HSBC Holdings plc

Annual Report and Accounts

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HSBC

YOUR WORLD OF FINANCIAL SERVICES

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 5,000 offices in 80 countries and territories in the Asia-Pacific region, Europe, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong and New York stock exchanges, shares in HSBC Holdings plc are held by more than 175,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

Through a global network linked by advanced technology, including a rapidly growing e-commerce capability, HSBC provides a comprehensive range of financial services: personal, commercial, corporate, investment and private banking; trade services; cash management; treasury and capital markets services; insurance; consumer and business finance; pension and investment fund management; trustee services; and securities and custody services.

Illustrative Theme

Building the brand

During 1999, members of the HSBC Group throughout the world — from Auckland, New Zealand to Zabbar, Malta — worked towards establishing HSBC and the hexagon symbol as a global brand synonymous with integrity, trust and excellent customer service. The creation of the brand is one of the key objectives of the Group's strategic plan.

As part of the branding exercise, we changed the legal names of most of the Group's wholly owned commercial banks, as well as subsidiaries involved in a number of other businesses. To support the initiative, we also launched a major advertising campaign in our key markets. Our communication materials and products were redesigned and rebranded. At the same time, we installed new exterior and interior signage bearing the HSBC brand.

Cover photograph: The dramatic silhouette against the evening sky shows a workman helping to raise a giant hexagon into position to replace the signage in front of the typhoon screen above the plaza of the HSBC Main Building in Hong Kong.

This is one image among others in this *Annual Report* illustrating the many manifestations of the HSBC brand during a year in which we took a major step forward in achieving full recognition for HSBC as one of the world's leading financial services organisations.

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Financial Highlights

1998		**1999**	*1999*	*1999*
US$m	**For the year**	**US$m**	*£m*	*HK$m*
6,571	Profit before tax	**7,982**	*4,933*	*61,932*
4,318	Profit attributable	**5,408**	*3,342*	*41,961*
2,495	Dividends	**2,872**	*1,775*	*22,284*
	At year-end			
27,402	Shareholders' funds	**33,408**	*20,680*	*259,680*
41,092	Capital resources	**44,270**	*27,403*	*344,111*
343,252	Customer accounts and deposits by banks	**398,075**	*246,409*	*3,094,237*
483,128	Total assets	**569,139**	*352,297*	*4,423,917*
301,950	Risk-weighted assets	**336,126**	*208,062*	*2,612,707*
US$	**Per share***	**US$**	*£*	*HK$*
0.54	Basic earnings	**0.65**	*0.40*	*5.04*
0.53	Diluted earnings	**0.65**	*0.40*	*5.04*
0.53	Headline earnings	**0.66**	*0.41*	*5.12*
0.308	Dividends	**0.34**	*0.21†*	*2.64†*
3.38	Net asset value	**3.95**	*2.45*	*30.7*
	Share information			
8,097m	US$0.50: ordinary shares in issue*	**8,458m**		
US$70b	Market capitalisation	**US$118b**		
£5.19	Closing market price per share*	**£8.63**		
%	**Ratios**	**%**		
15.5	Return on average shareholders' funds	**17.5**		
0.98	Post-tax return on average assets	**1.20**		
1.60	Post-tax return on average risk-weighted assets	**2.00**		
	Capital ratios			
13.6	— total capital	**13.2**		
9.7	— tier 1 capital	**8.5**		
54.9	Cost:income ratio	**54.0**		

* *1998 comparatives have been restated to reflect the share capital reorganisation discussed on page 70.*

† *The second interim dividend of US$0.207 per share is translated at the closing rate. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 18 April 2000.*

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Five-Year Comparison

At year-end *(US$m)*	1995	1996	1997	1998	**1999**
Share capital	3,296	3,426	3,406	3,443	**4,230**
Shareholders' funds	20,776	25,833	27,080	27,402	**33,408**
Capital resources	33,095	39,950	41,562	41,092	**44,270**
Customer accounts	220,572	257,104	294,189	308,910	**359,972**
Loans and advances to customers	169,747	194,514	240,421	235,295	**253,567**
Total assets	352,022	402,377	471,686	483,128	**569,139**
For the year *(US$m)*					
Operating profit before provisions	5,952	7,054	8,553	9,051	**9,653**
Provisions for bad and doubtful debts	(657)	(604)	(1,014)	(2,637)	**(2,073)**
Pre-tax profit	5,794	7,052	8,130	6,571	**7,982**
Profit attributable to shareholders	3,885	4,852	5,487	4,318	**5,408**
Dividends	(1,330)	(1,738)	(2,206)	(2,495)	**(2,872)**
Per ordinary share* *(US$)*					
Basic earnings	0.49	0.61	0.69	0.54	**0.65**
Headline earnings	0.49	0.60	0.68	0.53	**0.66**
Dividends	0.163	0.220	0.277	0.308	**0.340**

For comparative purposes, the sterling data previously reported for the years 1995, 1996 and 1997 have been translated for balance sheet data at the closing rates, and for profit and loss account data at the average rates.

* *Comparatives have been restated to reflect the share capital reorganisation discussed on page 70.*

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Group Chairman's Statement

HSBC's results for 1999 were significantly better than those achieved in a challenging 1998. Profit attributable to shareholders increased by 25 per cent to US$5,408 million and the total dividend for the year increased by 10.3 per cent to US$0.34 per share.

These results reflect the improvement in Asia's economies and the resilience of our customer base. One of the most positive features of our performance was that, in a year in which our customer lending declined, our operating profit before provisions, at US$9.7 billion, was 7 per cent higher than in 1998. In line with our 'Managing for Value' strategy, this was achieved both by expanding the relationships we have with existing customers and by winning new customers through organic growth and acquisition.

