within the period of six months commencing on the fifth anniversary of the relevant savings contract at a price of 541.8 pence per share.

5. Options over 37,671 ordinary shares of 75p each were exercised at prices ranging from 541.8 pence to 700.84 pence per share under the Company's savings-related share option scheme and options over 4,696,135 shares lapsed.

6. Options over 5,136 ordinary shares of 75p each were exercised at prices ranging from 651.8 pence to 721.84 pence under the Company's executive share option scheme during the year and options over 60,154 ordinary shares of 75p each lapsed.

7. Options under the Midland Bank employee savings-related and executive share option schemes were exercised over 6,283,283 ordinary shares of 75p each of the Company at prices ranging from 118.43 pence to 238.47 pence and options over 263,898 shares lapsed.

Valuation of Freehold and Leasehold Land and Buildings

The Group's freehold and long leasehold properties, together with properties in Hong Kong with an unexpired lease term between 30 and 50 years, were revalued by professionally qualified valuers at the end of 1995 in accordance with the Group's policy of triennial valuation. As a result of this revaluation, the net book value of land and buildings has been increased by £799 million.

Further details are included in Note 21 of the Notes on the Accounts.

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 25.

D P H Liao retired and Sir Adrian Swire was appointed a Director of the Company on 24 February 1995. R Delbridge retired on 30 November 1995 and D J Flint was appointed Group Finance Director on 1 December 1995. Having been appointed since the last Annual General Meeting, he will retire at the forthcoming Annual General Meeting and offers himself for re-election.

J R H Bond, J M Gray, G Maitland Smith, Sir Colin Marshall, M Murofushi and Sir Peter Walters will retire by rotation at the Annual General Meeting and, with the exception of J M Gray, who is to retire after 44 years' service with HongkongBank, and G Maitland Smith, they offer themselves for re-election.

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

Corporate Governance

The Company has complied throughout the year with the provisions of the Code of Best Practice ('the Code') contained in the Report of the Committee on the Financial Aspects of Corporate Governance ('the Cadbury Committee') published in December 1992. The Auditors, KPMG, have confirmed to the Directors that this statement appropriately reflects the Company's compliance with the Code, insofar as it relates to the paragraphs of the Code which the London Stock Exchange has specified for review by the Auditors.

Internal Financial Control

The Directors are responsible for internal financial control in respect of the Group as a whole and have designed procedures for the safeguarding of assets against unauthorised use or disposition; for the maintenance of proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The key procedures that the Directors have established and which are designed to provide effective internal financial control within the Group include the following:

- Authority to operate the various subsidiaries is delegated to their respective chief executive officers within limits set by the Board of Directors of the Company or the Group Executive Committee. The appointment of executives to the most senior positions within the Group requires the approval of the Board of Directors of the Company. Functional operating and financial reporting standards are established by Group Head Office management for application across the whole Group. These are supplemented by operating standards set by the local management, as required for the type of business and geographical location of each subsidiary.
- Systems and procedures are in place in the Company and subsidiaries to report on and control the major financial risks: credit; changes in the market prices of financial instruments; funding of assets; operational error and fraud. Exposure to these risks is monitored by asset and liability committees and executive committees in subsidiaries and by the Group Executive Committee for the Group as a whole.
- Comprehensive annual financial plans are prepared by subsidiaries and are reviewed and approved at Group Head Office. Results are monitored regularly and reports on progress compared with plan are prepared

throughout the Group each quarter. A strategic plan is prepared by all major operating subsidiaries every three years. Financial accounting and reporting and certain management reporting standards are established for application across the whole Group. Centralised functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes. Credit and market risks are measured and reported on in subsidiaries and aggregated for review of risk concentrations on a Group-wide basis.

- Responsibilities for financial performance against plans and for capital expenditure, credit exposures and market risk exposures are delegated with limits to line management in the subsidiaries. In addition, functional management in Group Head Office set policies and standards in the areas of Finance; Legal and Regulatory Compliance; Human Resources; Credit; Market Risk; Computer Systems and Operations; Property Management; and for certain global product lines.
- The Internal Audit function, which is centrally controlled, monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. The work of the Internal Audit function is focused on areas of greatest risk to the Group as determined by a risk management approach. The head of this function reports to the Group Chairman and the Group Audit Committee. The Group's independent Auditors, KPMG, review the internal financial controls of the Group and conduct such tests and other auditing procedures as they consider necessary to express the opinion in their report on the financial statements. KPMG have free access to the Group Audit Committee, with and without members of management present, to discuss their audit and their findings as to the integrity of the Group's financial reporting and the adequacy of the internal financial control structure.

The Group Audit Committee has reviewed the effectiveness of the system of internal financial control throughout 1995 and the subsequent period up to 26 February 1996 when the financial statements were signed.

KPMG have reviewed both the statement on the Group's internal financial control systems and the reference to the Group's continued adoption of the going concern basis in preparing the Group's financial statements, contained in the 'Statement of Directors' Responsibilities in Relation to Financial Statements' on page 49. KPMG have reported that in their opinion these statements: (i) provide the information required by the Code, as supplemented by the related guidance for directors, and (ii) are consistent with the information of which they are aware from their work in connection with the audit of the Accounts. The Directors note that KPMG have performed their reviews in accordance with the guidance issued by the Auditing Practices Board and have not therefore performed any additional procedures to express separate opinions on internal financial controls or going concern.

Board Committees

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, D J Flint, J M Gray, Sir William Purves, J E Strickland and K R Whitson, Directors, and J H Cleave, D G Eldon, 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.

Nomination Committee

The Nomination 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.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning.

Report by the Remuneration Committee

The following is a Report by the Remuneration Committee, which has been approved and adopted by the Board for submission to shareholders.

'The members of the Remuneration Committee are Baroness Dunn (Chairman), H Sohmen and Sir Peter Walters, all of whom are non-executive Directors. R A Tennant, General Manager Group Human Resources, resigned from the Committee on 24 November 1995 in response to the recommendation of the Study Group on Directors' Remuneration chaired by Sir Richard Greenbury that remuneration committees should consist exclusively of non-executive Directors.

Policy

Within the authority delegated to the Remuneration Committee by the Board of Directors, the Remuneration Committee is responsible for determining the remuneration policy of the Group, including the terms of bonus schemes, share option schemes and other long-term incentive schemes and for fixing the individual remuneration packages of executive Directors and other senior Group employees.

In framing the remuneration policy, the Remuneration Committee has given full consideration to the London Stock Exchange's Best Practice Provisions relating to remuneration policy, service contracts and compensation.

The Remuneration Committee strives to ensure total remuneration is fair and will attract and retain the high calibre individuals employed. The remuneration packages are structured to take due account of levels of pay and market positioning in the many countries and businesses in which the Group operates. In appropriate circumstances, performance-related payments and share options are provided with the objective of rewarding achievement and aligning the interests of the individual with that of the Group and its shareholders.

In the determination of the terms of bonus and incentive schemes and individual remuneration awards, including retirement benefit arrangements, notice periods and severance terms, the Remuneration Committee makes reference to the practices and levels of remuneration in appropriate comparator companies which operate in similar industry sectors and territories to those in which the individual Group company, executive Director or employee is employed. Remuneration levels are influenced by, but are not linked to, these comparators.

Executive Directors may, if so authorised by the Board, accept appointment as non-executive Directors of suitable companies which are not part of the Group. Executive Directors would normally be permitted to take on no more than two such appointments. Any remuneration receivable in respect of these appointments is paid to the Group company by which the executive Director is employed.

Directors' Emoluments

The emoluments of the Directors of the Company for 1995 were as follows:

	Fees £000	*Salary and other remuneration* £000	*Benefits in kind* £000	*Discretionary bonuses[8]* £000	*Pension contributions* £000	*Total 1995* £000	*Total 1994* £000
Executive Directors							
Sir William Purves	20	503	37	120	—	680	633
— waived	(16)					(16)	(13)
J M Gray[1]	16	380	537	—	67	1,000	880
— waived	(20)					(20)	(15)
J R H Bond	20	421	25	150	66	682	619
— waived	(16)					(16)	(13)
B H Asher	20	387	7	140	—	554	522
K R Whitson[2]	20	302	31	75	47	475	320
J E Strickland	20	317	27	50	—	414	357
— waived	(16)					(16)	(13)
R Delbridge[3]	18	304	5	—	25	352	398
D J Flint[4]	2	26	—	—	—	28	—
Sir Brian Pearse[5]	—	—	—	—	—	—	90
Non-executive Directors							
G Maitland Smith	40	22	—	—	—	62	64
N R Knox	58	—	—	—	—	58	60
Sir Wilfrid Newton	40	7	—	—	—	47	35
D E Connolly	36	5	—	—	—	41	31
Sir Joseph Hotung	36	4	—	—	—	40	31
Baroness Dunn	36	3	—	—	—	39	30
Sir Peter Walters	20	3	—	—	—	23	67
H Sohmen	16	4	—	—	—	20	16
— waived	(20)	(3)				(23)	(17)
C D Mackay	20	—	—	—	—	20	15
Sir Colin Marshall	20	—	—	—	—	20	19
M Murofushi	20	—	—	—	—	20	15
Sir Adrian Swire[6]	17	—	—	—	—	17	—
D P H Liao[7]	6	—	—	—	—	6	28
Total	501	2,688	669	535	205	4,598	4,230

1 The emoluments of J M Gray include housing and other expatriate benefits in kind, which are normal within the location in which he was employed.
2 Appointed on 1 April 1994.
3 Resigned on 30 November 1995.
4 Appointed on 1 December 1995.
5 Resigned on 31 March 1994.
6 Appointed on 24 February 1995.
7 Resigned on 24 February 1995.
8 These discretionary bonuses in respect of 1995 will be paid in 1996.

Only basic salary is pensionable.

Pensions

The pension provision for J M Gray is covered under the International Staff Retirement Benefits Scheme of The Hongkong and Shanghai Banking Corporation Limited.

Report of the Directors *(continued)*

For J R H Bond and K R Whitson, pension arrangements to contractual retirement age of 60 are provided under the HongkongBank Group London Staff Pension Fund.

For R Delbridge, pension arrangements to contractual retirement age of 60 were provided under the Midland Bank and Midland Bank Executive Schemes. In addition, provision was made, by way of an unfunded commitment, to provide an enhanced pension. He retired early, on 30 November 1995, aged 53. The charge to the profit and loss account in relation to this retirement benefit was £903,000 in 1995 (1994: £122,000).

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	*At 31 December 1995*				
	1995	*Personal*	*Family*	*Corporate*	*Other*	*Total*
Ordinary Shares of HK$10						
B H Asher	2,100	2,100	—	—	—	2,100
J R H Bond	16,538	17,156	—	—	—	17,156
D E Connolly	186,214	193,181	—	—	—	193,181
J M Gray	17,306	3,979	13,965	—	—	17,944
Sir Joseph Hotung	654,688	258	—	678,926*	—	679,184
N R Knox	7,810	7,810	—	—	—	7,810
Sir Wilfrid Newton	3,505	3,636	—	—	—	3,636
Sir William Purves	34,331	35,615	—	—	—	35,615
H Sohmen	755,946	—	165,567	590,379*	—	755,946
J E Strickland	28,068	28,143	972	—	—	29,115
K R Whitson	1,591	1,650	—	—	—	1,650
Ordinary Shares of 75p						
C D Mackay	7,500	7,500	—	—	—	7,500
G Maitland Smith	1,805	1,864	—	—	—	1,864
Sir Colin Marshall	1,923	1,994	—	—	—	1,994
Sir Wilfrid Newton	2,000	2,000	—	—	—	2,000
Sir William Purves	1,369	1,420	—	—	—	1,420
Sir Peter Walters	13,005	13,005	—	—	—	13,005
11.69% Subordinated Bonds 2002 (£)						
J R H Bond	500,000	500,000	—	—	—	500,000
Baroness Dunn	70,000	70,000	—	—	—	70,000
G Maitland Smith	910	910	—	—	—	910
Sir Colin Marshall	975	975	—	—	—	975
Sir Wilfrid Newton	35,000	35,000	—	—	—	35,000
Sir Peter Walters	6,500	6,500	—	—	—	6,500

* *Interests held by private investment companies*

At 31 December 1995, 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 awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the Company's savings-related share option scheme were awarded at a 15 per cent discount to market value. There are no performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares of 75p each at 29 December 1995 (the last day in 1995 when the London Stock Exchange was open for business) was 1,006 pence. The highest and lowest market values during the year were 1,010 pence and 589 pence. Market value is the mid-market price quoted on the London Stock Exchange on the relevant date.

	Options held at 1 January 1995	*Options granted during year*	*Options exercised during year*	*Options held at 31 December 1995*	*Exercise price in pence*	*Exercisable from*	*Exercisable until*
B H Asher	12,613		—	12,613	721.84	12 Oct 1996	12 Oct 2003
	15,136		—	15,136	851.27	8 Mar 1997	8 Mar 2004
		15,000	—	15,000	651.80	7 Mar 1998	7 Mar 2005
		3,183	—	3,183*	541.80	1 Aug 2000	31 Jan 2001
J R H Bond	20,181		—	20,181	721.84	12 Oct 1996	12 Oct 2003
	20,181		—	20,181	851.27	8 Mar 1997	8 Mar 2004
		25,000	—	25,000	651.80	7 Mar 1998	7 Mar 2005
		3,183	—	3,183*	541.80	1 Aug 2000	31 Jan 2001
J M Gray	15,136		—	15,136	721.84	12 Oct 1996	12 Oct 2003
	25,227		—	25,227	851.27	8 Mar 1997	8 Mar 2004
	1,695		—	1,695*	610.47	1 Dec 1999	31 May 2000
		1,273	—	1,273*	541.80	1 Aug 2000	31 Jan 2001
Sir William Purves	25,227		—	25,227	721.84	12 Oct 1996	12 Oct 2003
	45,408		—	45,408	851.27	8 Mar 1997	8 Mar 2004
		45,000	—	45,000	651.80	7 Mar 1998	7 Mar 2005
	1,476		—	1,476*	700.84	1 Jul 1999	31 Dec 1999
		1,273	—	1,273*	541.80	1 Aug 2000	31 Jan 2001
J E Strickland	10,090		—	10,090	721.84	12 Oct 1996	12 Oct 2003
	15,136		—	15,136	851.27	8 Mar 1997	8 Mar 2004
		15,000	—	15,000	651.80	7 Mar 1998	7 Mar 2005
K R Whitson	8,577		—	8,577	721.84	12 Oct 1996	12 Oct 2003
	12,613		—	12,613	851.27	8 Mar 1997	8 Mar 2004
		20,000	—	20,000	651.80	7 Mar 1998	7 Mar 2005
		3,183	—	3,183*	541.80	1 Aug 2000	31 Jan 2001

* *Options granted under the Company's savings-related share option scheme*

Sir Joseph Hotung has 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 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 the beginning or at the end of the year and none of the Directors, or members of their immediate families, was awarded or exercised any right to subscribe for any shares or debentures during the year. No options awarded to Directors lapsed during the year.

On becoming a Trustee of a registered charity on 1 January 1996, Sir Adrian Swire became non-beneficially interested in 60,000 ordinary shares of HK$10 each. There have been no other changes in Directors' interests since 31 December 1995.

Executive Directors are eligible to participate in the HSBC Holdings Savings-Related Share Option Scheme under which options have been awarded at a 15 per cent discount to market price and in the HSBC Holdings Executive Share Option Scheme under which, depending upon Group results and individual achievement, options are awarded annually at market price. The exercise of executive options has not, in the past, been subject to further performance criteria as the award of the options at market price has aligned the interests of participants with those of shareholders. The Remuneration Committee has decided that performance criteria should be introduced for future awards of executive options. Accordingly, the exercise of options awarded in respect of 1996 and subsequent years will be subject to earnings per share rising over a three-year period by not less than 2 per cent per annum above a composite inflation factor calculated to reflect the levels of inflation in the territories in which it is expected that the majority of Group profits will be earned. On the basis that the proposals contained in the UK 1996 Finance Bill will become law, it is intended in the future to utilise Part B of the Executive Share Option Scheme (which does not require approval under the Income and Corporation Taxes Act 1988) to award options worldwide. The continued use of executive share options is considered important in encouraging executives in all businesses to view themselves as integral parts of the Group.

The Remuneration Committee is considering the introduction of a long-term incentive scheme for Executive Directors and selected senior executives, to which shareholders' approval will be sought at the forthcoming Annual General Meeting. Particulars of the scheme will be sent to shareholders with the Notice of the Meeting. Should such a scheme be introduced, participants in that scheme will not participate in the Executive Share Option Scheme.

Directors' Service Contracts

D J Flint, Group Finance Director, who joined the Group on 30 September 1995, is employed on a two-year fixed contract until 29 September 1997 and thereafter on a contract which provides for 12 months' notice to be given by the Company and for nine months' notice to be given by Mr Flint. The Remuneration Committee considers it to be in the best interests of the Group as a whole for this Executive to be retained on a contract of this length.

No other executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits in kind. Non-executive Directors are appointed for a three-year term.