There are growing signs that Asia's recovery — albeit uneven — vindicates the confidence we have maintained in the region throughout the downturn. Credit quality has stabilised and we are well placed to take advantage of improving market conditions.

I would like to pay tribute to my colleagues around the world. Their success was reflected in the many awards won by HSBC worldwide. For example, the Group won nine *Euromoney* awards, including 'best bank in Asia'. *Global Finance* magazine rated us 'best bank in the UK'. Hang Seng was awarded 'best bank in Asia' by *Asiamoney*. In addition, *Forbes* magazine ranked us fourth in the Forbes Super 100, a ranking of the world's largest companies, while we were also included in the Global Titans Index, a new benchmark of the world's 50 largest international companies.

The difference between successful and less successful organisations ultimately lies in the quality of their staff. At HSBC, we have a team second to none. In particular, I would like to acknowledge my colleagues in Taiwan and Turkey who kept going through all the difficulties presented by the earthquakes there.

We place a very high value on the contribution made by our employees. We conduct regular attitude surveys around the world, and we act on the results. We seek to maintain productive and harmonious working relationships with recognised trade unions and, by and large, we enjoy very good staff relations.

As part of our strategy, we aim to increase the number of our employees who have a direct interest in our shares. At the end of 1999, more than 40 per cent of the Group's employees spread over 44 countries and territories had an interest in HSBC shares through participation in one or more of the Group's employee share plans. We expect to increase this number significantly over time.

Sir Wilfrid Newton retired from the Board in May after serving the Group since 1986. We thank him for his wise counsel. Alan Jebson was appointed to the Board as Group IT Director on 1 January 2000.

In 1999, we made significant progress in implementing our strategy. We listed on the New York Stock Exchange in July. We completed the acquisitions of Republic New York Corporation and Safra Republic Holdings on 31 December 1999. These acquisitions are an excellent fit with our strategy, strengthening our presence in New York and significantly improving our international private banking capability.

With the addition of a highly talented team of people from Republic, HSBC is on course to build a world-class international private banking operation and a major commercial banking operation in the United States. Integration is proceeding well and we are particularly pleased that the private banking business continues to perform well.

Two issues dominated financial services technology in 1999: preparation for the year 2000 and the ever-growing importance of the internet. HSBC came through the millennium transition smoothly, experiencing no problems with our in-house software in any of the 80 countries and territories where we operate. A few temporary problems in the UK with a small quantity of externally supplied software were remedied quickly. We remain alert to the possibility of delayed effects of the millennium bug.

The other major issue was, and is, e-commerce. Our strategy of Managing for Value calls for a relentless focus on our customers, providing them with secure, transparent and competitive services in the forms most attractive to them. We believe that e-commerce will change the fabric of the way business is done in financial services.

Clockwise from top right: The installation of signage on the building podium of HSBC's new branch in the commercial and business district of Tianjin, China. The Zabbar branch of HSBC Bank Malta p.l.c. gets a new sign as the bank changes its name from Mid-Med Bank p.l.c. in December 1999. Each of the letters HSBC, measuring six metres high, is carefully hoisted up the HSBC main building in Buenos Aires, Argentina, to form an eight-metre-wide sign. Precision flying by helicopter is needed to lift the one-ton panels showing the HSBC brand into place at the top of new premises overlooking Auckland's waterfront.

Group Chairman's Statement (continued)

We see it as an opportunity to attract new customers from all over the world and to serve our existing customers better. It will enable us to reconfigure our business in ways which provide higher quality customer services in a more efficient manner. As an international group, we shall be able to link our customers to the full range of international services and manage the processing of them wherever we choose. This is a sustainable competitive advantage.

HSBC intends to remain at the forefront of our industry. We have recognised the growing importance of the internet as one of a number of exciting new media which will become an integral part of our services.

In recent years, we have been reconfiguring our operations for the e-age and putting in place some of the major building blocks. For example, we have been working with IBM on a system called Interactive Financial Services (IFS), which enables us to connect our existing capability to the full spectrum of our customers' technology: the internet, interactive TV, mobile phones and personal digital assistants. IFS gives our customers the freedom to access their finances as they wish. We will be one of the first to provide customers with services via the internet on a multi-product, multi-geography basis. We are now focusing on going to market.

During 2000, we will be developing hsbc.com as a brand name and portal for our consumer services. This year will see the launch of a range of new, internet-related services for personal customers in the UK, the United States, the Hong Kong Special Administrative Region, Singapore, Malaysia, Australia, Turkey, Greece and, through our operations in Jersey, to expatriate customers in 200 countries. Our focus is not solely on retail customers. One of the most exciting markets in the e-age is the commercial market, the small and medium-sized enterprises that are a vital part of our strategy and a long-standing core business for us.

We recognise that, in the internet age, it is important to stay close to early developments. We have therefore made some strategic investments. For example, in Hong Kong we announced, on 23 January 2000, the creation of a joint venture, iBusinessCorporation.com, with Hang Seng Bank, Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, to facilitate e-commerce business.

We believe that e-commerce will increasingly affect all the technology the customer owns. We have experienced this in the UK where our investment in British Interactive Broadcasting is proving a great success. Over 2.6 million households now have access to its Open.... service and some 70,000 have registered for TV banking with HSBC.

You can find a fuller exposition of our e-commerce strategy in the 1999 annual results' presentation on our web site, www.hsbc.com.

One of the major achievements of 1999 was our creation of a global brand using HSBC and the company's hexagon symbol. The building of the brand is the illustrative theme of this *Annual Report*. There are clear signs that the brand has brought greater recognition of the Group's international strengths amongst our customers. It is also the most visible sign of the extent to which members of the HSBC Group are working together more closely than ever to provide expanded services for our customers and to create value for our shareholders.

The last 12 months have brought numerous examples of this. The excellent performance of our treasury and capital markets activities was due both to the strengthening links between this business and the customer base of HSBC's commercial banks, as well as to favourable market conditions. We estimate we completed over 500 investment banking and capital markets transactions in 1999 on behalf of corporate customers of our commercial banks, a significant increase over 1998.

Our reputation is not just founded on operational excellence; it is also based on good citizenship. We continue to support the communities in which we operate through philanthropic and sponsorship activities. We place great emphasis on education, particularly for the underprivileged, and on the environment. With this in mind, the Board has asked Lord Butler, a non-executive Director, to oversee our social responsibilities. There is only space here to highlight a few of the initiatives of the hundreds we undertook in 1999.

In the UK, we are helping 21 schools in the Sheffield Education Action Zone, tackling student under-achievement. More than 1,000 staff volunteered as advisers to Young Enterprise to help young people learn about business.

Through the Hongkong Bank Foundation, we provided hundreds of scholarships and supported a large number of education and training programmes in the Hong Kong SAR and mainland China.

In the United States, we supported United Way and HSBC's Project Jumpstart continued to help school-leavers in Buffalo.

Group Chairman's Statement (continued)

We established a Virtual Family of Schools which uses video-conferencing to link schools in Brazil and the UK. We helped 500 undernourished children in Indonesia with extra meals. To celebrate our 50th anniversary in Jordan, we sponsored the SOS House for destitute and orphaned children.

We supported a number of environmental conservation projects around the world. Areas that benefited include the Samal Seas in the Philippines; coral reefs, wetlands and marine parks in Malaysia; and the Saving Thailand's Tigers Project.

We came to the aid of those affected by natural disasters, helping the Red Cross in its work in Turkey after the earthquake. HSBC staff and customers also responded to the Taiwan earthquake appeal.

Support for causes like these is just one of the ways we contribute to the communities we serve. We recognise that there is a debate about the effects of international trade and of globalisation. We acknowledge the public concerns, but we believe in the very real benefits that responsible capitalism brings. The creation of wealth is not an abstract concept. It allows people everywhere to improve their lives, and those of their families. We have seen the benefits of this in many of the countries where we operate. We will continue to play our part in supporting the development of the communities we serve.

The most important external factors affecting our business in 2000 will be the stability of the US economy and Asia's continued recovery. It is particularly important that domestic demand in Asia picks up and that the reform of the banking and corporate sectors remains firmly on track. HSBC has entered the new millennium in good shape, with a clear strategy and a broad spread of businesses able to pursue opportunities for profitable growth wherever they occur. The outlook for HSBC is encouraging.

Sir John Bond, *Group Chairman*

Clockwise from top: Against the panorama of the Peak and the Central business district, the new sign stands out on the top of HSBC's landmark building in Hong Kong. This shot, taken from the roof of the Group's main building in São Paulo, comes from the TV commercial that launched the HSBC advertising campaign in Brazil. Opened during 1999 in Sydney's central business district, Exchange Centre branch was the first in HSBC's Australian network to display the new brand. A first for banking in Bahrain, this is the country's pioneering off-site drive-through automated teller machine — provided by HSBC in the Middle East. Celebrations at the New York Stock Exchange on 16 July 1999 as the Group reaches a milestone in its history: the first day of trading in HSBC Holdings plc shares on a third stock exchange, complementing listings in London and Hong Kong.

Group Chief Executive's Review of Operations

The 'Review of Operations' for 1999 follows the structure established in the previous year. In line with our strategy, it describes the HSBC Group's activities in a way that reflects the relative economic importance of our operations worldwide. Our businesses are divided into three categories: large, major and international. Our four large businesses each have over one million customers. They are located in the United Kingdom, the Hong Kong SAR and mainland China, Brazil and the United States. Our seven major businesses each have more than 200,000 customers. Our international businesses support our large and major businesses, and we anticipate that some of them will become our major or even large businesses of tomorrow.

Aligned with these is our Corporate and Institutional Banking business which, by its nature, often crosses geographical borders and is increasingly co-ordinated globally. We have also included details of other businesses that are global or supra-regional in nature.

An analysis of our results by subsidiary and by line of business is shown in the table opposite.

HSBC's Large Businesses

United Kingdom

During the year, our strategic focus in the UK was to broaden and deepen relationships with customers across all business sectors and to provide consistent and high service standards. By our actions, we aim to establish a clear lead over our principal UK competitors.

Our UK business successfully completed the adoption of the HSBC brand in 1999, changing all branch signage by June. Midland Bank plc changed its legal name to HSBC Bank plc in September, emphasising its membership of the HSBC Group and its position as the only truly global UK high street bank.

The UK business of HSBC Bank grew strongly in 1999. Operating profit before provisions rose by 7.1 per cent from US$2,580 million in 1998 to US$2,764 million. We placed particular emphasis on growing fee-based business and on making our product range more competitive and transparent to our personal customers. This resulted in a 26.9 per cent increase in income from the sale of life, pension and investment products.