J R H Bond, Group Chief Executive, who retires by rotation and who is standing for re-election at the forthcoming Annual General Meeting, is employed on a contract which provides for 12 months' notice to be given by the Company and for 12 months' notice to be given by Mr Bond.

On behalf of the Board
Dunn, *Chairman, Remuneration Committee'*

Directors' and Officers' Liability Insurance

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

Employees' Emoluments

Set out below is information in respect of the five employees, other than Directors of the Company, whose emoluments (excluding commissions or bonuses related to the revenue or profits generated by the employees individually or collectively with others engaged in similar activities) were the highest in the Group for the year ended 31 December 1995.

	£000
Basic salaries, allowances and benefits in kind	2,392
Pension contributions	212
Bonuses paid or receivable	750
Amounts paid as inducements to join or on joining the Group	1,268
	4,622

Their emoluments are within the following bands:

	Number of employees
£600,001 – £650,000	1
£700,001 – £750,000	1
£750,001 – £800,000	1
£1,050,001 – £1,100,000	1
£1,400,001 – £1,450,000	1

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.

There are some 32,000 Group employees in more than 40 countries worldwide now participating in the Company's savings-related share option scheme, which recently won an award for excellence from Proshare, the UK-based organisation promoting wider share ownership.

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	3.99 per cent
Standard Life Group	3.70 per cent
Legal & General Group	3.18 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, subsidiary undertakings of the Company sold on The Stock Exchange of Hong Kong a total of 88,800 ordinary shares of HK$10 each. The aggregate consideration for the sales was HK$8,944,000.

James Capel & Co. Limited (subsequently renamed HSBC Investment Bank plc) is a market maker in London in the shares of the Company.

Donations

During the year, the Group made charitable donations totalling £3,817,000. Of this amount, £1,242,000 was given for charitable purposes in the United Kingdom. No political donations were made during the year.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 31 May 1996 at 11.00 a.m.

Auditors

Consequent upon the transfer of the Head Office of the Company to London on 1 January 1993, KPMG Peat Marwick of Hong Kong retired at the 1993 Annual General Meeting and KPMG Peat Marwick of London, their associated firm, were appointed in their place. On 6 February 1995, KPMG Peat Marwick changed the name under which they practise to KPMG.

KPMG have indicated that a limited liability company, KPMG Audit Plc, has been formed to undertake that part of their audit business that includes the Company and its subsidiaries. Accordingly, a resolution proposing the appointment of KPMG Audit Plc as Auditors of the Company and giving authority to the Directors to fix their remuneration will be submitted to the forthcoming Annual General Meeting. Special notice to propose the appointment of KPMG Audit Plc as Auditors of the Company has been received.

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

26 February 1996

Summary of Financial Performance

Group profit

The HSBC Group made a profit before tax of £3,672 million in 1995, an increase of £506 million, or 16 per cent, over 1994. In Hong Kong dollar terms, pre-tax profit grew by 19 per cent from HK$37,527 million to HK$44,809 million.

Net interest income of £5,119 million was £522 million, or 11 per cent, higher than 1994. Other operating income rose by £407 million, or 13 per cent, to £3,434 million.

The Group's cost:income ratio improved to 55.9 per cent from 59.9 per cent in 1994, despite a 5 per cent increase in operating expenses to £4,781 million.

The charge for bad and doubtful debts was £416 million, which was £141 million higher than the charge in 1994. It included a general provision of £130 million, compared with £16 million in 1994, largely in recognition of the growth in outstanding loans and credit commitments.

Profit on disposal of fixed assets and investments of £232 million was £134 million lower than in 1994, largely as a result of lower equity disposals by Hang Seng Bank.

Profit attributable to shareholders was £2,462 million (HK$30,044 million) in 1995, an increase of 20 per cent (23 per cent in Hong Kong dollar terms).

Shareholder ratios

Earnings per share increased by 18 per cent, from 79.6 pence to 94.0 pence.

The headline earnings per share, which is calculated in accordance with the Institute of Investment Management and Research Statement of Investment Practice, increased by 17.1 pence, or 22 per cent. The headline earnings per share excludes profits on the sale of tangible fixed assets and, in 1994, profits on the disposal of Euromobiliare and on the partial disposal of an investment in the 3i Group.

Return on average shareholders' funds, at 20.7 per cent, increased slightly from 20.4 per cent in 1994.

Shareholders' funds rose by £2,597 million to £13,387 million, following the retention of £1,619 million of Group profits, additional capital of £173 million arising from scrip dividends and a surplus on the triennial revaluation of Group premises of £776 million.

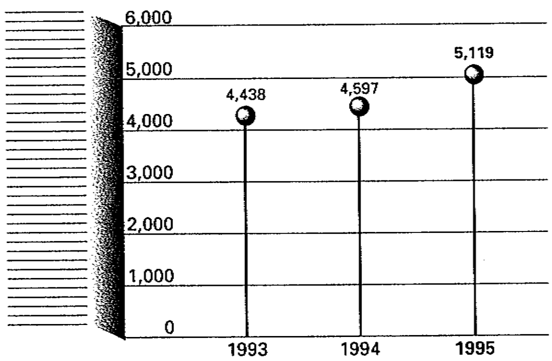
The Directors have recommended a final dividend of 22.75 pence per ordinary share, which, together with the interim dividend of 9.25 pence, will make a total distribution for the year of 32 pence (1994: 27 pence), an increase of 19 per cent. The dividend is covered 2.9 times by attributable profit (1994: 2.9 times).

Net interest income

In 1995, net interest income grew by £522 million, or 11 per cent, to £5,119 million. This reflected increased lending, a higher contribution from net free funds and a slight improvement in the overall Group net interest spread. Approximately half of the growth in net interest income was volume-driven, with the other half reflecting higher margins. Income levels were up in all geographic regions, ranging from growth of 7 per cent in the UK to 16 per cent in both Hong Kong and the rest of Asia-Pacific.

Average interest-earning assets increased by £9.5 billion, or 6 per cent, to £179.4 billion in 1995. This was financed substantially by increased customer deposits and retained earnings. Customer lending was higher, with growth in both consumer and commercial lending.

Net interest income (£m)



The Group's net interest margin improved from 2.71 per cent to 2.85 per cent, in an environment of increased competition and considerable downward pressure on net interest spreads. Strict pricing discipline and changes in the overall loan mix mitigated against the impact of higher funding costs from increased customer deposits. There was additional pressure on funding costs in Hong Kong due to the partial deregulation of time deposit interest rates and the intense competition for customer deposits. The small improvement in the Group net interest spread was reinforced by the generally higher average interest rates prevailing in 1995 which led to a substantial rise in the contribution from net free funds. In addition, there was a 25 per cent reduction in average non-performing loans during the year.

The net interest margin in the UK rose from 2.56 per cent in 1994 to 2.75 per cent in 1995. This reflected the benefits of higher net interest income in HSBC Holdings plc, mainly as a result of the investment of dividends from subsidiaries, partly offset by lower margins in UK commercial banking. The improvement in the net interest margin in Hong Kong, from 2.62 per cent to 2.88 per cent, mainly reflected the benefit of higher average interest rates on an increased level of net free funds. The net interest margin in the Americas increased by 24 basis points to 2.87 per cent, as a result of an improved loan mix tending towards higher-yielding middle market commercial loans and consumer lending, and a substantial reduction in non-performing loans, particularly in Concord Leasing.

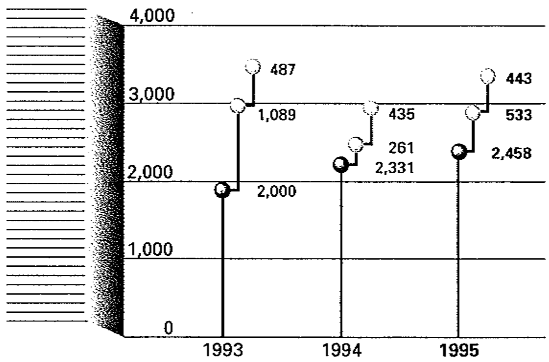
The reductions in the net interest margin in continental Europe, from 1.47 per cent to 1.42 per cent, and in the rest of Asia-Pacific, from 2.28 per cent to 2.19 per cent, were mainly due to the volume and performance of treasury assets booked in these geographic areas.

Non-interest income

Non-interest income of £3,434 million was £407 million, or 13 per cent, higher than 1994, mainly due to a substantial increase in dealing profits. Income levels were higher in all geographic regions, with particularly strong growth in continental Europe (34 per cent) and the rest of Asia-Pacific (20 per cent). Excluding dealing profits, other operating income rose by £135 million, or 5 per cent, from £2,766 million in 1994 to £2,901 million in 1995.

Net fees and commissions increased by £127 million, or 5 per cent, to £2,458 million, although highly-competitive market conditions limited the scope for revenue growth in many areas. Net fee income in the UK rose by £47 million, or 4 per cent, to £1,322 million, mainly due to volume growth in First Direct, Midland's cards business and Griffin Factors, partly offset by lower activity levels in equity securities and merchant banking. Net fee income in Hong Kong increased by £47 million, or 10 per cent, mainly in cards services, trade finance and credit facilities. Good growth in cards services and trade finance fee income was also seen in the rest of Asia-Pacific, where net fees and commissions rose by £29 million, or 13 per cent. There was a 5 per cent decline in the Americas, from £239 million in 1994 to £226 million.

Non-interest income (£m)



● Fees and commissions (net) ○ Other
○ Dealing profits

Dealing profits made a good recovery in 1995, rising from £261 million in 1994 to £533 million. More settled conditions in the world's bond markets and increased customer-driven business led to the

Analysis of income from dealing in financial instruments (£m)	1995 Dealing profits	1995 Net interest income/ (expense)	1995 Total	1994 Dealing profits	1994 Net interest income/ (expense)	1994 Total
Foreign exchange	**362**	**10**	**372**	343	7	350
Interest rate derivatives	**44**	**9**	**53**	2	(1)	1
Debt securities	**61**	**94**	**155**	(111)	80	(31)
Equities and other trading	**66**	**5**	**71**	27	6	33
	533	**118**	**651**	261	92	353

improvement. All regions reported higher dealing profits.

The term 'dealing profits' is a prescribed heading under the UK's implementation of the European Union's Bank Accounts Directive; it excludes net interest income, fees and commissions, and the cost of associated staff and other administrative expenses. The table on the previous page shows the net interest income attributable to dealing activities. The net interest income on securities trading arises on marked-to-market debt securities and treasury bills.

Other income mainly comprises rental income, increases in the net present value of the future earnings inherent in life assurance policies in force and other insurance premiums. Other income in the rest of Asia-Pacific rose by £9 million, or 38 per cent, to £33 million. Other income in the UK declined by £12 million, or 4 per cent, to £262 million. There was a £17 million benefit from the change in the discount rate used for the calculation of the net present value of the future earnings inherent in policies in force in the life assurance business. This benefit was offset, however, by lower income from life assurance, merchant banking and equity securities.

Operating expenses

Operating expenses increased by £217 million, or 5 per cent, to £4,781 million in 1995, partly due to the need to expand headcount and invest in new products and services in many areas. The cost:income ratio improved in all geographic regions.

Staff costs were up by £188 million, or 7 per cent, compared with 1994. Although Midland's staff numbers were reduced by 5 per cent, redundancy costs associated with the reorganisation of its domestic retail and corporate operations amounted to £76 million (1994: £32 million). The staff costs of HongkongBank and its subsidiaries rose by £58 million, reflecting a 2 per cent increase in staff numbers and a 10 per cent growth in average salary costs as a result of annual pay awards.

Premises and equipment costs rose by 3 per cent, including a charge of £34 million relating to vacant space provisioning in Midland (1994: £16 million).

The **charge for depreciation** remained level at £347 million, compared with £342 million in 1994.

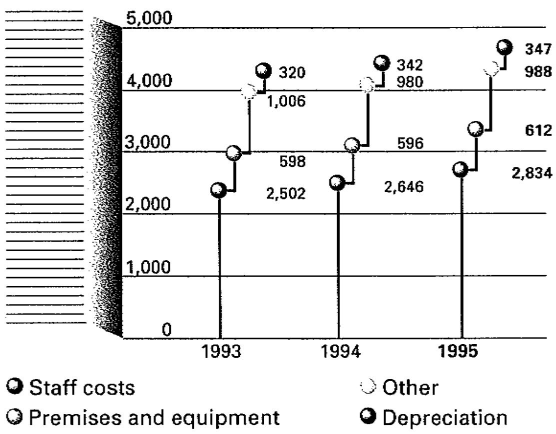
The **cost:income ratio** fell from 59.9 per cent in 1994 to 55.9 per cent, with a notable improvement in HSBC Americas, Inc. reflecting lower operating expenses, particularly those relating to Concord Leasing, and further headcount savings.

	Full-time equivalent		
Staff numbers	**1995**	1994	1993
HongkongBank	**21,953**	21,877	24,403
Hang Seng Bank	**7,926**	7,499	6,995
Midland Bank	**43,572**	45,900	45,088
HSBC Americas, Inc.*	**8,012**	8,371	8,649
Hongkong Bank Malaysia†	**4,093**	4,057	—
Hongkong Bank of Canada	**3,373**	3,100	2,943
The British Bank of the Middle East	**2,397**	2,333	2,240
Other	**9,744**	8,600	8,448
Total staff numbers	**101,070**	101,737	98,766

** Formerly Marine Midland Banks, Inc. and now includes Concord Leasing; comparative figures have been restated.*

† Hongkong Bank Malaysia's branch staff numbers were included in HongkongBank in 1993.

Operating expenses (£m)

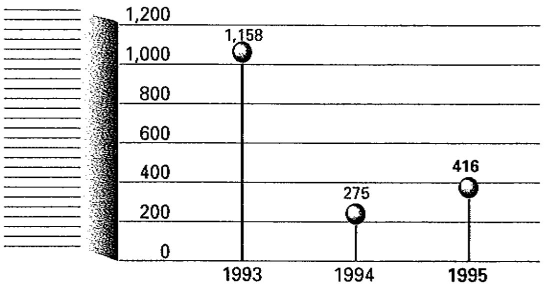


Bad and doubtful debts

The £416 million charge against profit for the year was £141 million higher than 1994. New provisions raised, at £855 million, were £38 million lower than 1994, £337 million of provisions were released and £102 million of provisions previously written off were recovered.

The charge in Midland Bank of £198 million was £100 million higher than 1994. Increased charges were recorded in both the domestic UK charge, which was £4 million higher at £168 million, and in the international charge (excluding less developed countries), which was £28 million higher at £29 million. In addition, Midland Bank's LDC Debt Management reported a charge of £1 million against a net release of £67 million in 1994.

Charge for bad and doubtful debts (£m)



HSBC Americas, Inc. recorded a charge of £109 million, of which £72 million was against the Concord Leasing 'exit' portfolio, an increase of £5 million from the 1994 charge of £104 million, which included a charge of £111 million related to Concord Leasing.

There was a charge of £53 million in the HongkongBank Group, compared with a net recovery of £6 million in 1994, with new specific provisions slightly higher than in 1994 with reduced levels of recoveries and releases of provisions. The majority of the increase in the net specific charge was in the Asia-Pacific region outside of Hong Kong.

Profit on disposal of fixed assets and investments

The Group's profits on disposal of fixed assets and investments decreased by £134 million to £232 million.

Hang Seng Bank recorded profits on the sale of listed equity investments of £89 million (1994: £186 million). Midland Bank's gains included a £31 million profit on the disposal of part of its investment in the 3i Group. Samuel Montagu (now HSBC Samuel Montagu) reported a £61 million profit from disposals by Montagu Private Equity (now HSBC Private Equity Europe).

Equity shares include £694 million (1994: £611 million) held on investment account, on which there was an unrealised gain of £654 million (1994: £531 million).

The debt securities investment portfolios showed an unrecognised gain, net of off-balance-sheet hedges, of £172 million (1994: net unrecognised loss of £151 million).

Taxation

The 1995 effective rate of tax was 24.4 per cent, compared with 26.2 per cent in 1994. For both years, the effective rate of tax was below the standard 33 per cent rate of UK corporation tax, mainly because of lower rates of tax in major subsidiaries overseas. The benefit of these lower rates of tax was partially offset by unrelieved losses overseas, particularly those of Concord Leasing in 1994, but increased in 1995 as the result of the partial recognition in the USA of those Concord Leasing losses. In 1994, there was also the benefit of recognition in the USA of Marine Midland's prior year losses and, in the UK, of part of Midland Bank's previously written off advance corporation tax.

Analysis of overall tax charge (£m)	**1995**	1994
Taxation at UK corporation tax rate of 33 per cent	**1,212**	1,045
Net tax effect of differently taxed overseas profits	**(234)**	(219)
Unrelieved trading losses	**24**	67
Utilisation of previously unrecognised tax losses and advance corporation tax	**(49)**	(52)
Other items	**(56)**	(12)
Overall tax charge	**897**	829

Assets

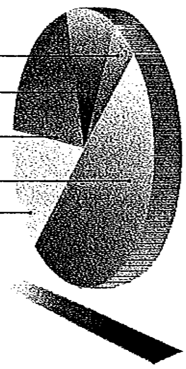
Total assets rose by £25.3 billion, from £201.5 billion to £226.8 billion, compared with December 1994.