Additions to the bank's personal products included a range of tax-free individual savings accounts, which captured 6 per cent of the market. We achieved year-on-year growth of 25 per cent in mortgage sales, boosted by our reputation as a 'fair mortgage' provider. Cross-sales of mortgages with insurance products reached a record. Sales of income protection insurance and critical illness insurance were particularly buoyant, with HSBC Life (UK) Limited achieving a market share of over 6 per cent. HSBC Bank became the first major bank to

Attributable profit by subsidiary and by line of business

US$m	**1999**	1998
Hang Seng Bank	**1,071**	876
Less: minority interests	**(406)**	(332)
	665	544
HSBC Investment Bank Asia Holdings Limited	**275**	59
The Hongkong and Shanghai Banking Corporation Limited and other subsidiaries	**1,368**	789
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries	**2,308**	1,392
HSBC Bank plc	**1,929**	1,726
Less: preference dividend	**(76)**	(71)
	1,853	1,655
HSBC USA Inc.	**466**	527
HSBC Bank Middle East	**78**	141
HSBC Bank Malaysia Berhad	**(126)**	(91)
HSBC Bank Canada*	**111**	122
HSBC Latin American operations	**178**	147
HSBC Holdings sub-group:		
— Canary Wharf vacant space provision	**—**	(158)
— other	**156**	28
Other commercial banking entities	**179**	187
UK GAAP adjustments	**(23)**	161
Less: investment banking profits included above†	**(325)**	(92)
Commercial banking	**4,855**	4,019
Investment banking†	**553**	299
Group profit	**5,408**	4,318

** Figures for HSBC Bank Canada for 1998 are based on the 14-month period to 31 December 1998. The attributable profit arising in the additional two-month period was US$16 million.*

† Restated to include HSBC Trinkaus & Burkhardt KGaA transferred to Investment Banking and Markets on 1 January 1999.

withdraw from selling endowment mortgages, setting the industry trend. It introduced a platinum credit card and, in February 2000, abolished the annual fee for most Visa and MasterCard holders, making its cards highly competitive.

As part of our wealth management strategy to become a 'one-stop' financial services provider, we expanded our private client business, opening an office in Scotland in January 2000 to complement our existing network in England and Wales.

First Direct, our telephone banking division, attracted 117,000 new cheque account customers. The division celebrated its 10th anniversary in 1999 and expects to pass the milestone of one million customers in April 2000. First Direct is now one of the largest PC banking providers in the UK, with 155,000 customers, and continues to have the highest customer satisfaction and recommendation ratings of any UK bank. It will shortly be transforming itself into an e-bank, firstdirect.com, offering not just banking but also new wealth management products through electronic channels, including the internet.

In September, we became the first UK bank to launch a national digital TV banking service, substantially improving access to our services by enabling customers to do their banking from the comfort of their own home and at any time that suits them. Some 70,000 customers can now check their bank and credit card account balances and transactions via their television. We are currently adding payments and transfer of funds between accounts to the functions of this market-leading service. The 2.6 million households which have access to Open...., the brand name of British Interactive Broadcasting's digital interactive television service, can obtain information and quotes on mortgages, loans, foreign exchange and investments. We also plan to introduce personal internet banking and sharedealing, and business internet banking later this year.

Further branches in Morrisons supermarkets were opened in 1999, bringing the total to 31, with more scheduled to open during 2000. Over 100,000 customers are enjoying the convenience of banking when they shop.

Our commercial banking franchise extends across the whole of the business market. Over the year, we acquired 72,000 new commercial customers, a record. Under HSBC's Managing for Value strategy, we are currently aligning our sales forces and bringing together our business support capabilities to provide customers with better choice and value, as well as a more streamlined service.

We are developing a range of initiatives to enhance our electronic banking services for small and medium-sized businesses. Our e-business offering will include specialised services, such as invoice finance, reflecting our commitment to expand all aspects of e-commerce.

To improve our service to technology-based businesses, we launched a new investment fund to support such businesses in partnership with the European Investment Bank. We also expanded the equity finance available from the HSBC UK Enterprise Funds, which have invested more than £22 million in 182 companies.

We have broadened the service we offer to corporate and institutional customers to include a full range of investment banking, treasury and capital markets services.

Treasury and Capital Markets performed particularly well in 1999, with revenues increasing consistently throughout the year, using the Group's global network to deliver products. In line with the Managing for Value strategy, we achieved these results together with a reduction in the cost base and of capital usage.

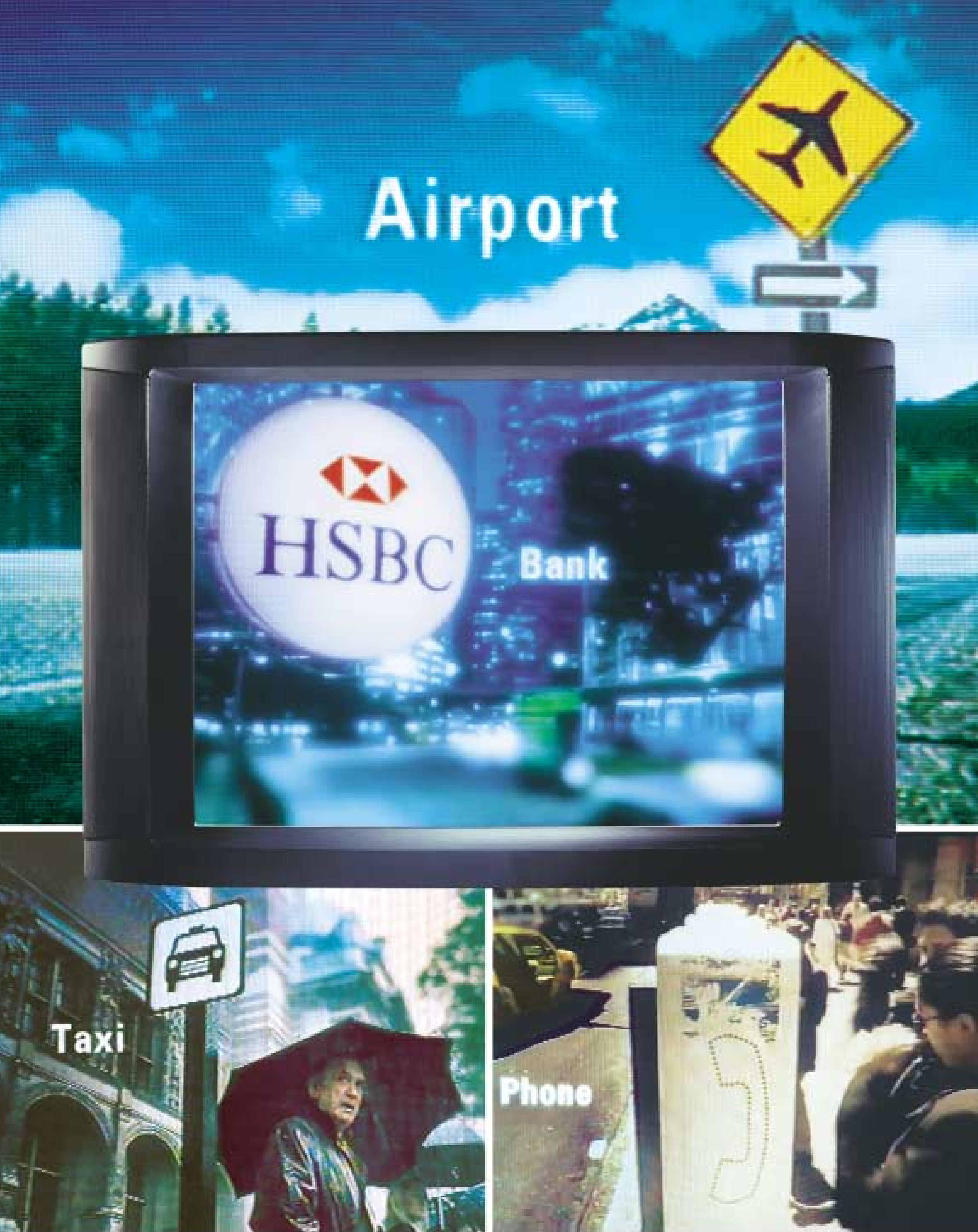
Global Investor Services has grown rapidly to consolidate its position as the number one provider of custody services operating from the UK.

Our subsidiary, HSBC Asset Finance (UK) Limited (formerly Forward Trust Group Limited) performed satisfactorily, despite difficult market conditions. We refocused the business to concentrate on invoice finance and operating leasing. We also simplified our products, centralised customer service and took measures to reduce costs and align distribution methods with those of the bank.

Hong Kong SAR and Mainland China

Given the adverse economic environment throughout 1998 and the subdued conditions for much of 1999, our strategic focus was to maintain strict control of costs and credit quality, while seeking to develop new growth opportunities and to strengthen our relationships with customers.

The Group's results for 1999 in the Hong Kong SAR marked a significant improvement over 1998, helped by the upturn in the SAR's economy that began in the second quarter of 1999. Hong Kong contributed US$3,054 million to the Group's profit before tax, an increase of 25.8 per cent over 1998. The net charge for bad and doubtful debts was down by US$162 million, or 21.7 per cent, to US$585 million, despite substantial provisions in respect of lending to mainland China-related companies.



The television advertising campaign uses universally recognised symbols to cross cultural and language barriers to establish awareness of the HSBC brand. The campaign, in six languages, has run on terrestrial TV in 30 countries and territories, and on satellite TV in over 100.

Group Chief Executive's Review of Operations (continued)

Wealth management initiatives for personal customers, which include the sale of investment and insurance products, recorded a marked improvement in income. Strong growth in customer deposits, up by 8.8 per cent, contributed to the rise in net interest income. Fee income increased in most categories. Reduced demand for corporate lending and a sluggish residential mortgage sector resulted in a 5.4 per cent decrease in advances to customers. Competition for residential mortgages remains intense, and the remaining two phases of interest rate deregulation, scheduled for mid-2000 and 2001, are expected to have a significant impact on the banking environment.

We took several e-commerce initiatives. In October, The Hongkong and Shanghai Banking Corporation Limited launched an internet payment gateway in conjunction with Compaq Computer Limited, allowing merchants to authorise and accept credit card transactions securely. In December, we announced the development, in alliance with Cable & Wireless HKT, of an online service that will enable merchants to set up a storefront on the internet, making transactions more convenient and secure. In January 2000, we announced an e-commerce joint venture — iBusinessCorporation.com — that will offer transactions in insurance, property, procurement, wholesaling and retailing. The Hongkong and Shanghai Banking Corporation and Hang Seng Bank Limited (HSBC Group interest: 62.14 per cent) will launch internet banking in August 2000.

In September, the two banks also jointly launched mobile banking, which allows customers to do their day-to-day banking, as well as buy and sell shares, by mobile phone. They have also been working closely together on the development and marketing of a range of provident fund products, offering employers everything they need to operate a fund for their employees, ahead of the implementation of the government's Mandatory Provident Fund scheme in December 2000.

To increase efficiency and reduce operating costs, we opened the HSBC Centre in Kowloon to house some 5,000 staff in a number of the Group's operational support and back-office functions. We are considering further opportunities for streamlining back-office operations in Hong Kong.

Hang Seng Bank continued its focus on the development and sale of wealth management products. Additional investment and insurance products were introduced during 1999 and nine new funds were added under the Hang Seng Investment Series.

Expansion of Hang Seng's range of technology banking products continued. In October, with The Chinese University of Hong Kong it launched CU Link, Asia's first Mondex card to perform multiple functions through a single microchip. In December, Hang Seng partnered Hewlett-Packard to launch the Secure NetPayment Solution, an online payment gateway service for credit card merchants. In January 2000, the bank introduced Hong Kong's first credit card designed for internet shopping, the Hang Seng e-shopping MasterCard.

Under HSBC's Managing for Value strategy, Hang Seng Bank's corporate banking division was restructured into three units: corporate and institutional banking; commercial banking; and a division for mainland China business. This strengthens the bank's ability to provide customised services to different corporate segments.