Customer loans as a percentage of total assets fell slightly, from 50.3 per cent to 49.3 per cent in 1995. All categories of customer lending increased, except loans to non-bank financial institutions. In Hong Kong, customer lending increased by 9 per cent to £31.6 billion. Growth in residential mortgages, particularly those made under the Hong Kong Government's Home Ownership Scheme, and in trade-related lending outpaced growth in other corporate lending which remained relatively subdued. In the UK, growth in residential mortgages remained strong whilst commercial, industrial and international trade lending rose to £11.6 billion, representing 28.3 per cent of lending in 1995.

Loans and advances to banks of £43.0 billion increased by £1.1 billion, or 3 per cent, mainly due to

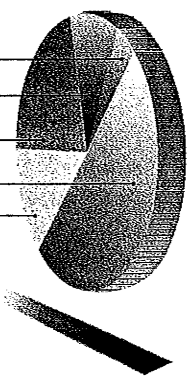
Assets ***1995*** *(excluding Hong Kong Government certificates of indebtedness)*

	%	£b
Treasury and other eligible bills	5.8	**12.7**
Debt securities	11.1	**24.7**
Loans and advances to banks	19.4	**43.0**
Loans and advances to customers	49.3	**109.4**
Other	14.4	**31.9**
Total	100.0	**221.7**



Assets 1994 (excluding Hong Kong Government certificates of indebtedness)

	%	£b
Treasury and other eligible bills	4.7	9.3
Debt securities	10.8	21.2
Loans and advances to banks	21.3	41.9
Loans and advances to customers	50.3	98.8
Other	12.9	25.3
Total	100.0	196.5



increases in Hong Kong by HongkongBank and its subsidiaries, reflecting increased customer deposits and restricted demand for customer advances.

Debt securities were £24.7 billion, up by £3.5 billion over 1994. Investment securities rose by £2.0 billion, whilst trading securities rose by £1.5 billion.

Capital Management

Capital measurement and allocation

Group capital adequacy is measured by the ratio of the Group's capital to risk-weighted assets, taking into account both balance sheet assets and off-balance-sheet transactions. The Bank of England, the supervisor of the HSBC Group on a consolidated basis, receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Individual banking subsidiaries are directly regulated by the appropriate local banking supervisors, which set and monitor capital adequacy requirements for them. Similarly, securities subsidiaries and other non-banking subsidiaries are subject to the supervision and capital requirements of relevant local regulatory authorities. Since 1988, when the governors of the Group of Ten central banks agreed to guidelines for the international convergence of capital measurement and standards, the banking supervisors of the HSBC Group's major banking subsidiaries have exercised capital adequacy supervision in a broadly similar framework. The Bank of England, in implementing the European Union's Own Funds and Solvency Ratio Directives, requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets.

It is the Group's policy to maintain a strong capital base to support development of the Group's business. It seeks to maintain a prudent balance between the different components of Group capital and, in the holding company, between the composition of its capital and that of its investment in subsidiaries.

Capital is divided into two tiers: tier 1, comprising shareholders' funds and minority interests, and tier 2, comprising general loan loss provisions, property revaluation reserves and qualifying subordinated loan capital. The amount of qualifying tier 2 capital cannot exceed that of tier 1 capital, and term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also limitations on the amount of general provisions which may be included in the tier 2 capital. Deductions in respect of intangible assets and unconsolidated investments are made from tier 1 capital and total capital, respectively.

Risk assets are measured by means of a hierarchy of risk weights classified according to the nature of each asset and counterparty. All off-balance-sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty.

From 1 January 1996, the method the Bank of England uses to assess the capital adequacy of banks and banking groups has been modified as a result of its implementation of the European Union's Capital Adequacy Directive. This involves making more specific and comprehensive allowance for market-related risks, such as foreign exchange, interest rate and equity position risks. As at 1 January 1996, the change did not have a material impact on the Group's capital ratios.

Group capital structure

During 1995, the Group's total capital ratio increased from 14.4 per cent to 14.7 per cent and its tier 1 capital ratio increased from 9.1 per cent to 9.5 per cent.

Tier 1 capital increased by £2,332 million (20 per cent) from the level at the end of 1994, mainly due to profit retentions of £1,619 million. Minority interests increased by £477 million, in part as a result of two issues totalling US$375 million of non-cumulative preference shares by Midland Bank. Additional capital of £185 million arose from scrip dividends and the issues of shares under share option schemes. Shareholders' funds also increased by a net £51 million, due to foreign currency translation adjustments and other reserves movements, less goodwill on acquisition of subsidiary and associated undertakings.

Tier 2 capital increased by £1,185 million. Property revaluation reserves increased by £744 million, largely as a result of the triennial Group property revaluation. Additional term subordinated debt of £200 million and US$300 million was issued by Midland Bank, but there was a net £104 million reduction arising from regulatory amortisation of qualifying capital, repayments, exchange rate and other movements.

Total risk-weighted assets increased by 15 per cent, mainly due to growth in customer lending and off-balance-sheet derivatives.

£m	**1995**	1994
Composition of capital		
Tier 1:		
Shareholders' funds	**13,387**	10,790
Minority interests	**2,700**	2,223
Less: property revaluation reserve	**(2,222)**	(1,478)
Intangibles/Other	**(31)**	(33)
Total qualifying tier 1 capital	**13,834**	11,502
Tier 2:		
Property revaluation reserve	**2,222**	1,478
General provisions	**916**	775
Perpetual subordinated debt	**1,795**	1,783
Term subordinated debt	**3,478**	3,190
Minority interests (in tier 2 preference shares)	**63**	63
Total qualifying tier 2 capital	**8,474**	7,289
Unconsolidated investments	**(657)**	(507)
Investments in other banks	**(232)**	(145)
Other deductions	**(95)**	(41)
Total capital	**21,324**	18,098
Total risk-weighted assets	**145,218**	125,823
Capital ratios	**%**	%
Total capital/risk-weighted assets	**14.7**	14.4
Tier 1 capital/risk-weighted assets	**9.5**	9.1

Deployment of shareholders' funds

The shareholders' funds of HSBC Holdings plc are deployed mainly in investment in its subsidiaries. At 31 December 1995, the major investments of shareholders' funds, compared with the previous year, were:

£m	**1995**	1994
Hang Seng Bank (61.51% owned)	**2,206**	1,808
HongkongBank and other subsidiaries	**3,447**	2,440
HongkongBank and subsidiaries	**5,653**	4,248
Midland Bank plc	**2,850**	2,702
HSBC Americas, Inc.	**1,010**	894
Hongkong Bank Malaysia Berhad	**302**	257
Hongkong Bank of Canada	**273**	240
The British Bank of the Middle East	**157**	154
HSBC Investment Bank Limited	**267**	335
Holding company and non-trading subsidiaries	**2,268**	1,204
Other subsidiaries	**354**	505
Consolidated associates	**253**	251
	13,387	10,790

It is Group policy for subsidiaries to retain sufficient profits to support planned business growth and to dividend any surplus profits to the holding company. The effect of exchange rate movements in 1995 was small and movements in the above figures closely reflect the level of retentions by subsidiaries and, for HongkongBank and its subsidiaries, the effect of the Group property revaluation.

HSBC Investment Bank Limited, a UK-based holding company, had consolidated shareholders' funds as at 31 December 1995 that were substantially less than the sum of the share capital and reserves of all the subsidiaries included in the investment banking line of business (most notably due to HSBC Investment Bank Asia Holdings Limited being a subsidiary of HongkongBank).

The shareholders' funds of the holding company and non-trading subsidiaries represent the surplus of HSBC Holdings plc's equity capital over its equity investments, after adjusting for the capital structure of its immediate non-trading holding companies. The principal non-trading holding companies are HSBC Holdings (Investments) Limited and HSBC Holdings BV. The equity resources of the holding company and non-trading subsidiaries increased by £1,064 million in 1995, reflecting the surplus of dividends from subsidiaries over new equity investments in subsidiaries and dividends to shareholders.

Credit Risk Management

Credit risk

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

Group Head Office is responsible for the formulation of high-level credit policies; the independent review of the Group's largest credit exposures; the control of the Group's cross-border exposures; and portfolio management of risk concentrations. It also reviews the efficiency of Group companies' credit approval processes, a key element of which is the Group's universal facility grading system. The Group Executive Committee receives regular reports on credit exposures at both Group and subsidiary levels. These include information on asset concentrations, industry exposures, levels of bad debt provisioning and country exposure limits.

In each of the Group's subsidiaries, local management is responsible for the quality of its credit portfolios. Each subsidiary has established a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

The Group's credit risk limits to counterparties in the financial and government sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. Group companies remain responsible for their own credit exposures. In addition to the portfolio management undertaken at Group level, each subsidiary manages its own risk concentrations on a market sector, geographical and product basis.

Cross-border risk is controlled through the imposition of country limits, with sub-limits by maturity and type of business. Transactions with higher risk countries are considered on a case-by-case basis.

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

Industry exposures

Loans and advances to customers are spread throughout the various industrial sectors, as well as geographically. Approximately one-third of loans and advances to customers are to the consumer sector and two-thirds are to commercial enterprises.

Residential mortgages now comprise 21.7 per cent of the overall portfolio, having increased by £3,075 million, or 14.4 per cent, during 1995. Much of this increase was due to growth in the mortgage books of Hang Seng Bank, Midland in the UK and Hongkong Bank of Canada. Loan loss experience in this sector remains very good. Other consumer advances increased by 11.0 per cent during 1995, to £14,391 million.

Commercial, industrial and international trade loans increased by £4,157 million, or 15.9 per cent, to £30,361 million. This was as a result of growth in Midland's lending to its UK business customers, together with continued buoyant demand in the Asia-Pacific region for corporate lending and trade finance.

Real estate and construction advances increased by £544 million, or 3.4 per cent, to £16,365 million, mainly due to increased lending in HSBC Americas, Inc., Hongkong Bank of Canada and HongkongBank (in the Americas and Asia-Pacific region).

Advances to financial institutions other than banks decreased by £579 million, or 10.5 per cent. An increase in Asia-Pacific by Midland was more than offset by a decrease in its UK operations.

Other advances increased by £1,739 million, or 8.5 per cent, mainly due to rises at Midland in the UK and at HongkongBank in Hong Kong.

Gross loans and advances to customers by industry exposure

	1995		1994	
	£m	**%**	£m	%
Consumer:				
Residential mortgages	**24,458**	**21.7**	21,383	20.9
Other advances to individuals*	**14,391**	**12.7**	12,964	12.6
Total consumer	**38,849**	**34.4**	34,347	33.5
Commercial:				
Commercial, industrial and international trade	**30,361**	**26.9**	26,204	25.6
Real estate, construction	**16,365**	**14.5**	15,821	15.4
Non-bank financial institutions	**4,930**	**4.4**	5,509	5.4
Other	**22,276**	**19.8**	20,537	20.1
Total commercial	**73,932**	**65.6**	68,071	66.5
Total	**112,781**	**100.0**	102,418	100.0

** Advances to individuals under the Hong Kong Government's Home Ownership Scheme are included under 'Other advances to individuals'.*

Bad debt provisions

Total provisions against loans and advances to customers amounted to £3,023 million at 31 December 1995 and represented 2.7 per cent of lending, compared with 3.1 per cent at the end of 1994. HongkongBank and its subsidiaries reported a reduction of £145 million, principally in its UK operations.

The general improvement in credit quality of the Group's customer loan portfolio is reflected in the fall in non-performing loans and advances of £812 million, or 16.3 per cent, to £4,181 million. Non-performing loans amounted to 3.7 per cent of total loans and advances to customers, compared with 4.9 per cent at the end of December 1994. The majority of the reduction was in HSBC Americas, Inc. and HongkongBank.

Specific provisions against loans and advances to banks of £42,966 million (1994: £41,944 million) amounted to £53 million (1994: £72 million). Non-performing loans to banks decreased by £31 million to £60 million in 1995.

Customer loans and advances (£m)	**1995**	1994
Gross loans and advances	**112,781**	102,418
Suspended interest	**(385)**	(429)
	112,396	101,989
Provisions	**(3,023)**	(3,194)
Net loans and advances	**109,373**	98,795

Provisions to customer loans and advances (%)	**1995**	1994
Specific provisions	**1.9**	2.4
General provisions	**0.8**	0.7
Total provisions	**2.7**	3.1

Non-performing customer loans and provisions (£m)	**1995**	1994
Non-performing loans	**4,181**	4,993
Provisions	**3,023**	3,194

LDC exposure and provisions (£m)	**1995**	1994
LDC provisionable exposure	**1,362**	1,443
Provisions	**306**	344
Provisions as a percentage of LDC provisionable exposure (%)	**22**	24

Market risk management

Market risk

Market risk is the risk that interest rates, foreign exchange rates or equity and commodity prices will move relative to positions taken, causing profits or losses to the Group. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis).

The Group makes markets in interest rate and exchange rate derivative instruments, as well as in debt, equity and other securities. Trading risks arise either from customer-related business or from position taking.

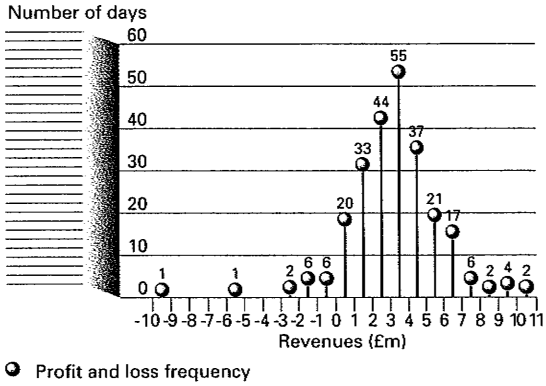
Market risk is managed within risk limits approved by the Group Executive Committee. Group Market Risk, an independent unit within Group Treasury, develops risk management policies and techniques, and reviews limit utilisation for all treasury centres. Risk limits are determined for each location and within location, for each portfolio, subject to restrictions on product, currency, interest rate repricing and market volatility risks. Liquidity considerations are also taken into account in determining the limits set. Only those offices within major subsidiaries with sufficient derivative product expertise and appropriate control systems are authorised to trade derivative products. Actual risk levels compared with approved limits are monitored daily by each subsidiary and by Group Market Risk.

A key component of market risk management is the estimation of potential losses that could occur on risk positions taken due to movements in market rates and prices — generally referred to as 'value at risk'. Value at risk is computed for all treasury centres across the Group on a regular basis. The value at risk measure employed assesses the potential loss that could occur due to the change in value of treasury portfolios caused by movements in interest rates, foreign exchange rates and in related volatilities. The calculation uses historical one-day movements in market rates and prices, a 95 per cent confidence level, and takes account of correlations between different markets and rates. This analysis is augmented by stress testing, both on individual portfolios and on a consolidated basis. Stress testing looks at the potential profit and loss impact of more extreme moves in market prices.

Value at risk measurement techniques have been applied in respect of principal trading currencies throughout the year, and have been progressively applied to all other market risk elements within Treasury during the year. The value at risk for all interest rate risk and foreign exchange risk positions at 31 December 1995 was £16.8 million. This is broadly representative of risk levels run throughout 1995.

The average daily revenue earned from market-risk-related treasury activities in 1995, including accrual book net interest income and funding related to dealing positions, was £3.2 million. The standard deviation of these daily revenues was £2.5 million. An analysis of the frequency distribution of daily revenues is shown opposite.

Daily distribution of market risk revenues
Group Treasury centres



Foreign exchange exposure

The Group's foreign exchange exposures comprise the following: those which arise from foreign exchange dealing within Group Treasury; structural foreign currency translation exposures; and currency exposures originated by commercial banking businesses in the Group. The latter are transferred to local treasury units where they are managed together with exposures which result from dealing within limits approved by the Group Executive Committee.

Value at risk related to foreign exchange dealing positions as at 31 December 1995 was £1.8 million. The average one-day foreign exchange trading profit for 1995 was £1.4 million. The value at risk and average dealing profit information noted excludes structural foreign currency exposures, since related gains or losses are taken through reserves.

The Group's structural foreign exchange exposure is represented by the net asset value of the holding company's foreign currency equity and subordinated debt investments in its subsidiaries, branches and associated companies. These foreign currency investments amounted to the foreign currency equivalent of £8,356 million (62 per cent of shareholders' funds) at 31 December 1995, an increase from £7,100 million (66 per cent of shareholders' funds) at 31 December 1994. Gains or losses on structural foreign exchange exposures are taken to reserves.

The higher level of structural foreign currency exposure is principally due to the booking of the triennial Group property revaluation and profit retentions in overseas subsidiaries, branches and associated companies. The lower proportion of shareholders' funds represented by the structural foreign exchange exposure results principally from the increased liquidity in the holding company as a result of dividend payments by subsidiaries.

Structural foreign exchange exposures are managed within the Group with the primary objective of ensuring, where practical, that the Group's and individual banking subsidiaries' tier 1 capital ratios are protected from the effect of changes in exchange rates. This is achieved by capital being denominated broadly in proportion to the corresponding foreign-currency-denominated risk-weighted assets. Where appropriate, net foreign currency investments in overseas subsidiaries and associates are hedged to meet this objective or to protect the sterling value of capital invested.