Mainland China business had a difficult year as the rate of economic growth continued to decline. Nevertheless, we remain confident in China's long-term potential.

The Hongkong and Shanghai Banking Corporation strengthened its leading position among foreign banks in China with the upgrading of its Guangzhou representative office to a full branch in January 2000. Hang Seng Bank also continued to expand its network with the upgrading of its Shenzhen representative office to a branch in December. To increase management control of The Hongkong and Shanghai Banking Corporation's business in mainland China, we shall relocate our area management office to Shanghai in the first half of 2000.

Brazil

Our Brazilian operations, principally HSBC Bank Brasil S.A.-Banco Múltiplo, contributed profit before tax of US$245 million in 1999, an increase of 9 per cent on 1998. This represents a return on shareholders' equity of 22.5 per cent in local currency terms, compared with 16.2 per cent in 1998.

As part of the Group's Managing for Value strategy, we continued to expand the range of wealth management products and services available to customers, with the launch of the Maestro debit card and Máxima, a flexible pension fund. The number of cardholders increased by 28.9 per cent to 471,000.

We made several services available to customers on the bank's web site and home banking service, including the facility to calculate loan repayments and payment

Group Chief Executive's Review of Operations (continued)

of taxes. This year, the bank plans to introduce new internet-based services, such as a home broker service, and home banking by mobile phone and palmtop.

An important focus of 1999 was a drive to deepen our relationships with commercial banking customers. This will continue in 2000, with added emphasis on selling insurance products through the bank's branch network.

Our asset management business increased its total funds under management by 75.6 per cent in local currency terms, against an industry average of 49.1 per cent. As a result, market share increased from 2.9 per cent at year-end 1998 to 3.5 per cent at year-end 1999. The number of investors rose by 26.4 per cent, from 387,000 to 489,000, during the same period.

HSBC Bank Brasil S.A.-Banco Múltiplo changed its name from Banco HSBC Bamerindus S.A. in June, in line with the Group's initiative to establish a global brand.

USA

For HSBC USA Inc. and its subsidiaries, 1999 was a year of major change in terms of business growth and strategic expansion. After the acquisition in December of Republic New York Corporation, its subsidiary, Republic National Bank of New York, merged with HSBC Bank USA, a subsidiary of HSBC USA Inc., creating the 10th largest bank in the United States based on assets. The combined bank, HSBC Bank USA, is the third largest depository institution in New York State and operates the largest branch network, with over 450 branches. Beyond New York State, the bank's retail presence expanded into key markets in Florida and California, in addition to the two Pennsylvania branches acquired in 1998. Integration of the business and functional units of both institutions, including systems conversion, is expected to be completed by year-end 2000.

HSBC USA Inc.'s pre-tax profit, before one-off events, increased by 9 per cent. Other operating income, before one-off events, also increased by 9 per cent, with a greater contribution from wealth management products, including insurance, and from deposit service charges and commercial loan fees.

A return on average shareholders' funds of 20 per cent and a cost-to-income ratio of 49 per cent on a local basis continued to place HSBC USA Inc. among the top performing regional banks in the United States.

HSBC Bank USA developed business initiatives under our Managing for Value strategy, with the aim of improving customer service. We introduced a branch programme to facilitate cross-selling and to integrate investment and insurance products into the core business product line. The Financial Institutions Investors Association acknowledged our success in selling insurance products.

During the year, HSBC Bank USA conducted a large employee pilot for its internet banking service, due to be launched in the second quarter of 2000. An online discount brokerage service is scheduled for later in the year. In addition to offering a wide range of products and services, the bank's internet banking service will enable customers to manage their finances from anywhere in the world.

HSBC Bank USA changed its name from Marine Midland Bank in March 1999.

HSBC's Major Businesses

Argentina

HSBC's operations in Argentina returned a pre-tax profit of US$67 million in 1999, compared with a loss of US$13 million in 1998. Underlying revenues increased by 11.6 per cent, while cost increases were contained to just under 4 per cent. In a year that saw the worst recession in Argentina for a decade, conditions were difficult in the banking sector, but the performance of the insurance and pension businesses exceeded forecast.

HSBC Bank Argentina S.A., which changed its name from HSBC Banco Roberts S.A. in March 1999, continued to expand, taking over eight branches of Banco do Mendoza in mid-1999, bringing the total number of branches to 69. In addition, HSBC Argentina Holdings S.A. gained majority holdings and management control of its pension fund company, Máxima S.A. AFJP, and its life and annuities arm, La Buenos Aires-New York Life.

HSBC consolidated its information technology operations in a new data centre, and opened a unified call centre in December. Further steps are being taken to standardise information technology, with the implementation of HSBC Group systems for trade services and remittances.

The Group's Managing for Value strategy has been applied to a number of businesses and investment decisions, notably in the personal lending and card businesses.

During 2000, we plan to complete our integration process and build the business through developing personal financial services and cross-selling banking, insurance, pension and health-care products. With improvements in the economy predicted for later in 2000, we expect to reap the benefits of the integration and reorganisation carried out in 1999.

Canada

HSBC Bank Canada made a pre-tax profit of US$164 million, an annualised increase of 27 per cent over the 14-month period up to 31 December 1998. Net interest income grew by 4 per cent on an annualised basis, due to steady growth in the retail and commercial loan portfolios, despite increased market pressures on interest rate spreads. Other income was 36 per cent higher.

Securities commissions increased significantly following the acquisition of Gordon Capital Corporation, a major Canadian institutional investment dealer. Discount brokerage, foreign exchange trading, and an increased volume of both bankers' acceptances and guarantees all made strong contributions. HSBC Asset Management (Canada) Limited achieved 137 per cent growth in net sales of managed mutual funds, against an industry decline of 41 per cent.

New products and services include a direct banking package which offers low, flexible service charges for electronic and telephone banking customers, a portfolio review service to manage investment relationships proactively, and 'reverse mortgages' which provide an income to support people in retirement.

As part of Managing for Value, we have been evaluating the organisation of our key businesses in terms of customer service. One outcome was that we increased the proportion of branch staff involved in serving customers from 38 per cent to 44 per cent, with the trend expected to continue in 2000.

Against the background of a fiercely competitive market-place, we will focus on growing our business and meeting changing customer needs during 2000, particularly in e-commerce. We will strengthen our asset management and retail stockbroking operations, and direct our strategic focus to expanding our presence in central Canada.

HSBC Bank Canada changed its name from Hongkong Bank of Canada in June.

India

Our Indian operations recorded a satisfactory performance, with home and car loans in particular registering substantial increases in profit. Custody and Clearing's non-funds income was adversely affected by the conversion of physical scrip to electronic scrip. This was offset, however, by the growth in income from credit cards, with the number of cards in issue rising by almost 80 per cent, from 140,000 to 250,000.

We launched private banking in Mumbai and Delhi, with plans for a further three centres to be opened in 2000. The business has already begun to establish itself as a market leader in India.

We made good progress in increasing our personal banking and wealth management capabilities and our market share. This focus will continue in 2000 when third-party insurance and mutual fund products will be introduced, additional asset and liability products launched, and further rapid growth in the loan portfolio targeted.

In August, The Hongkong and Shanghai Banking Corporation opened a new branch in Hyderabad. In September, the bank incorporated the three Indian branches of HSBC Bank Middle East into its network to rationalise the Group's operations in India and achieve cost efficiencies. This brings the number of branches in India to 26, with further expansion planned. Later in 2000, we expect to establish an all-India call centre and an asset management business.

Malaysia

HSBC Bank Malaysia Berhad returned to profit in the second half of 1999 as a result of improving economic conditions in the country. For the year as a whole, however, lower operating income and a continued high level of provisions produced greater losses than reported in 1998.

In personal banking, we were encouraged by the growth in the home loan portfolio and credit card books. These businesses will be a major focus in 2000. Malaysia was the first country in the Asia-Pacific region to launch a platinum card. The bank introduced new risk management systems in personal banking, self-service banking machinery and more 24-hour automated banking lobbies. Six relocated branches sporting the new Group branch design were opened, emphasising the bank's commitment to expanding its personal banking business.

In commercial banking, a two-year business plan was adopted that includes strategies to increase the number of small and medium-sized business customers and to implement a more competitive payments and cash management service in 2000.

Our treasury and capital markets business had a successful year, in particular acting as the sole lead

The symbol advertisements have appeared throughout the world in print form and at both indoor and outdoor sites.
Clockwise from left: In New York City, against the towering Manhattan skyline, a full-page advertisement in a business news magazine catches the eye. In Toronto, a poster-size version of another advertisement is displayed on a transit shelter by a streetcar stop in front of HSBC's main branch and executive office building. In Dubai in the United Arab Emirates, in a key location for HSBC in the Middle East, the poster advertisement takes the form of a 'tripole'. At London's Waterloo railway station, a large 'trivision' — showing three versions of the symbol advertisements in rotation — dominates the passenger concourse.

Group Chief Executive's Review of Operations (continued)

arranger for the US$1.25 billion and ¥11.6 billion government loan refinancing in December. Although the local securities market remained depressed for much of the year, Custody and Clearing made preparations for taking advantage of any business opportunities that may arise when Malaysia is expected to be reinstated in the Morgan Stanley Capital Index in 2000.

The bank retained its pole position in the 1999 emerging markets agent bank review by *Global Custodian* magazine.

Singapore

After a difficult 1998, our operations in Singapore returned to profit, benefiting from a faster than expected rebound in the economy. Key factors included a substantial drop in provisions for doubtful debts, the improved credit quality of the loan portfolio, and reduced operating expenses.

We made further investment in our wealth management businesses, with an emphasis on upgrading and expanding distribution channels and products and services. Wealth management services have been delivered to target customer segments through the launch of new personal financial services products and initiatives. We began upgrading the call centre, and developed plans for the introduction of mobile phone and internet banking in the second half of 2000.

Closer alignment of corporate banking, investment banking, and treasury and capital markets operations resulted in our winning substantial new business and in a strong contribution to operating profit. Our treasury and capital markets operation was awarded approved bond intermediary status during the year, further strengthening our position among the top three foreign bank arrangers in the Singapore dollar debt capital market. Custody and Clearing was ranked number one in Singapore in the annual *Global Custodian* agent bank review for the 11th consecutive year.

Saudi Arabia

The Saudi British Bank (HSBC Group interest: 40 per cent) made a net profit of US$176 million, an increase of 7.9 per cent over 1998. The increase was due mainly to improved net interest income, driven by growth in corporate and personal lending. This was partially offset by the need to make additional provisions for bad debts.

The Corporate Banking Division installed a new, more comprehensive customer relationship management system. The bank, which has the only factoring department in Saudi Arabia, is planning to expand its range of factoring products. The Specialised Services Division is diversifying its range of Islamic banking products.

The corporate finance and local brokerage businesses are well positioned to exploit opportunities expected to come with further economic liberalisation. The fast rate of growth of funds under management is expected to continue, boosted by the bank winning the Saudi Arabian investment fund performance awards for the best fund manager. Treasury, which had another good year, will focus on increasing its range of investment products and improving customer service.

Middle East

Despite moderate increases in net interest income and other operating income, HSBC Bank Middle East recorded a significant drop in attributable profit to US$78 million in 1999 from US$141 million in 1998. Among the main factors influencing these results were the raising of a small number of significant individual provisions and the introduction of a tighter provisioning policy.