Interest rate exposure

The Group's interest rate exposures comprise those originating in its treasury trading activities and structural interest rate exposures; both are managed under limits described above. Interest rate risk arises in both dealing portfolios and accrual books.

Value at risk at 31 December 1995 related to interest rate exposures, including interest rate risk related to accrual book positions, was £15.7 million. The average daily revenues earned from treasury-related interest rate activities for 1995 were £1.8 million.

Structural interest rate risk arises primarily from the employment of non-interest bearing liabilities, such as shareholders' funds and some current accounts, as well as fixed rate loans and liabilities other than those generated by treasury business. Each major Group subsidiary assesses the structural interest rate risks which arise in its business and either transfers such risks to its local treasury unit or to separate books managed by the local asset and liability management committee. These interest rate positions are regularly monitored by subsidiaries' asset and liability management committees and, where necessary, quantitative models are used to assess the risks in these interest rate positions. While the primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income, the subsidiaries also seek to enhance net interest income, subject to risk limits approved by the Group Executive Committee.

Liquidity Management

The Group manages the liquidity structure of its assets, liabilities and commitments so as to ensure that cash flows are sufficiently balanced within each of the subsidiaries. Where cash flow imbalances arise, the Group's policy is to establish minimum ratios of liquid assets to customer deposits.

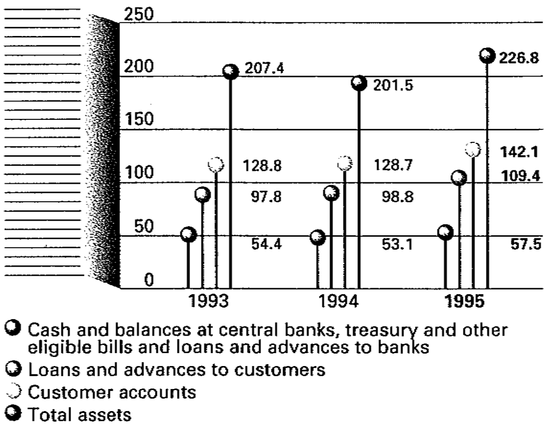
Core retail deposits (current accounts and savings deposits payable on demand or at short notice) form a significant part of the Group's overall funding. Considerable importance is attached to the stability of this core deposit base, achieved through the Group's diverse geographical retail banking activities. The Group prefers to grow its balance sheet through increasing core retail deposits where possible. Professional market funds are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities.

As at 31 December 1995, customer accounts totalled £142.1 billion, an increase of 10.4 per cent from 31 December 1994. Deposits by banks increased by 8.4 per cent to £20.7 billion at 31 December 1995.

Customer current, deposit and savings accounts accounted for 87.3 per cent of the Group's deposit base at 31 December 1995, compared with 87.1 per cent at 31 December 1994. As at 31 December 1995, 77.0 per cent of the Group's customer accounts were deployed in loans and advances to customers, compared with 76.8 per cent at 31 December 1994.

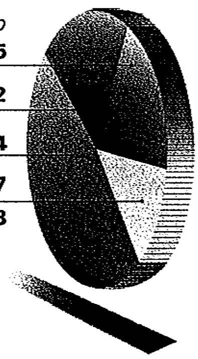
Cash and balances at central banks, treasury bills and other eligible bills, and loans and advances to banks accounted for 25.4 per cent of total assets and 35.3 per cent of deposits at 31 December 1995, compared with 26.3 per cent and 35.9 per cent, respectively, at 31 December 1994.

Assets, deposits and advances (£b)



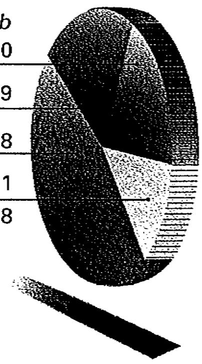
*Customer accounts and deposits by banks **1995***

	%	£b
Current	20.0	**32.5**
Savings	20.4	**33.2**
Other deposits	46.9	**76.4**
Deposits by banks	12.7	**20.7**
Total	100.0	**162.8**



Customer accounts and deposits by banks 1994

	%	£b
Current	19.6	29.0
Savings	20.9	30.9
Other deposits	46.6	68.8
Deposits by banks	12.9	19.1
Total	100.0	147.8



Off-Balance-Sheet Financial Instruments

Derivatives

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

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

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

The following table gives a summary of the outstanding notional principal contract amounts with third parties and the cost of replacing the contracts at current market rates if counterparties were not to meet their commitments under the contracts, as at 31 December 1994 and 31 December 1995. Contract amounts shown indicate the volume of transactions outstanding; they do not represent values at risk.

Derivatives contracts with third parties (£m)

	1995		1994	
	Contract amount	Replacement cost	Contract amount	Replacement cost
Exchange rate contracts	**376,018**	**4,916**	302,302	3,514
Interest rate contracts	**608,922**	**7,014**	745,971	4,697
Total	**984,940**	**11,930**	1,048,273	8,211

At 31 December 1995, the total notional principal of outstanding contracts with third parties was £985 billion, compared with a value of £1,048 billion at 31 December 1994. The net decrease of £63 billion, or 6 per cent, represents a £137 billion decline in interest rate contracts, principally reflecting reduced market-making activity in forward rate agreements and related futures hedges. This decline was partially offset by an increase in exchange rate contracts.

Total derivatives contracts outstanding (including non-trading internal deals) (£m)	1995 Contract amounts Trading	Contract amounts Non-trading	Mark-to-market values Positive	Mark-to-market values Negative
Spot and forward foreign exchange	**331,891**	**24,708**	**3,902**	**(4,148)**
Currency swaps, futures and options purchased	**19,405**	**1,538**	**627**	**(305)**
Currency options written	**9,655**	**0**	**0**	**(213)**
Equity and other	**7,463**	**126**	**387**	**(385)**
Total exchange rate contracts	**368,414**	**26,372**	**4,916**	**(5,051)**
Less: not recognised in the balance sheet			**(39)**	**30**
Balance sheet values			**4,877**	**(5,021)**
Interest rate swaps	**297,205**	**67,766**	**6,070**	**(6,394)**
Interest rate futures, forward rate agreements and options purchased	**246,888**	**5,611**	**944**	**(369)**
Interest rate options written	**41,014**	**0**	**0**	**(635)**
Total interest rate contracts	**585,107**	**73,377**	**7,014**	**(7,398)**
Less: not recognised in the balance sheet			**(286)**	**185**
Balance sheet values			**6,728**	**(7,213)**

The replacement cost amount increased from £8.2 billion at 31 December 1994 to £11.9 billion at 31 December 1995. £2.3 billion of this increase related to interest rate contracts, caused principally by interest rate movements during the year. £1.4 billion related to exchange rate contracts and was mainly due to the growth in contracts outstanding.

The table at the bottom of the previous page provides an analysis of derivatives by product at 31 December 1995, showing those contracts undertaken for trading purposes and those used for asset and liability management purposes (non-trading). The sum total of the contract amounts outstanding is greater than the total outstanding with third party counterparties shown in the previous table since it includes internal deals undertaken for asset and liability management purposes. An analysis of positive and negative mark-to-market values is also shown. Positive amounts represent the replacement cost values, whilst negative amounts represent losses on contracts where the current mark-to-market value is less than the value contracted.

Risks associated with derivatives

Derivative instruments are subject to both market risk and credit risk.

The market risk associated with derivatives can be significant since large positions can be accumulated with a substantially smaller initial outlay than required in cash markets. Recognising this, only certain offices within major subsidiaries with sufficient derivative product expertise and appropriate control systems are authorised to trade derivative products. The management of market risk arising from derivatives business is monitored by Group Market Risk, in combination with market risks arising from on-balance-sheet instruments.

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

The following table analyses the replacement cost of all exchange rate and interest rate contracts with positive mark-to-market gains, after netting where possible, by maturity and by category of counterparty. The table shows that the replacement cost of derivatives is predominantly with banks and under five years.

	Residual maturity			
£m	Less than 1 year	1-5 years	Over 5 years	Total
Governments	**40**	**31**	**11**	**82**
Banks	**5,420**	**3,600**	**762**	**9,782**
Non-bank financial institutions				
– exchanges*	**76**	**12**	**0**	**88**
– other	**263**	**90**	**7**	**360**
Other sectors	**690**	**679**	**249**	**1,618**
Total **1995**	**6,489**	**4,412**	**1,029**	**11,930**
Total 1994	4,586	3,036	589	8,211

** Exchanges with margining requirements.*

A maturity profile of the notional principal values of third party derivative contracts outstanding as at 31 December 1995 shows that the vast majority of contracts are executed over the counter and mature within one year.

£m	Less than 1 year	1-5 years	Over 5 years	Total
Exchange and interest rate contracts				
– exchanges*	**65,320**	**6,945**	**0**	**72,265**
– other contracts	**658,007**	**221,459**	**33,209**	**912,675**
Total	**723,327**	**228,404**	**33,209**	**984,940**

** Exchanges with margining requirements.*

Financial Reporting

The 1995 financial accounts have been presented in the same format as last year, which reflected the application of the Companies Act 1985 (Bank Accounts) Regulations 1991 applicable to UK banking groups.

The accounting policies used in the preparation of the accounts are consistent with previous years. The following changes in presentation have been made and comparative data have been restated accordingly.

In 1994, the long-term assurance assets attributable to policyholders of HSBC Life Limited (now known as Hang Seng Life Limited) were included in the relevant balance sheet categories for each class of asset held. In 1995, in order to reflect the different nature of the shareholders' and policyholders' interests in the consolidated balance sheet, long-term assurance assets have been separately classified under 'Other assets' as explained in Note 23 in the 'Notes on the Accounts'.

In addition, the profit and loss account presentation of interchange fees payable to other banks has been changed. Interchange fees arise from the use of credit cards by banks' customers either through sales transactions or cash withdrawals from automated teller machines. In 1994, interchange fees payable were offset against related fees receivable from customers within 'Fees and commissions receivable'. In 1995, in order to reflect the separate legal obligations of the Group in respect of the fees receivable and payable, interchange fees payable have been included in 'Fees and commissions payable'. The effect of restating the 1994 comparative data for the change is provided in Note 5 in the 'Notes on the Accounts'.

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report 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 these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that in preparing the financial statements on pages 50 to 88, the Company has used appropriate accounting policies, consistently applied, save as disclosed in the 'Notes on the Accounts', and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the 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*

26 February 1996

Report of the Auditors, KPMG, to the Members of HSBC Holdings plc

We have audited the financial statements on pages 50 to 88 and the detailed information set out in the report by the Remuneration Committee on pages 31 to 33.

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 of the Group as at 31 December 1995 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
Chartered Accountants/Registered Auditors
London

26 February 1996

Consolidated Profit and Loss Account for the Year Ended 31 December 1995

1994 £m		Note	1995 £m	*1995 HK$m*	*1995 US$m*
	Interest receivable				
	— interest receivable and similar				
1,219	income arising from debt securities		**1,306**	*15,937*	*2,061*
	— other interest receivable and				
9,556	similar income		**11,878**	*144,947*	*18,743*
(6,178)	Interest payable		**(8,065)**	*(98,417)*	*(12,726)*
4,597	**Net interest income**		**5,119**	*62,467*	*8,078*
70	Dividend income	*3*	**72**	*879*	*114*
2,610	Fees and commissions receivable	*5*	**2,744**	*33,485*	*4,330*
(279)	Fees and commissions payable	*5*	**(286)**	*(3,490)*	*(451)*
261	Dealing profits		**533**	*6,504*	*841*
365	Other operating income		**371**	*4,527*	*585*
7,624	**Operating income**		**8,553**	*104,372*	*13,497*
(4,222)	Administrative expenses	*4*	**(4,434)**	*(54,108)*	*(6,997)*
(342)	Depreciation and amortisation	*21*	**(347)**	*(4,234)*	*(548)*
3,060	**Operating profit before provisions**		**3,772**	*46,030*	*5,952*
	Provisions				
(275)	— provisions for bad and doubtful debts	*14*	**(416)**	*(5,077)*	*(657)*
	— provisions for contingent liabilities				
(65)	and commitments	*28*	**24**	*293*	*38*
	Amounts written off fixed				
(6)	asset investments		**(16)**	*(195)*	*(25)*
2,714	**Operating profit**		**3,364**	*41,051*	*5,308*
	Profit on disposal of fixed assets				
366	and investments		**232**	*2,831*	*366*
86	Income from associated undertakings		**76**	*927*	*120*
3,166	**Profit on ordinary activities before tax**	*5*	**3,672**	*44,809*	*5,794*
(829)	Tax on profit on ordinary activities	*6*	**(897)**	*(10,946)*	*(1,415)*
2,337	**Profit on ordinary activities after tax**		**2,775**	*33,863*	*4,379*
	Minority interests				
(267)	— equity		**(287)**	*(3,502)*	*(453)*
(17)	— non-equity		**(26)**	*(317)*	*(41)*
	Profit for the financial year				
2,053	**attributable to shareholders**		**2,462**	*30,044*	*3,885*
(703)	Dividends	*8*	**(843)**	*(10,287)*	*(1,330)*
1,350	**Retained profit for the year**		**1,619**	*19,757*	*2,555*
Pence			**Pence**	*HK$*	*US$*
79.60	**Earnings per ordinary share**	*9*	**94.01**	*11.47*	*1.48*
76.84	**Headline earnings per ordinary share**	*9*	**93.89**	*11.46*	*1.48*
27.00	**Dividends per ordinary share**	*8*	**32.00**	*3.90*	*0.50*

Movements in reserves are set out in Note 32

Consolidated Balance Sheet at 31 December 1995

1994 £m		Note	1995 £m	1995 HK$m	1995 US$m
	ASSETS				
1,829	Cash and balances at central banks		**1,806**	*21,672*	*2,803*
2,196	Items in the course of collection from other banks		**2,657**	*31,884*	*4,124*
9,298	Treasury bills and other eligible bills	10	**12,766**	*153,192*	*19,813*
5,006	Hong Kong Government certificates of indebtedness	11	**5,098**	*61,174*	*7,912*
41,944	Loans and advances to banks	12	**42,966**	*515,592*	*66,683*
98,795	Loans and advances to customers	13	**109,373**	*1,312,478*	*169,747*
21,176	Debt securities	17	**24,669**	*296,028*	*38,286*
1,137	Equity shares	18	**1,210**	*14,520*	*1,878*
420	Interests in associated undertakings	19	**531**	*6,372*	*824*
92	Other participating interests	20	**127**	*1,524*	*197*
4,917	Tangible fixed assets	21	**5,790**	*69,480*	*8,986*
12,733	Other assets	23	**17,287**	*207,444*	*26,830*
1,975	Prepayments and accrued income		**2,538**	*30,456*	*3,939*
201,518	Total assets		**226,818**	*2,721,816*	*352,022*
	LIABILITIES				
5,011	Hong Kong currency notes in circulation	11	**5,103**	*61,234*	*7,920*
19,127	Deposits by banks	24	**20,693**	*248,316*	*32,116*
128,707	Customer accounts	25	**142,121**	*1,705,454*	*220,572*
982	Items in the course of transmission to other banks		**1,366**	*16,392*	*2,120*
8,782	Debt securities in issue	26	**8,650**	*103,800*	*13,425*
18,511	Other liabilities	27	**24,827**	*297,924*	*38,531*
2,055	Accruals and deferred income		**2,319**	*27,828*	*3,599*
	Provisions for liabilities and charges	28			
323	— deferred taxation		**367**	*4,404*	*570*
348	— other provisions for liabilities and charges		**404**	*4,848*	*627*
	Subordinated liabilities	29			
1,761	— undated loan capital		**1,774**	*21,288*	*2,753*
3,448	— dated loan capital		**3,765**	*45,180*	*5,843*
	Minority interests				
1,454	— equity		**1,590**	*19,080*	*2,468*
219	— non-equity	30	**452**	*5,424*	*702*
2,090	Called up share capital	31	**2,124**	*25,488*	*3,296*
319	Share premium account	32	**307**	*3,684*	*476*
148	Reserves	32	**148**	*1,776*	*230*
1,478	Revaluation reserves	32	**2,218**	*26,616*	*3,442*
6,755	Profit and loss account	32	**8,590**	*103,080*	*13,332*
10,790	Shareholders' funds		**13,387**	*160,644*	*20,776*
201,518	Total liabilities		**226,818**	*2,721,816*	*352,022*
	MEMORANDUM ITEMS				
	Contingent liabilities	34			
1,325	— acceptances and endorsements		**2,076**	*24,912*	*3,222*
11,893	— guarantees and assets pledged as collateral security		**13,769**	*165,228*	*21,370*
183	— other contingent liabilities		**180**	*2,160*	*279*
13,401			**16,025**	*192,300*	*24,871*
60,897	Commitments	34	**69,184**	*830,208*	*107,374*

W Purves, *Group Chairman*

Company Balance Sheet at 31 December 1995

1994 £m		Note	1995 £m	1995 HK$m	1995 US$m
	FIXED ASSETS				
11	Tangible assets	21	**10**	*120*	*16*
	Investments	22			
10,348	— shares in Group undertakings		**11,993**	*143,916*	*18,613*
862	— loans to Group undertakings		**1,034**	*12,408*	*1,605*
147	— other investments other than loans		**222**	*2,664*	*344*
11,368			**13,259**	*159,108*	*20,578*
	CURRENT ASSETS				
	Debtors				
176	— money market deposits with Group undertakings		**1,052**	*12,624*	*1,633*
997	— other amounts owed by Group undertakings		**786**	*9,432*	*1,220*
312	— amounts owed by Group undertakings (falling due after more than 1 year)		**182**	*2,184*	*282*
4	— other debtors		**5**	*60*	*8*
	Cash at bank and in hand				
384	— balances with Group undertakings		**471**	*5,652*	*731*
1,873			**2,496**	*29,952*	*3,874*
	CREDITORS: amounts falling due within one year				
(217)	Amounts owed to Group undertakings		**(166)**	*(1,992)*	*(258)*
(95)	Other creditors		**(113)**	*(1,356)*	*(175)*
(165)	Taxation		**(195)**	*(2,340)*	*(303)*
(495)	Proposed dividend	8	**(600)**	*(7,200)*	*(931)*
(972)			**(1,074)**	*(12,888)*	*(1,667)*
901	**NET CURRENT ASSETS**		**1,422**	*17,064*	*2,207*
12,269	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**14,681**	*176,172*	*22,785*
	CREDITORS: amounts falling due after more than one year				
	Subordinated liabilities	29			
(819)	— owed to third parties		**(819)**	*(9,828)*	*(1,271)*
(223)	— owed to Group undertakings		**(224)**	*(2,688)*	*(349)*
(296)	Amounts owed to Group undertakings		**(133)**	*(1,596)*	*(206)*
	PROVISIONS FOR LIABILITIES AND CHARGES				
(141)	Deferred taxation	28	**(118)**	*(1,416)*	*(183)*
10,790	**NET ASSETS**		**13,387**	*160,644*	*20,776*
	CAPITAL AND RESERVES				
2,090	Called up share capital	31	**2,124**	*25,488*	*3,296*
319	Share premium account	32	**307**	*3,684*	*476*
5,451	Revaluation reserve	32	**7,772**	*93,264*	*12,062*
2,930	Profit and loss account	32	**3,184**	*38,208*	*4,942*
10,790			**13,387**	*160,644*	*20,776*

W Purves, *Group Chairman*

Statement of Total Consolidated Recognised Gains and Losses for the Year Ended 31 December 1995

	1995 £m	1994 £m
Profit for the financial year attributable to shareholders	2,462	2,053
Unrealised surplus on revaluation of investment properties		
— subsidiaries	(38)	125
— associates	45	—
Unrealised surplus on revaluation of land and buildings (excluding investment properties)	776	—
Permanent diminution in value of land and buildings	(41)	(32)
Exchange and other movements	129	(363)
Total recognised gains and losses for the year	3,333	1,783

Reconciliation of Movements in Consolidated Shareholders' Funds for the Year Ended 31 December 1995

	1995 £m	1994 £m
Profit for the financial year attributable to shareholders	2,462	2,053
Dividends	(843)	(703)
	1,619	1,350
Other recognised gains and losses relating to the year	871	(270)
New share capital subscribed	12	8
Arising on shares issued in lieu of dividends	173	368
Goodwill on acquisition of subsidiary and associated undertakings	(78)	—
Net addition to shareholders' funds	2,597	1,456
Shareholders' funds at 1 January	10,790	9,334
Shareholders' funds at 31 December	**13,387**	10,790

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 1995

	Note	1995 £m	1994 £m
Net cash inflow/(outflow) from operating activities	35	**2,277**	*(1,249)*
Returns on investments and servicing of finance:			
Income received on investment securities		**707**	*706*
Dividends received from associated undertakings		**38**	*43*
Interest paid on finance leases and similar hire purchase contracts		**(7)**	*(11)*
Interest paid on subordinated loan capital		**(385)**	*(288)*
Dividends paid to minority interests			
— equity		**(171)**	*(115)*
— non-equity		**(26)**	*(17)*
Ordinary dividends paid		**(565)**	*(254)*
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(409)**	*64*
Taxation paid		**(803)**	*(601)*
Investing activities:			
Purchase of investment securities		**(10,187)**	*(10,555)*
Proceeds from sale of investment securities		**8,832**	*11,709*
Purchase of tangible fixed assets		**(584)**	*(618)*
Proceeds of sale of tangible fixed assets		**167**	*174*
Net cash outflow from acquisition of subsidiary undertakings		**(91)**	—
Net cash inflow from disposal of subsidiary undertakings		—	*20*
Purchase of interest in associated undertakings and other participating interests		**(69)**	*(17)*
Proceeds from disposal of associated undertakings and other participating interests		**7**	*147*
Net cash (outflow)/inflow from investing activities		**(1,925)**	*860*
Net cash outflow before financing		**(860)**	*(926)*
Financing:			
Issue of ordinary share capital		**12**	*8*
Issue of preference share capital		**233**	—
Subordinated loan capital issued		**394**	*420*
Subordinated loan capital repaid		**(124)**	*(301)*
Net cash inflow from financing	36	**515**	*127*
Decrease in cash and cash equivalents	37	**(345)**	*(799)*

Notes on the Accounts

1 Basis of preparation

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

The consolidated accounts are prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 ('the Act') relating to banking groups. The consolidated accounts comply with Schedule 9 and the accounts of HSBC Holdings plc ('the Company') comply 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 Group complies with the requirements of Financial Reporting Standards 6, 'Acquisitions and Mergers', and 7, 'Fair Values in Acquisition Accounting', which are both effective for business combinations undertaken by the Group in 1995.

The following changes in presentation have been made in the accounts and comparative data have been restated.

In 1994, the long-term assurance assets attributable to policyholders of HSBC Life Limited were included in the relevant balance sheet categories for each class of asset held. In 1995, in order to reflect the different nature of the shareholders' and policyholders' interests in the consolidated balance sheet, long-term assurance assets have been separately classified under 'Other assets' as explained in Note 23 on the Accounts.

In addition, the profit and loss account presentation of interchange fees payable to other banks has been changed. Interchange fees arise from the use of credit cards by banks' customers either through sales transactions or cash withdrawals from automated teller machines. In 1994, interchange fees payable were offset against related fees receivable from customers within 'Fees and commissions receivable'. In 1995, in order to reflect the separate legal obligations of the Group in respect of the fees receivable and payable, interchange fees payable have been included in 'Fees and commissions payable'. The effect of restating the 1994 comparative data for the change is provided in Note 5 on the Accounts.

b The consolidated accounts of the Group comprise the accounts of the Company and its subsidiary undertakings. Accounts of subsidiary undertakings are made up to 31 December, except in the case of Midland Life Limited, whose accounts are made up to 31 August and for which, therefore, the Group uses interim accounts, made up to 31 December annually, and Hongkong Bank of Canada, whose accounts are made up to 31 October annually. 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 in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

b *Loans and advances and doubtful debts*

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.

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.

Notes on the Accounts *(continued)*

2 Principal accounting policies *(continued)*

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 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 the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in 'Loans and advances to customers' or '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. 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 are 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 The Group holds certain properties as investments. No depreciation is provided in respect of such properties other than leaseholds with 20 years or less to expiry. Investment properties are included in the balance sheet at their open market value and the aggregate surplus or deficit, where material, is transferred to the investment property revaluation reserve.

2 Principal accounting policies *(continued)*

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' or '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 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 a pension to the employee or dependant after retirement. The costs of providing these benefits are charged to the profit and loss account on a 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.

i *Foreign currencies*

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

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

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.

2 Principal accounting policies *(continued)*

Accounting for these instruments is dependent upon whether the transactions are undertaken for trading or non-trading purposes. Trading transactions include transactions undertaken for market-making, to service customers' needs and for proprietary purposes, as well as any related hedges. Non-trading transactions are those which are held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows measured on an accruals basis.

Transactions undertaken for trading purposes are marked to market value and the net present value of any gain or loss arising is recognised in the profit and loss account as 'Dealing profits', after appropriate deferrals for unearned credit margin and future servicing costs.

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

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

3 Dividend income

	1995	1994
	£m	£m
Income from equity shares	**66**	67
Income from participating interests other than associated undertakings	**6**	3
	72	70

4 Administrative expenses

a

	1995	1994
	£m	£m
Staff costs		
— wages and salaries	**2,464**	2,304
— social security costs	**136**	129
— other pension costs (Note 4b below)	**234**	213
	2,834	2,646
Premises and equipment (excluding depreciation)	**612**	596
Other administrative expenses	**988**	980
	4,434	4,222

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

	1995	1994
	Number	Number
Commercial banking	**103,818**	102,008
Investment banking	**5,275**	4,853
	109,093	106,861

b *Retirement benefits*

The Group operates some 110 pension schemes throughout the world, with a total pension cost of £234 million (1994: £213 million), of which £103 million (1994: £88 million) relates to overseas schemes. Of the overseas schemes, £16 million (1994: £15 million) has been determined in accordance with best practice and regulations in the United States and Canada.

The majority of the schemes, which cover 83% of the Group's employees, are funded defined benefit schemes 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 £218 million (1994: £200 million) which is assessed in accordance with the

4 Administrative expenses *(continued)*

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 countries in which they are situated.

For the principal UK scheme, the Midland Bank Pension Scheme, the latest valuation was made at 31 December 1993 and was performed by P Lofthouse, Fellow of the Institute of Actuaries, of R Watson & Sons. At that date, the market value of the scheme's assets was £3,685 million. The actuarial value of the assets represented 99.5% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting deficit amounted to £18 million. On the basis of the actuaries' recommendations, contributions were increased from 14.0% to 16.1% of pensionable salaries with effect from 1 January 1994, to remain at that percentage at least until the next actuarial valuation, due as at 31 December 1996. The actuarial method used is the projected unit method and the main assumptions used in this valuation were a long-term investment return of 9.2% per annum, salary increases of 6.3% per annum, equity dividend increases and rental growth of 4.5% per annum, and post-retirement pension increases of 4.0% per annum.

For the principal non-UK scheme, the Hong Kong Local Staff Retirement Benefits Scheme, the latest valuation was made at 31 December 1995 and was performed by E Chiu, Fellow of the Society of Actuaries of the United States of America, of HSBC Life (International) Limited. At that date, the market value of the scheme's assets was £275 million. On an ongoing basis, the actuarial value of the assets represents 96% of the benefits accrued to members, after allowing for expected future increases in salaries, and the resulting deficit amounted to £12 million. On a wind-up basis, the actuarial value of the assets represents 101% of the benefits accrued to members, based on current salaries, and the resulting surplus amounted to £2 million. On the basis of the actuary's recommendations, contributions continue at 19% of pensionable salaries, with an annual payment of £3 million, in addition to the regular contributions, being payable from 1996 to 1997 in order to eliminate the ongoing deficit. The actuarial method used is the projected unit method and the main assumptions used in this valuation were a long-term investment return of 9% per annum and salary increases of 8% per annum.

The Midland Bank Pension Scheme and the Hong Kong Local Staff Retirement Benefits Scheme cover 51% (1994: 53%) of the Group's employees.

The pension cost for defined contribution schemes, which cover 12% (1994: 12%) of the Group's employees, was £16 million (1994: £13 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 £28 million for the year (1994: £25 million). The latest actuarial review as at 31 December 1995 estimated the present value of the accumulated post-retirement benefit obligation at £193 million (1994: £192 million), of which £61 million (1994: £40 million) has been provided. The actuarial assumptions used to estimate this obligation vary according to the claims experience and economic conditions of the countries in which the schemes are situated. For the UK schemes, the main financial assumptions used at 31 December 1995 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:

	1995	1994
	£000	£000
Fees	**501**	397
Salaries and other emoluments	**3,357**	3,196
Discretionary bonuses	**535**	465
Pension contributions	**1,108**	294
	5,501	4,352

Notes on the Accounts *(continued)*

4 Administrative expenses *(continued)*

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

£	1995 Number of Directors	1994 Number of Directors	£	1995 Number of Directors	1994 Number of Directors
5,001– 10,000	1	—			
10,001– 15,000	—	2	325,001–330,000	1	—
15,001– 20,000	4	2	355,001–360,000	—	1
20,001– 25,000	2	—	370,001–375,000	—	1
25,001– 30,000	1	2	410,001–415,000	1	—
30,001– 35,000	—	3	425,001–430,000	1	—
35,001– 40,000	1	—	520,001–525,000	—	1
40,001– 45,000	2	—	550,001–555,000	1	—
45,001– 50,000	1	—	560,001–565,000	—	1
55,001– 60,000	1	1	615,001–620,000	1	—
60,001– 65,000	1	1	630,001–635,000	—	1
65,001– 70,000	—	1	680,001–685,000	1	—
85,001– 90,000	—	1	810,001–815,000	—	1
290,001–295,000	—	1	930,001–935,000	1	—

The emoluments of the Chairman and the highest paid Director were:

	1995		1994	
	Chairman £000	**Highest paid Director £000**	Chairman £000	Highest paid Director £000
Fees	**20**	**16**	15	13
Salary and other emoluments	**540**	**917**	518	802
Discretionary bonuses	**120**	**—**	100	—
Pension contributions	**—**	**67**	—	65
	680	**1,000**	633	880

The highest paid Director in 1995 and 1994 discharged his duties mainly outside the United Kingdom. The above information is provided on the basis that would have applied had he discharged those duties within the United Kingdom. The Chairman was the highest paid Director in 1995 and 1994 of those Directors who discharge their duties mainly in the United Kingdom. The emoluments of the highest paid Director in 1995 and 1994 include housing and other expatriate benefits in kind which are normal within the locations in which he was employed and which constitute a significant portion of his emoluments.

In addition, pensions and other amounts paid under retirement benefit agreements in respect of past services of £221,000 (1994: £30,000) were paid. The provision as at 31 December 1995 in respect of unfunded pension obligations to a former Director amounted to £1,508,000.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee, whose report, together with details of Directors' share options, is disclosed in the 'Report of the Directors' (see pages 30 to 34).

Five Directors waived the right to receive emoluments totalling £91,000 (1994: five Directors £70,000).

Details of individual Directors' remuneration are disclosed in the 'Report of the Directors' on pages 31 to 32.

d *Auditors' remuneration*

Auditors' remuneration amounted to £9.4 million (1994: £9.1 million). £3.5 million (1994: £4.0 million) was paid to the Company's auditors and their associates for non-audit work as analysed below:

4 Administrative expenses *(continued)*

	1995	1994
	£m	£m
Regulatory work	**1.5**	1.8
Tax services	**0.7**	0.8
Consultancy	**0.3**	0.6
Other	**1.0**	0.8
	3.5	4.0

5 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:	**1995**	1994
	£m	£m
i *Income*		
Aggregate rentals receivable, including capital repayments, under		
— finance leases	**1,840**	1,887
— operating leases	**124**	127
Income from listed investments	**1,096**	1,072
Profits less losses on debt securities and equities dealing	**125**	(79)
Profits less losses on disposal of investment securities	**229**	295
ii *Charges*		
Charges incurred with respect to subordinated liabilities	**399**	298
Finance charges in respect of finance leases and similar hire purchase contracts	**11**	15
Hire of plant and machinery	**53**	64
Rentals payable on premises held under operating leases	**230**	209

Profit on the disposal of fixed assets and investments attracted a tax charge of £26 million (1994: £48 million). Of the after-tax amount, £33 million (1994: £59 million) is attributable to minority interests.

The effect of restating the 1994 comparative data for the change in presentation of interchange fees is to increase both 'Fees and commissions receivable' and 'Fees and commissions payable' by £106 million.

6 Tax on profit on ordinary activities

The charge for taxation comprises:	**1995**	1994
	£m	£m
United Kingdom corporation tax charge	**489**	350
Relief for overseas taxation	**(138)**	(22)
	351	328
Overseas taxation	**522**	498
Deferred taxation (Note 28)	**13**	(7)
	886	819
Associated undertakings	**11**	10
	897	829

The Company and its subsidiary undertakings in the UK provide for UK corporation tax at 33% (1994: 33%). Overseas tax includes Hong Kong profits tax of £202 million (1994: £200 million). Subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 16.5% (1994: 16.5%) 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 £924 million (1994: £419 million).

Notes on the Accounts *(continued)*

8 Dividends

	1995		1994	
	Pence per share	**£m**	Pence per share	£m
Interim	**9.25**	**243**	8.00	208
Proposed final	**22.75**	**600**	19.00	495
	32.00	**843**	27.00	703

Of the interim dividend for 1995, £53 million (1994: £36 million) was settled by the issue of shares. Of the final dividend for 1994, £120 million (1993: £336 million) was settled by the issue of shares in 1995.

9 Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the earnings of £2,462 million (1994: £2,053 million) by the weighted average number of ordinary shares in issue in 1995 of 2,619 million (1994: 2,579 million). Fully diluted earnings per share is not materially different from the basic earnings per ordinary share shown.

Headline earnings per share has been calculated in accordance with the definition in the Institute of Investment Management and Research (IIMR) Statement of Investment Practice No. 1, 'The Definition of IIMR Headline Earnings', as follows:

	1995	1994
	Pence	Pence
Earnings per ordinary share	**94.01**	79.60
Adjustments:		
Profits on sale of tangible fixed assets	**(0.12)**	(0.12)
Profit on sale of subsidiary undertaking	**—**	(0.16)
Profit on partial sale of associated undertaking	**—**	(2.48)
Headline earnings per ordinary share	**93.89**	76.84

10 Treasury bills and other eligible bills

	1995	1994
	£m	£m
Treasury bills and similar securities	**11,602**	8,342
Other eligible bills	**1,164**	956
	12,766	9,298

None of the treasury and other eligible bills has been accounted for as 'Investment securities'.

11 Hong Kong currency notes in circulation

	1995	1994
	£m	£m
Authorised note issue (HK$60 million)	**5**	5
Excess note issue (HK$61,174 million)	**5,098**	5,006
	5,103	5,011

The authorised note issue is secured by the deposit of investments having a market value of £6 million (1994: £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

	1995 £m	1994 £m
Remaining maturity:		
— repayable on demand	**3,376**	3,390
— 3 months or less	**33,324**	33,278
— 1 year or less but over 3 months	**4,756**	3,796
— 5 years or less but over 1 year	**404**	414
— over 5 years	**1,159**	1,138
Specific bad and doubtful debt provisions (Note 14)	**(53)**	(72)
	42,966	41,944

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

	1995 £m	1994 £m
Amounts include:		
Due from associated undertakings		
— unsubordinated	**14**	68

13 Loans and advances to customers

	1995 £m	1994 £m
Remaining maturity:		
— repayable on demand or at short notice	**29,950**	28,456
— 3 months or less but not repayable on demand or at short notice	**9,199**	8,303
— 1 year or less but over 3 months	**13,819**	12,397
— 5 years or less but over 1 year	**31,616**	28,477
— over 5 years	**27,812**	24,356
General and specific bad and doubtful debt provisions (Note 14)	**(3,023)**	(3,194)
	109,373	98,795
Amounts include:		
Subordinated	**80**	83
Securitised advances not qualifying for linked presentation under FRS 5	**198**	453
Due from associated undertakings		
— unsubordinated	**156**	190
Due from other undertakings in which the Group has a participating interest		
— unsubordinated	**1**	21

Notes on the Accounts *(continued)*

14 Provisions for bad and doubtful debts

	Provisions against advances *Specific*	*General*	*Total*	*Suspended interest*
	£m	**£m**	**£m**	**£m**
At 1 January 1995	**2,506**	**760**	**3,266**	**494**
Amounts written off	**(761)**	**—**	**(761)**	**(111)**
Recoveries of advances written off in previous years	**102**	**—**	**102**	**—**
Charge to profit and loss account	**286**	**130**	**416**	**—**
Interest suspended during the year	**—**	**—**	**—**	**167**
Suspended interest recovered	**—**	**—**	**—**	**(95)**
Exchange and other movements	**49**	**4**	**53**	**(2)**
At 31 December 1995	**2,182**	**894**	**3,076**	**453**
Included in:				
Loans and advances to banks (Note 12)			**53**	
Loans and advances to customers (Note 13)			**3,023**	
			3,076	
At 1 January 1994	3,336	781	4,117	649
Amounts written off	(1,177)	—	(1,177)	(149)
Recoveries of advances written off in previous years	124	—	124	—
Charge to profit and loss account	259	16	275	—
Interest suspended during the year	—	—	—	136
Suspended interest recovered	—	—	—	(121)
Exchange and other movements	(36)	(37)	(73)	(21)
At 31 December 1994	2,506	760	3,266	494
Included in:				
Loans and advances to banks (Note 12)			72	
Loans and advances to customers (Note 13)			3,194	
			3,266	

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

	1995	1994
	£m	£m
Gross	**2,244**	2,407
Net of specific provisions	**924**	998

15 Less developed country exposure

	1995	1994
	£m	£m
Total less developed country provisionable exposures to banks and customers (net of provisions in respect of commercial risk)	**1,362**	1,443
Total accrued interest	**51**	60
	1,413	1,503
Less developed country risk provisions	**(306)**	(344)
Suspended interest	**(51)**	(60)
Net exposure to less developed countries	**1,056**	1,099
As a percentage of shareholders' funds	**7.9%**	10.2%

15 Less developed country exposure *(continued)*

Less developed country provisionable exposure includes the holding of par and discount bonds issued as a result of debt restructuring by Argentina, Brazil, Ecuador, Mexico, the Philippines and Venezuela. The principal amount of these bonds is secured by US treasury instruments and, as at 31 December 1995, the gross carrying value was £1,152 million (1994: £1,136 million).

16 Concentrations of exposure

The Group has the following concentrations of exposure:

Total gross advances to customers:	*UK*	*Continental Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*Americas*	*Total*
At 31 December 1995	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Residential mortgages	**8,537**	**811**	**9,696**	**1,109**	**4,305**	**24,458**
Other consumer	**4,620**	**355**	**4,800***	**1,168**	**3,448**	**14,391**
Commercial, industrial and international trade	**11,581**	**1,393**	**6,116**	**7,755**	**3,516**	**30,361**
Real estate and construction	**4,738**	**524**	**5,135**	**2,647**	**3,321**	**16,365**
Non-bank financial institutions	**2,311**	**51**	**859**	**1,253**	**456**	**4,930**
Other commercial	**9,170**	**1,674**	**5,002**	**2,848**	**3,582**	**22,276**
	40,957	**4,808**	**31,608**	**16,780**	**18,628**	**112,781**

Total gross advances to customers:	*UK*	*Continental Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*Americas*	*Total*
At 31 December 1994	£m	£m	£m	£m	£m	£m
Residential mortgages	7,402	869	8,739	907	3,466	21,383
Other consumer	4,179	390	4,248*	899	3,248	12,964
Commercial, industrial and international trade	9,742	1,138	5,271	6,591	3,462	26,204
Real estate and construction	4,777	457	5,294	2,310	2,983	15,821
Non-bank financial institutions	3,513	32	903	750	311	5,509
Other commercial	8,440	1,370	4,430	2,785	3,512	20,537
	38,053	4,256	28,885	14,242	16,982	102,418

The geographical information shown above 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 advancing the funds.

* *Advances to individuals under the Hong Kong Government's Home Ownership Scheme are included under 'Other consumer' lending.*

Notes on the Accounts *(continued)*

17 Debt securities

	1995		1994	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	£m	£m	£m	£m
Issued by public bodies				
Investment securities				
— government securities	**7,691**	**7,829**	6,783	6,634
— other public sector securities	**488**	**500**	429	412
	8,179	**8,329**	7,212	7,046
Other securities				
— government securities	**5,155**		3,785	
— other public sector securities	**417**		197	
	13,751		11,194	
Issued by other bodies				
Investment securities				
— bank and building society certificates of deposit	**1,091**	**1,098**	1,058	1,036
— other debt securities	**4,011**	**4,102**	3,025	3,004
	5,102	**5,200**	4,083	4,040
Other securities				
— bank and building society certificates of deposit	**1,888**		2,818	
— other debt securities	**3,928**		3,081	
	10,918		9,982	
	24,669		21,176	
Due within 1 year	**7,352**		8,029	
Due 1 year and over	**17,317**		13,147	
	24,669		21,176	
Amounts include:				
Subordinated debt securities	**98**		105	
Unamortised net (discounts)/premiums on investment securities	**(25)**		64	
Investment securities				
— listed on a recognised UK exchange	**2,617**	**2,632**	2,732	2,694
— listed in Hong Kong	**592**	**601**	684	673
— listed elsewhere	**5,154**	**5,298**	3,777	3,657
— unlisted	**4,918**	**4,998**	4,102	4,062
	13,281	**13,529**	11,295	11,086
Other debt securities				
— listed on a recognised UK exchange	**1,664**		1,106	
— listed in Hong Kong	**121**		93	
— listed elsewhere	**6,046**		4,361	
— unlisted	**3,557**		4,321	
	24,669		21,176	

17 Debt securities *(continued)*

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

The above market valuations do not take account of transactions entered into to hedge the value of the Group's investment securities. If these transactions were included, the market valuation of investment securities would be £13,453 million (1994: £11,144 million).

Investment securities:

	Cost	*Provisions*	*Book value*
	£m	**£m**	**£m**
At 1 January 1995	**11,328**	**(33)**	**11,295**
Exchange movements	**88**	**2**	**90**
Acquisitions	**9,967**	**—**	**9,967**
Disposals and amounts repaid	**(8,464)**	**—**	**(8,464)**
Transfers	**400**	**(7)**	**393**
Provisions made	**—**	**(2)**	**(2)**
Amortisation of discounts and premiums	**2**	**—**	**2**
At 31 December 1995	**13,321**	**(40)**	**13,281**

18 Equity shares

	1995		1994	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	£m	**£m**	£m	£m
Investment securities				
— listed on a recognised UK exchange	**76**	**207**	108	232
— listed in Hong Kong	**137**	**496**	144	459
— listed elsewhere	**204**	**258**	120	136
— unlisted	**277**	**387**	239	315
	694	**1,348**	611	1,142
Other securities				
— listed on a recognised UK exchange	**109**		187	
— listed in Hong Kong	**48**		13	
— listed elsewhere	**349**		313	
— unlisted	**10**		13	
	1,210		1,137	

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

Included in the above are 3,951,727 (1994: 3,499,596) shares in the Company held by subsidiary undertakings as equity market-makers.

Notes on the Accounts *(continued)*

18 Equity shares *(continued)*

Investment securities:

	Cost	*Provisions*	*Book value*
	£m	**£m**	**£m**
At 1 January 1995	**710**	**(99)**	**611**
Exchange movements	**17**	**(1)**	**16**
Acquisitions	**220**	**—**	**220**
Disposals	**(152)**	**13**	**(139)**
Transfers from other participating interests (Note 20)	**14**	**—**	**14**
Other transfers	**(15)**	**(3)**	**(18)**
Provisions made	**—**	**(10)**	**(10)**
At 31 December 1995	**794**	**(100)**	**694**

19 Interests in associated undertakings

	£m
At 1 January 1995	**420**
Exchange and other movements	**8**
Additions	**24**
Capitalisation of reserves	**10**
Retained profits	**16**
Disposals	**(6)**
Surplus on revaluation of property	**75**
Write-off of goodwill on acquisition	**(15)**
Transfer to investment in subsidiary undertakings	**(1)**
At 31 December 1995	**531**

	1995	1994
	£m	£m
a Shares in banks	**352**	315
Other	**179**	105
	531	420
Listed shares (all listed outside the UK and Hong Kong)	**250**	235
Unlisted shares	**281**	185
	531	420

19 Interests in associated undertakings *(continued)*

b The principal associated undertakings of the Group are:

	Accounts made up to	*Country of incorporation*	*Principal activity*	*Group's interest in equity capital*	*Issued equity capital*
Banco Roberts S.A.	30.6.95	Argentina	Banking	30%	AP100m
Barrowgate Limited	31.12.95	Hong Kong	Property investment	25%	— *
The Cyprus Popular Bank Limited	31.12.95	Cyprus	Banking	22%	c£67m
Egyptian British Bank S.A.E.	31.12.95	Egypt	Banking	40%	E£66m
Kay Hian James Capel Holdings Limited	31.12.95	Singapore	Stockbroking	34%	s$44m
The Saudi British Bank	31.12.95	Saudi Arabia	Banking	40%	SR1,000m
UBAF Bank Limited	31.12.95	England	Banking	25%	US$81m £32m fully paid, £5m nil paid
Wells Fargo HSBC Trade Bank, N.A.	31.12.95	United States	Trade finance	20%	— †
World Finance International Limited	30.6.95	Bermuda	Shipping	38%	US$58m

* *Issued equity capital is less than HK$1 million.*
† *Issued equity capital is less than US$1 million.*

All the above interests in associated undertakings are owned by subsidiaries of the Company.

The principal countries of operation are the same as the countries of incorporation, except for World Finance International Limited which operates worldwide.

c The associated undertakings listed above have no loan capital, except for The Cyprus Popular Bank Limited which has issued c£8 million, in which the Group has no interest; UBAF Bank Limited which has issued US$44.5million of subordinated unsecured loan stock in which the Group has a 20.6% interest; Barrowgate Limited which has HK$845 million of loan capital in which the Group has a 25% interest; and Kay Hian James Capel Holdings Limited which has a s$7 million subordinated unsecured loan in which the Group has a 100% interest. The Group also has a 100% interest in the issued preferred stock (less than US$1 million) of Wells Fargo HSBC Trade Bank, N.A.

20 Other participating interests

	1995	1994
	£m	£m
Listed other than on a recognised UK exchange or in Hong Kong	**60**	24
Unlisted	**67**	68
	127	92
Market value of listed securities	**95**	44
Other participating interests in banks	**65**	30

	Cost	*Provisions*	*Carrying value*
	£m	**£m**	**£m**
At 1 January 1995	**110**	**(18)**	**92**
Exchange movements	**5**	—	**5**
Additions	**45**	—	**45**
Disposals	**(1)**	—	**(1)**
Transfers to equity shares (Note 18)	**(14)**	—	**(14)**
At 31 December 1995	**145**	**(18)**	**127**

Notes on the Accounts *(continued)*

21 Tangible fixed assets

a *Group*

	Freehold land and buildings	Long leasehold land and buildings	Short leasehold land and buildings	Equipment, fixtures and fittings	Equipment on operating leases	Total
	£m	£m	£m	£m	£m	£m
Cost or valuation at 1 January 1995	1,230	2,674	634	1,841	407	6,786
Exchange and other movements	26	10	(1)	12	(1)	46
Additions	36	85	60	258	145	584
Disposals	(47)	(26)	(26)	(227)	(156)	(482)
Reclassification	—	(269)	269	—	—	—
Transfer of accumulated depreciation arising on revaluation	(92)	(174)	(6)	—	—	(272)
Permanent impairment charged to reserves	(41)	—	—	—	—	(41)
Surplus/(deficit) on revaluation	89	740	(30)	—	—	799
Cost or valuation at 31 December 1995	**1,201**	**3,040**	**900**	**1,884**	**395**	**7,420**
Accumulated depreciation at 1 January 1995	(77)	(169)	(307)	(1,206)	(110)	(1,869)
Exchange and other movements	(2)	—	6	(8)	—	(4)
Disposals	8	19	20	199	72	318
Transfer of accumulated depreciation arising on revaluation	92	174	6	—	—	272
Permanent impairment charged to profit and loss account	(10)	(1)	—	—	—	(11)
Charge for the year	(11)	(23)	(39)	(186)	(77)	(336)
Accumulated depreciation at 31 December 1995	**—**	**—**	**(314)**	**(1,201)**	**(115)**	**(1,630)**
Net book value at 31 December 1995	**1,201**	**3,040**	**586**	**683**	**280**	**5,790**
Net book value at 31 December 1994	1,153	2,505	327	635	297	4,917

b *Company*

	Freehold land and buildings
	£m
Cost or valuation at 1 January 1995	11
Deficit on revaluation	(1)
Cost or valuation at 31 December 1995	**10**

21 Tangible fixed assets *(continued)*

c *Valuations*

	Group		Company	
	1995	1994	**1995**	1994
	£m	£m	**£m**	£m
Cost or valuation of freehold and long and short leasehold land and buildings (excluding investment properties):				
At 1995 valuation (1994: at 1992 valuation adjusted for subsequent permanent diminution)	**4,157**	3,456	**10**	11
At cost	**472**	550	**—**	—
	4,629	4,006	**10**	11
On the historical cost basis, freehold and long and short leasehold land and buildings would have been included as follows (excluding investment properties):				
Cost	**2,906**	2,843	**1**	1
Accumulated depreciation	**(410)**	(392)	**—**	—
	2,496	2,451	**1**	1

In November 1995, the Group's freehold and long leasehold properties, together with properties in Hong Kong with an unexpired lease term between 30 and 50 years, were revalued on an existing use basis or, in the case of a few specialised properties, at depreciated replacement cost. The properties have been valued either by professional external valuers or by professionally qualified staff and reviewed by professional external valuers.

As a result of the revaluation, the net book value of land and buildings (excluding investment properties) has been increased by £872 million. A surplus of £774 million (net of minority interests of £98 million) has been credited to reserves at 31 December 1995.

Permanent diminutions in the value of some premises have been identified and the net book value of land and buildings has been reduced by £52 million. Of this amount, £41 million has been charged against revaluation reserve, eliminating surpluses arising on previous revaluations. The remaining £11 million has been charged to profit and loss account as part of the depreciation charge.

The property of the Company was also valued by an independent, professionally qualified valuer on an existing use basis. The deficit on revaluation of £1 million has been debited to reserves at 31 December 1995.

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:

	1995		1994	
	At valuation £m	**At cost £m**	At valuation £m	At cost £m
Freehold land and buildings	**1**	**1**	3	3
Long leasehold land and buildings	**511**	**73**	529	52
	512	**74**	532	55

Investment properties are valued on an open market value basis at 31 December annually by professional external valuers. As a result of the revaluation, the net book value of investment properties has decreased by £73 million (1994: surplus £195 million). A deficit of £38 million net of minority interests of £35 million has been charged to reserves at 31 December 1995.

The Company had no investment properties at 31 December 1995 or 1994.

Notes on the Accounts *(continued)*

21 Tangible fixed assets *(continued)*

e *Group properties leased to customers*

Group properties leased to customers, none of which was held by the Company, included £406 million at 31 December 1995 (1994: £568 million) let under operating leases, net of accumulated depreciation of £9 million (1994: £11 million).

f *Land and buildings occupied for own activities*

	1995	1994
	£m	£m
Net book value	**4,090**	3,277

There were no such assets in the Company at 31 December 1995 or 1994.

22 Investments

a

	Shares in Group undertakings	*Loans to Group undertakings*	*Other investments other than loans*	*Total*
	£m	£m	£m	£m
At 1 January 1995	**10,348**	**862**	**147**	**11,357**
Exchange movements	—	**5**	—	**5**
Additions	—	**480**	**85**	**565**
Repayments and redemptions	**(656)**	—	—	**(656)**
Transfer to amounts owed by Group undertakings	—	**(313)**	—	**(313)**
Disposals	—	—	**(8)**	**(8)**
Amortisation of discounts and premiums	—	—	**(2)**	**(2)**
Write-up of subsidiary undertakings to net asset value (Note 32)	**2,301**	—	—	**2,301**
At 31 December 1995	**11,993**	**1,034**	**222**	**13,249**

'Loans to Group undertakings' includes qualifying or regulatory capital and similar financing which can only be repaid by the relevant Group undertaking with the consent of its local regulatory authority.

'Other investments other than loans' represents the Company's holdings of listed investments in UK government stock and other investments as follows:

	1995		1994	
	Book value	**Market value**	Book value	Market value
	£m	£m	£m	£m
Listed on a recognised UK exchange	**145**	**143**	147	135
Listed other than on a recognised UK exchange or in Hong Kong	**77**	**83**	—	—
	222	**226**	147	135

	1995	1994
	£m	£m
On the historical cost basis, shares in Group undertakings would have been included as follows:		
Cost	**9,887**	10,543

There are no provisions for permanent diminution against these investments (1994: £ nil).

22 Investments *(continued)*

b The principal subsidiary undertakings of the Company are:

	Country of incorporation or registration	*Principal activity*	*Issued equity capital*
The British Bank of the Middle East	England	Banking	£100m
Forward Trust Limited	England	Finance	£265m
Guyerzeller Bank AG (75% owned)	Switzerland	Banking	SFr5m
Hang Seng Bank Limited (61.51% owned)	Hong Kong	Banking	HK$9,658m
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	Banking	HK$16,254m
Hongkong Bank Malaysia Berhad	Malaysia	Banking	M$100m
Hongkong Bank of Canada	Canada	Banking	C$75m
HongkongBank of Australia Limited	Australia	Banking	A$500m
HSBC Americas, Inc. (formerly Marine Midland Banks, Inc.)	United States	Holding company	—*
HSBC Asset Management Asia Pacific Limited	Bahamas	Asset management	—*
HSBC Gibbs Limited (formerly Gibbs Hartley Cooper Limited)	England	Insurance	£3m
HSBC Greenwell	England	Capital markets	£30m
HSBC Insurance Limited (formerly Carlingford Insurance Company Limited, 82.5% owned)	Hong Kong	Insurance	HK$25m
HSBC Investment Bank Asia Limited	Hong Kong	Merchant banking	HK$770m
HSBC Investment Bank Limited	England	Merchant banking	£230m
HSBC Securities, Inc.	United States	Primary dealer in US government securities	—*
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	Insurance	£14m
Samuel Montagu & Co. Limited	England	Merchant banking	£112m
Trinkaus & Burkhardt KGaA (partnership limited by shares, 71% owned)	Germany	Banking	DM118m
Wayfoong Finance Limited	Hong Kong	Finance	HK$300m

* *Issued equity capital is less than US$1 million.*

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

Except where indicated otherwise, the above undertakings are wholly-owned subsidiaries and, except for Midland Bank plc, all are owned by subsidiaries of the Company. All the above make their accounts up to 31 December, except Hongkong Bank of Canada, whose accounts are made up to 31 October annually to comply with local regulations, and Midland Life Limited, whose accounts are made up to 31 August to avoid undue delay in the publication of the Group's accounts. The outstanding minority interest in Midland Life was purchased in December 1995.

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.

Notes on the Accounts *(continued)*

23 Other assets

	1995 £m	1994 £m
Bullion	**152**	107
Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	**11,605**	7,645
Current taxation recoverable	**65**	65
Deferred taxation (Note 28a)	**72**	34
Long-term assurance assets attributable to policyholders (Note 27)	**2,925**	2,374
Other accounts	**2,468**	2,508
	17,287	12,733

Included in the above are 2,319,872 (1994: 2,323,763) shares in the Company held by subsidiary undertakings, as part of their insurance and retirement funds for the benefit of the policyholders.

'Long-term assurance assets attributable to policyholders' includes those of HSBC Life Limited. In 1994, the long-term assurance assets and liabilities attributable to policyholders of HSBC Life Limited were included under the relevant balance sheet categories for each class of asset or liability held. The 1994 comparatives have been restated, the effect being to reduce debt securities by £169 million and equity shares by £842 million with a corresponding increase of £1,011 million in other assets.

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

	1995 £m	1994 £m
Loans and advances to banks – with Group companies	**428**	432
Debt securities	**932**	840
Equity shares	**1,475**	1,198
Other assets	**623**	409
Prepayments and accrued income	**28**	24
Other liabilities	**(561)**	(529)
	2,925	2,374

24 Deposits by banks

	1995 £m	1994 £m
Repayable on demand	**5,595**	5,198
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**12,912**	11,530
— 1 year or less but over 3 months	**1,537**	1,653
— 5 years or less but over 1 year	**348**	446
— over 5 years	**301**	300
	20,693	19,127
Amounts include:		
Due to associated undertakings	**36**	133

25 Customer accounts

	1995 £m	1994 £m
Repayable on demand	**72,997**	66,059
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**62,008**	55,982
— 1 year or less but over 3 months	**4,900**	4,738
— 5 years or less but over 1 year	**1,723**	1,774
— over 5 years	**493**	154
	142,121	128,707
Amounts include:		
Due to associated undertakings	**10**	7

26 Debt securities in issue

	1995 £m	1994 £m
Bonds and medium-term notes, by remaining maturity:		
— within 1 year	**111**	24
— between 1 and 2 years	**35**	101
— between 2 and 5 years	**189**	126
— over 5 years	**251**	376
	586	627
Other debt securities in issue, by remaining maturity:		
— 3 months or less	**3,727**	4,030
— 1 year or less but over 3 months	**2,334**	2,501
— 5 years or less but over 1 year	**1,979**	1,586
— over 5 years	**24**	38
	8,650	8,782

27 Other liabilities

	1995 £m	1994 £m
Short positions in securities:		
Treasury bills and other eligible bills	**778**	1,011
Debt securities		
— government securities	**3,283**	2,045
— other public sector securities	**65**	52
— other debt securities	**217**	206
Equity shares	**551**	452
	4,894	3,766
Liabilities, including losses, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	**12,234**	7,357
Current taxation	**836**	831
Obligations under finance leases	**82**	128
Proposed dividend	**600**	495
Long-term assurance liabilities attributable to policyholders (see Note 23)	**2,925**	2,374
Other liabilities	**3,256**	3,560
	24,827	18,511

Notes on the Accounts *(continued)*

27 Other liabilities *(continued)*

	1995	1994
	£m	£m
Obligations under finance leases fall due as follows:		
— within 1 year	**34**	57
— between 1 and 5 years	**30**	52
— over 5 years	**18**	19
	82	128

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.

	Group	*Company*
	£m	**£m**
At 1 January 1995	**289**	**141**
Exchange and other movements	**(7)**	**(25)**
Charge to profit and loss account (Note 6)	**13**	**2**
At 31 December 1995	**295**	**118**

	Group		*Company*	
	1995	1994	**1995**	1994
	£m	£m	**£m**	£m
Included in 'Provisions for liabilities and charges'	**367**	323	**118**	141
Included in 'Other assets' (Note 23)	**(72)**	(34)	**—**	—
Net deferred taxation provision	**295**	289	**118**	141
Comprising:				
Short-term timing differences	**27**	22	**—**	—
Leasing transactions	**255**	222	**—**	—
Relief for tax losses	**(48)**	(5)	**—**	—
Advance corporation tax carried forward in Midland	**(80)**	(78)	**—**	—
Advance corporation tax on dividends proposed	**(150)**	(124)	**(150)**	(124)
Provision for additional UK tax on profit remittances from overseas	**188**	200	**188**	200
Other items	**103**	52	**80**	65
	295	289	**118**	141

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. A provision for a potential UK tax charge of £200 million was established upon the acquisition of Midland and £12 million of this provision was utilised in the year to 31 December 1995.

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 1995, there were potential future tax benefits of approximately £240 million (1994: £310 million) in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowed for tax and advance corporation tax carried forward by subsidiary undertakings which have not been recognised because recoverability of the potential benefits is not considered certain.

28 Provisions for liabilities and charges *(continued)*

v Unprovided deferred tax in respect of leasing transactions carried out by Midland totalled £63 million as at 31 December 1995 (1994: £63 million).

b *Other provisions for liabilities and charges*

	Provisions for pension and other post-retirement obligations	*Provisions for contingent liabilities and commitments*	*Other provisions*	*Total*
	£m	**£m**	**£m**	**£m**
At 1 January 1995	**100**	**131**	**117**	**348**
Exchange movements	**4**	**(3)**	**1**	**2**
Charge/(credit) to the profit and loss account	**46**	**(24)**	**89**	**111**
Provisions utilised	**(18)**	**(21)**	**(63)**	**(102)**
Other movements	**(10)**	**34**	**21**	**45**
At 31 December 1995	**122**	**117**	**165**	**404**

Acquisition provisions reflecting the restructuring costs of achieving the synergy benefits of the merger with Midland were established in 1992. Of these provisions, £60 million was utilised during the year and the unutilised balance of £10 million (1994: £70 million) is included in 'Other provisions' in the table above. The unutilised balance relates mainly to the cost of surplus space arising as a result of the merger.

None of the above provisions relates to the Company (1994: £ nil).

29 Subordinated liabilities

	1995	1994
	£m	£m
Undated subordinated loan capital:		
— the Company	**—**	—
— other Group	**1,774**	1,761
	1,774	1,761
Dated subordinated loan capital:		
— the Company	**819**	819
— other Group	**2,946**	2,629
	3,765	3,448
Total subordinated liabilities:		
— the Company	**819**	819
— other Group	**4,720**	4,390
	5,539	5,209
Dated subordinated loan capital is repayable:		
— within 1 year	**83**	4
— between 1 and 2 years	**81**	163
— between 2 and 5 years	**779**	736
— over 5 years	**2,822**	2,545
	3,765	3,448

29 Subordinated liabilities *(continued)*

		1995 £m	1994 £m
The total subordinated borrowings of the Company are as follows:			
£413m	11.69% subordinated bonds 2002	**413**	413
£250m	9.875% subordinated bonds 2018	**246**	246
US$250m	Subordinated collared floating rate notes 2008	**160**	160
		819	819
Amounts owed to Group undertakings:			
US$350m	7.525% subordinated loan 2003 — HSBC Finance Nederland BV	**224**	223
		1,043	1,042

The Company's dated subordinated loan capital is all repayable over five years.

At 31 December 1995, the following other Group subordinated borrowings were £100 million or over:

		1995 £m	1994 £m
US$1,200m	Primary capital subordinated undated floating rate notes	**773**	768
US$750m	Undated floating rate primary capital notes	**483**	480
US$500m	Undated floating rate primary capital notes	**322**	320
US$400m	8.625% subordinated notes 2004	**255**	253
£250m	Subordinated unsecured floating rate notes 2001	**250**	250
HK$3,000m	Subordinated collared floating rate notes 2003	**250**	248
US$350m	7.4% subordinated guaranteed notes 2003	**226**	224
£200m	9% subordinated notes 2005*	**200**	—
US$300m	Undated floating rate primary capital notes (Series 3)	**193**	192
US$300m	7.65% subordinated notes 2025*	**192**	—
DM300m	Guaranteed floating rate notes 1986/98	**135**	124
US$200m	Guaranteed floating rate notes 1999	**129**	128
US$200m	Floating rate subordinated notes 2000	**129**	128
£100m	14% subordinated unsecured loan stock 2002/07	**100**	100
	Other subordinated liabilities less than £100m	**1,083**	1,175
		4,720	4,390

* *The proceeds of the issue of 9% subordinated notes 2005 and 7.65% subordinated notes 2025 during the year were used to support the development of Midland Bank plc and to strengthen further Midland's capital base. The latter issue may be repaid at the option of holders in 2007.*

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 up to 14%.

30 Minority interests — non-equity

Preference shares issued by subsidiaries:

		1995 £m	1994 £m
US$98m	Perpetual preference shares	**63**	63
US$625m	Non-cumulative preference shares	**389**	156
		452	219

31 Called up share capital

Authorised:

The authorised ordinary share capital of the Company at 31 December 1995 and 1994 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 1995 and 1994, the authorised preference share capital of the Company is £500 million divided into 500 million non-cumulative preference shares of £1 each.

	HK$10 shares Number	*75p shares Number*	£m
Issued:			
At 1 January 1995	1,754,176,109	851,594,636	**2,090**
Shares issued under option scheme	—	6,326,090	**5**
Shares issued in lieu of dividends	20,406,890	2,385,576	**19**
Exchange movements	—	—	**10**
At 31 December 1995	1,774,582,999	860,306,302	**2,124**

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 and savings-related share option schemes and Midland's executive and savings-related share option schemes are as follows:

	Number of shares	*Period of exercise*	*Exercise price*
1995	**43,160,482**	**1996 to 2005**	**£1.1843 to £8.5127**
1994	36,295,570	1995 to 2004	£1.1843 to £8.5127

32 Reserves

	Group	*Company*	*Associated undertakings*
	£m	**£m**	**£m**
Share premium account:			
At 1 January 1995	**319**	**319**	—
Shares issued under option schemes	**7**	**7**	—
Shares issued in lieu of dividends and associated issue costs	**(19)**	**(19)**	—
At 31 December 1995	**307**	**307**	—
Reserves:			
— Merger reserve			
At 1 January 1995 and 31 December 1995	**148**	—	—
Revaluation reserve:			
— Investment property revaluation reserve			
At 1 January 1995	**315**	—	—
Exchange and other movements	**18**	—	—
Unrealised surplus on revaluation of land and buildings	**7**	—	**45**
At 31 December 1995	**340**	—	**45**

Notes on the Accounts *(continued)*

32 Reserves *(continued)*

	Group	Company	Associated undertakings
	£m	£m	£m
— Revaluation reserve			
At 1 January 1995	1,163	5,451	—
Exchange and other movements	(16)	21	—
Realisation on disposal of properties	(4)	—	—
Surplus/(deficit) on revaluation of Group properties	776	(1)	2
Permanent diminution in value of land and buildings	(41)	—	—
Net increase in attributable net assets of subsidiary undertakings	—	2,301	—
At 31 December 1995	1,878	7,772	2
Total revaluation reserve	2,218	7,772	47
Profit and loss account:			
At 1 January 1995	6,755	2,930	81
Exchange and other movements	117	—	(4)
Retained profit for the year	1,619	81	16
Goodwill written off on acquisition	(78)	—	—
Realisation on disposal of properties	4	—	—
Arising on shares issued in lieu of dividends	173	173	—
At 31 December 1995	8,590	3,184	93

Goodwill amounting to £2,217 million (1994: £2,154 million) has been charged against reserves in current and prior years in respect of acquisition of subsidiaries.

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 may result in further taxation liabilities.

33 Analysis of total assets and total liabilities

	1995	1994
	£m	£m
a *Assets and liabilities denominated in foreign currency*		
Denominated in sterling	68,783	59,847
Denominated in currencies other than sterling	158,035	141,671
Total assets	226,818	201,518
Denominated in sterling	71,546	66,021
Denominated in currencies other than sterling	155,272	135,497
Total liabilities	226,818	201,518

	1995	1994
b *Assets subject to sale and repurchase transactions*	£m	£m
Total assets subject to sale and repurchase transactions	4,445	2,814

33 Analysis of total assets and total liabilities *(continued)*

c *Assets leased to customers*

	1995	1994
	£m	£m
Loans and advances to customers	3,961	3,994
Tangible fixed assets — equipment on operating leases (Note 21a)	280	297
	4,241	4,291

The cost of assets acquired during 1995 for letting to customers under finance leases and hire purchase contracts by the Group amounted to £1,956 million (1994: £1,902 million).

d *Assets charged as security for liabilities*

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

	Amount of liability secured	
	1995	1994
	£m	£m
Deposits by banks	1,357	1,312
Customer accounts	1,075	1,808
Debt securities in issue	177	517
Other liabilities	216	911
	2,825	4,548

The amount of assets pledged to secure these amounts is £7,741 million (1994: £7,134 million) and is mainly made up of items included in 'Debt securities' £6,799 million (1994: 'Debt securities' £4,512 million and 'Loans and advances to banks' £1,002 million).

34 Memorandum items

a *Group*

	1995			1994		
	Contract amount	*Credit equivalent amount*	*Risk-weighted amount*	*Contract amount*	*Credit equivalent amount*	*Risk-weighted amount*
	£m	£m	£m	£m	£m	£m
Contingent liabilities:						
Acceptances and endorsements	2,076	1,519	1,466	1,325	911	869
Guarantees and assets pledged as collateral security:						
— guarantees and irrevocable letters of credit	13,769	11,083	8,259	11,893	9,395	6,822
Other contingent liabilities	180	15	14	183	—	—
	16,025	12,617	9,739	13,401	10,306	7,691

Notes on the Accounts *(continued)*

34 Memorandum items *(continued)*

a *Group*

	1995			1994		
	Contract amount	*Credit equivalent amount*	*Risk-weighted amount*	*Contract amount*	*Credit equivalent amount*	*Risk-weighted amount*
	£m	**£m**	**£m**	£m	£m	£m
Commitments:						
Documentary credits and short-term trade-related transactions	**5,223**	**1,327**	**1,091**	5,464	1,389	1,062
Forward asset purchases and forward forward deposits placed	**451**	**451**	**343**	161	161	52
Undrawn note-issuing and revolving underwriting facilities	**107**	**54**	**54**	300	150	150
Undrawn formal standby facilities, credit lines and other commitments to lend:						
— over 1 year	**14,428**	**7,214**	**6,027**	12,610	6,305	5,040
— 1 year and under	**48,975**	**—**	**—**	42,362	—	—
	69,184	**9,046**	**7,515**	60,897	8,005	6,304
Exchange rate contracts	**376,018**	**8,808**	**2,212**	302,302	6,114	1,512
Interest rate contracts	**608,922**	**8,055**	**1,961**	745,971	5,166	1,225

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 status 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.

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.

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.

Included in the above table, which excludes contracts made with other Group counterparties, there are £368,414 million contract amount of exchange rate contracts and £585,107 million contract amount of interest rate contracts which were made for trading purposes. The remaining exchange and interest rate contracts were made for non-trading purposes. In 1994, £293,345 million contract amount of exchange rate third-party contracts and £668,962 million contract amount of interest rate contracts were made for trading purposes, while the remaining exchange and interest rate contracts were made for non-trading purposes, either directly with the market-place or indirectly through Group counterparties. Further analysis of the Group's trading and non-trading contracts is provided in the 'Financial Review' on page 46.

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.

34 Memorandum items *(continued)*

	1995	1994
	£m	£m
Replacement cost of contracts:		
— exchange rate contracts	**4,916**	3,514
— interest rate contracts	**7,014**	4,697
	11,930	8,211

Replacement cost of contracts represents the mark-to-market assets on all contracts with a positive value.

Replacement cost is a close approximation of the credit risk for these contracts as at the balance sheet date. Credit risk is measured internally as the sum of positive mark-to-market value and an estimate for the future fluctuation risk, using a future risk factor.

b *Company*

The Company had contingent liabilities of £50 million (1994: £7 million). In addition, the Company enters into guarantees and letters of support on behalf of other Group undertakings in the normal course of business.

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

	1995	1994
	£m	£m
Operating profit	**3,364**	2,714
Change in prepayments and accrued income	**(539)**	308
Change in accruals and deferred income	**247**	(195)
Interest paid on finance leases and similar hire purchase contracts	**11**	15
Interest on subordinated loan capital	**399**	298
Depreciation and amortisation	**347**	342
Provisions for bad and doubtful debts	**416**	275
Loans written off net of recoveries	**(659)**	(1,053)
Provisions for liabilities and charges	**111**	116
Provisions utilised	**(102)**	(109)
Amounts written off fixed asset investments	**16**	6
Income receivable on investment securities	**(731)**	(703)
Net cash flow from trading activities	**2,880**	2,014
Change in items in the course of collection from other banks	**(461)**	287
Change in treasury bills and other eligible bills	**(3,217)**	(1,901)
Change in loans and advances to banks	**(547)**	1,440
Change in loans and advances to customers	**(10,654)**	(367)
Change in other securities	**(2,345)**	5,200
Change in other assets	**(4,468)**	(1,060)
Change in deposits by banks	**1,566**	(9,118)
Change in customer accounts	**13,414**	(136)
Change in items in the course of transmission to other banks	**384**	(417)
Change in debt securities in issue	**(132)**	2,338
Change in other liabilities	**6,206**	(63)
Elimination of exchange differences	**(349)**	534
Net cash inflow/(outflow) from operating activities	**2,277**	(1,249)

Notes on the Accounts *(continued)*

36 Changes in financing during the year

	Subordinated loan capital	*Preference shares**	*Ordinary shares*	*Share premium*
	£m	**£m**	**£m**	**£m**
Balance at 1 January 1995	**5,209**	**219**	**2,090**	**319**
Shares issued in lieu of dividends	**—**	**—**	**19**	**(19)**
Issued during the year	**394**	**233**	**5**	**7**
Repaid during the year	**(124)**	**—**	**—**	**—**
Net cash inflow from financing	**270**	**233**	**5**	**7**
Exchange and other movements	**60**	**—**	**10**	**—**
Balance at 31 December 1995	**5,539**	**452**	**2,124**	**307**

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

37 Analysis of cash and cash equivalents

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

	1995	1994
	£m	£m
Loans and advances to banks	**963**	883
Treasury bills	**121**	101
	1,084	984

b *Changes in cash and cash equivalents during the year*

	1995	1994
	£m	£m
Balance at 1 January 1995	**33,749**	35,576
Net cash outflow before the effect of foreign exchange movements	**(345)**	(799)
Effect of foreign exchange movements	**372**	(1,028)
Balance at 31 December 1995	**33,776**	33,749

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

	1995	1994
	£m	£m
Cash and balances at central banks	**1,806**	1,829
Treasury bills and other eligible bills	**3,360**	3,109
Loans and advances to banks	**27,648**	27,192
Other assets	**152**	107
Debt securities	**810**	1,512
	33,776	33,749

38 Litigation

Proceedings which were initiated by British & Commonwealth Holdings plc ('B&C') against Samuel Montagu & Co. Limited ('Samuel Montagu'), 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 approximately £176 million being awarded against Samuel Montagu in 1993. A full provision for this amount was made in 1993 together with related interest and legal costs. This sum was reduced by the Court of Appeal to approximately £120 million in April 1995. The liquidator of B&C then sought leave to appeal to the House of Lords. In order to avoid further protracted legal proceedings, a final settlement of approximately £147 million was agreed upon in October 1995. The 1995 accounts reflect the benefit of this final settlement.

The Group, through a number of its subsidiary undertakings, is named in and is defending 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

	1995	1994
	£m	£m
Expenditure contracted for	**123**	169
Expenditure authorised by Directors but not contracted for	**150**	104
	273	273

There were no capital commitments in respect of the Company (1994: £ nil).

40 Lease commitments

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

	1995	1994
	£m	£m
Leasehold land and buildings		
Operating leases which expire:		
— within 1 year	**19**	26
— between 1 and 5 years	**76**	98
— over 5 years	**101**	145
	196	269
Equipment		
Operating leases which expire:		
— within 1 year	**1**	2
— between 1 and 5 years	**5**	4
	6	6

The Company had no commitments under operating leases at 31 December 1995 (1994: 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 businesses is included in other operating income above. Common costs are included in segments on the basis of the actual recharges made. The allocation of earnings reflects the benefit of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-Group capital and funding structures.

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 profits and net assets shown below includes intra-Group items between geographic regions. The 'Rest of Asia-Pacific' geographical segment includes the Middle East, India and Australasia.

Total assets:	1995		1994	
	£m	**%**	£m	%
UK	**78,264**	**35.2**	74,197	37.7
Continental Europe	**13,417**	**6.1**	11,006	5.6
Hong Kong	**68,965**	**31.1**	59,723	30.4
Rest of Asia-Pacific	**29,630**	**13.4**	23,572	12.0
Americas	**31,444**	**14.2**	28,014	14.3
	221,720	**100.0**	196,512	100.0
Add: Hong Kong Government certificates of indebtedness	**5,098**		5,006	
Total assets	**226,818**		201,518	

Notes on the Accounts *(continued)*

41 Segmental analysis *(continued)*

Net assets:

	1995		1994	
	£m	%	£m	%
UK	4,503	33.6	3,837	35.5
Continental Europe	503	3.8	568	5.3
Hong Kong	5,399	40.4	4,193	38.9
Rest of Asia-Pacific	1,479	11.0	926	8.6
Americas	1,503	11.2	1,266	11.7
Total net assets	13,387	100.0	10,790	100.0

Profit on ordinary activities before tax:

	UK	*Continental Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*Americas*	*Total*
Year ended 31 December 1995	£m	£m	£m	£m	£m	£m
Interest receivable	4,864	743	4,750	1,890	1,923	14,170
Interest payable	(2,982)	(593)	(3,090)	(1,306)	(1,080)	(9,051)
Net interest income	1,882	150	1,660	584	843	5,119
Dividend income	27	1	31	9	4	72
Fees and commissions receivable	1,451	149	571	299	274	2,744
Fees and commissions payable	(129)	(12)	(50)	(47)	(48)	(286)
Dealing profits	186	68	108	121	50	533
Other operating income	262	9	203	33	56	563
Operating income	3,679	365	2,523	999	1,179	8,745
Operating expenses	(2,535)	(237)	(1,041)	(442)	(718)	(4,973)
Operating profit before provisions	1,144	128	1,482	557	461	3,772
Provisions for bad and doubtful debts	(163)	(30)	(25)	(65)	(133)	(416)
Provisions for contingent liabilities and commitments	31	—	1	(6)	(2)	24
Amounts written off fixed asset investments	(9)	1	(5)	(1)	(2)	(16)
Operating profit	1,003	99	1,453	485	324	3,364
Profit/(loss) on disposal of fixed assets and investments	110	(1)	94	—	29	232
Income from associated undertakings	14	8	11	37	6	76
Profit on ordinary activities before tax	1,127	106	1,558	522	359	3,672

41 Segmental analysis *(continued)*

	UK	*Continental Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*Americas*	*Total*
	£m	£m	£m	£m	£m	£m
Year ended 31 December 1994						
Interest receivable	4,433	624	3,526	1,376	1,648	11,607
Interest payable	(2,679)	(491)	(2,095)	(874)	(871)	(7,010)
Net interest income	1,754	133	1,431	502	777	4,597
Dividend income	16	5	37	3	9	70
Fees and commissions receivable	1,406	132	526	258	288	2,610
Fees and commissions payable	(131)	(12)	(52)	(35)	(49)	(279)
Dealing profits	45	27	86	95	8	261
Other operating income	274	9	201	24	63	571
Operating income	3,364	294	2,229	847	1,096	7,830
Operating expenses	(2,412)	(197)	(956)	(395)	(810)	(4,770)
Operating profit before provisions	952	97	1,273	452	286	3,060
Provisions for bad and doubtful debts	(99)	(11)	(22)	(8)	(135)	(275)
Provisions for contingent liabilities and commitments	(47)	—	(3)	(15)	—	(65)
Amounts written off fixed asset investments	—	(1)	(3)	(1)	(1)	(6)
Operating profit	806	85	1,245	428	150	2,714
Profit on disposal of fixed assets and investments	145	5	185	11	20	366
Income from associated undertakings	31	4	5	39	7	86
Profit on ordinary activities before tax	982	94	1,435	478	177	3,166

Total interest receivable and total interest payable include intra-Group interest of £986 million (1994: £832 million). Other operating income and operating expenses include intra-Group items of £192 million (1994: £206 million).

b *By class of business*

	Commercial banking		*Investment banking*		*Total*	
	1995	1994	**1995**	1994	**1995**	1994
	£m	£m	**£m**	£m	**£m**	£m
Segment result before exceptional items	**3,420**	2,913	**227**	253	**3,647**	3,166
Release of provision in respect of British & Commonwealth Holdings plc litigation (Note 38)	—	—	**25**	—	**25**	—
Profit on ordinary activities before tax	**3,420**	2,913	**252**	253	**3,672**	3,166
Total assets	**215,551**	190,388	**11,267**	11,130	**226,818**	201,518

41 Segmental analysis *(continued)*

	Commercial banking		*Investment banking*		*Total*	
	1995 £m	1994 £m	**1995 £m**	1994 £m	**1995 £m**	1994 £m
Net assets	**12,600**	9,991	**787**	799	**13,387**	10,790

On 1 January 1995, the Group's Asian and European offshore private banking businesses became a division of HSBC Investment Banking. Comparative figures have been restated accordingly.

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 are as follows:

	1995		1994	
	Number	**£m**	Number	£m
Directors and connected persons and companies controlled by them: Loans and credit card transactions (including £45,000 in credit card transactions (1994: £52,000) and £1,023,000 in guarantees (1994: £9,347,000))	**64**	**176**	54	178
Officers: Loans and credit card transactions (including £49,000 in credit card transactions (1994: £26,000); and £82,000 in guarantees (1994: £ nil))	**15**	**4**	17	3

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 average rate of exchange for the year ended 31 December 1995 and the closing rate at that date respectively. These were as follows:

	Average rate	*Closing rate*
£1.00 = HK$	12.203	12.000
£1.00 = US$	1.578	1.552

44 UK and Hong Kong accounting requirements

Where UK accounting requirements differ materially from those in Hong Kong Statements of Standard Accounting Practice, these normally relate to more detailed disclosures and prescribed formats arising from accounting requirements contained in the UK Companies Act 1985 and pronouncements of the UK Accounting Standards Board and Urgent Issues Task Force. There were no material differences in accounting treatment except in the case of Hong Kong Statement of Standard Accounting Practice 17: 'Property, Plant and Equipment', which came into effect for the year ended 31 December 1995. The financial effect of the difference between this standard and UK accounting requirements is not significant in these financial statements.

45 Approval of accounts

These accounts were approved by the Board of Directors on 26 February 1996.

Taxation of Shares and Dividends

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. In the current Finance Bill, it is proposed that with effect from 6 April 1996 such entitlement will be extended to all European Economic Area nationals.

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 dividends offered in lieu of the 1994 final dividend and the 1995 interim dividend was set out in the Secretary's letters to shareholders of 21 April and 19 September 1995. The market value of the scrip dividend shares on the first day of dealing was not substantially different from the cash dividend foregone and, accordingly, the price of both classes of the Company's ordinary shares for income and capital gains tax purposes is £7.114 for the 1994 final dividend and £8.867 for the 1995 interim dividend. Shareholders should contact their 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.

International Network

Services are provided by more than 3,000 offices in 71 countries:

Asia-Pacific	*Offices*		*Offices*
Australia	*39*	Malaysia	*46*
Brunei Darussalam	*12*	Myanmar (Burma)	*1*
China	*14*	New Zealand	*4*
Cook Islands	*2*	Pakistan	*4*
Hong Kong	*414*	Philippines	*5*
India	*27*	Singapore	*27*
Indonesia	*7*	Sri Lanka	*6*
Japan	*10*	Taiwan	*6*
Korea, Republic of	*4*	Thailand	*6*
Macau	*8*	Vietnam	*2*

Europe			
Armenia	*1*	Italy	*2*
Austria	*1*	Luxembourg	*2*
Channel Islands	*27*	Netherlands	*1*
Cyprus	*136*	Poland	*1*
Czech Republic	*1*	Russia	*2*
France	*3*	Spain	*2*
Germany	*14*	Sweden	*2*
Greece	*4*	Switzerland	*4*
Hungary	*1*	Turkey	*1*
Ireland	*4*	United Kingdom	*1,805*
Isle of Man	*4*		

Middle East and Africa			
Angola	*2*	Namibia	*1*
Bahrain	*6*	Oman	*4*
Egypt	*6*	Palestinian Autonomous Area	*1*
Ghana	*1*	Qatar	*2*
Jordan	*5*	Saudi Arabia	*61*
Kenya	*1*	South Africa	*4*
Lebanon	*4*	United Arab Emirates	*15*
Mauritius	*12*	Zambia	*1*
Mozambique	*1*		

Americas			
Argentina	*31*	Colombia	*2*
Bahamas	*9*	Guam	*1*
Bermuda	*2*	Mexico	*3*
Brazil	*4*	Panama	*4*
Canada	*115*	United States of America	*371*
Cayman Islands	*4*	Venezuela	*1*
Chile	*4*		

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Wayfoong Finance Limited
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Wayfoong Mortgage And Finance (Singapore) Limited
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6 Claymore Hill
#03-01 Claymore Plaza
Singapore 229571
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INSURANCE, RETIREMENT BENEFITS, ACTUARIAL AND PERSONAL FINANCIAL SERVICES

Hang Seng Life Limited
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Suite 602, Citicorp Centre
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Facsimile: 2806 1892

HSBC Gibbs Limited
HSBC Insurance Holdings Limited
UNITED KINGDOM
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London E1 7LP
Telephone: 0171-247 5433
Facsimile: 0171-377 2139 (HSBC Gibbs)
0171-247 7373 (HSBC Insurance Holdings)

HSBC Gibbs Personal Insurances Limited
UNITED KINGDOM
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HSBC Insurance Limited
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Facsimile: 2827 7636

Midland Life Limited
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BULLION DEALING AND COMMODITY/BROKERAGE SERVICES

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