In the United Arab Emirates, we achieved encouraging growth in personal lending and credit card advances, and a high-technology call centre came on stream. We undertook a strategic review of personal banking which resulted in, among other things, the development of products with a regional appeal, such as HeadStart, a comprehensive savings and investment package specifically designed for children. Income from commercial lending was on a par with 1998, although trade finance business was slightly down. Plans were approved for the commercial business to be restructured along functional lines in 2000.

Qatar achieved another record net profit from personal lending, while experiencing a slowdown in commercial lending. A new area office will allow for expansion of Qatar's wealth management services. Oman's performance was adversely affected by a substantially tightened regulatory environment, while provisions for bad and doubtful debts had an impact on Lebanon's results. Jordan's performance was again dampened by provisions, but the closure of three branches and the opening of a new branch and area office will improve efficiency in the future. Substantial growth in its wealth management business helped Bahrain to achieve increases in income and profitability.

The opening of a representative office in Iran in November has reinforced our capabilities in the region.

Top to bottom: The rebranding of the Group has given an impetus to product advertising in India as illustrated by the imaginative use of these light boxes along Marine Drive, Mumbai's main seaside promenade. One name, one look: besides showing the HSBC brand, all generic personal banking products, such as cheque-books and credit cards, offered by the commercial banks will feature the same design concept.

As part of Managing for Value, the bank has assessed the potential of its markets and set out plans to maximise economic profit. To enhance its wealth management capabilities, it introduced a consolidated statement for personal banking customers throughout the Middle East.

The bank changed its name from The British Bank of the Middle East in June.

HSBC's International Businesses

As the HSBC Group operates in 80 countries and territories, it is not possible to give a detailed description of each of our international businesses. The most notable highlights around the world are detailed here.

HSBC Bank plc's international operations had a very successful year in 1999. Results from Turkey, Greece and the offshore islands (the Channel Islands and Isle of Man) were particularly good. We developed a wider range of personal banking and investment products and services in continental Europe. Our plans are well advanced for the introduction of internet banking and broking later this year. Branches were opened in Belgium, Ireland and the Netherlands to meet the payments and cash management requirements of large companies doing business across Europe.

In June, the bank acquired a 70.03 per cent interest in Mid-Med Bank p.l.c. — since renamed HSBC Bank Malta p.l.c. — the largest commercial bank in Malta where we have introduced new credit policies and wealth management initiatives focusing on customer needs.

In Germany, HSBC Trinkaus & Burkhardt KGaA (HSBC Group interest: 73.47 per cent) reported a satisfactory economic profit for the German banking market. The bank, which adopted the HSBC name last June, is launching Pulsiv AG, an internet stockbroking facility, jointly with a leading German internet software provider and a stockbroking firm. In Switzerland, our private bank, HSBC Guyerzeller Bank AG (HSBC Group interest: 95.8 per cent), achieved good results, due mainly to the above-average performance of assets under management and a significant inflow of money from new clients. The bank adopted the HSBC name in April.

Egyptian British Bank S.A.E. (HSBC Group interest: 40 per cent) reported a year of strong and steady growth. Attributable profit rose by 43 per cent and the custody portfolio by 115 per cent. The main thrust of its wealth management strategy in the next three years is to develop a critical mass, with the aim of opening 10 new branches and expanding its ATM network.

The HSBC brand features prominently in all the major Group products launched during the year.
Top to bottom: HSBC introduces the UK's first digital TV banking service, which provides customers with access to their accounts from the comfort and privacy of their own home. PowerVantage, HSBC's 'one account with total financial control', takes to the road in Singapore on a fleet of double-decker 'superbuses' painted in a special livery.

Group Chief Executive's Review of Operations (continued)

British Arab Commercial Bank Limited (HSBC Group interest: 46.51 per cent) was adversely affected by the decline in oil prices in 1999 and the larger than expected fall in US and UK interest rates. With the consolidation of the Group's holding in HSBC Bank Middle East, a strategy is being developed to derive maximum value from the two banks' joint coverage of the entire Arab world.

The Cyprus Popular Bank Limited (HSBC Group interest: 22.3 per cent) produced record results, due largely to its insurance and investment banking activities. A telephone banking service was launched in November, complementing the bank's internet banking service. Plans are under way to list the bank on the Athens Stock Exchange later this year or in 2001.

HSBC Bank Australia Limited achieved a satisfactory growth in underlying profitability. The bank — which changed its name from HongkongBank of Australia Limited in May — expanded its range of wealth management products and services and, through targeted marketing, increased its personal customer base significantly. The launch of NetTrader, a real-time internet trading service, proved to be a success, with 70 per cent of customer transactions now handled electronically.

Many of our operations in the Asia-Pacific region not covered earlier in this review have started to see the effects of a more positive economic outlook. Signs of recovery are present in Korea and Thailand, although concerns about asset quality remain. Operating profits before provisions grew strongly in Taiwan, Mauritius and Sri Lanka, and were maintained in Korea. Other areas suffered from the effects of increased suspended interest or lower dealing profits in 1999's less volatile markets.

With the exception of Japan, Labuan (Malaysia) and Taiwan, which suffered from provisions for doubtful debts, all significant operations in the rest of Asia-Pacific were profitable in 1999. In Indonesia and Thailand, the two countries worst affected in 1998, our results were marked by a significant reduction in provisions for doubtful debts.

During 1999, we opened new branches in Bangladesh, Brunei, Korea, Pakistan, the Philippines and Taiwan. We have rationalised the operations of Group companies in Tokyo, reducing costs and creating processing efficiencies. Our Custody and Clearing business was again ranked number one and top rated in nine Asia-Pacific markets in *Global Custodian* magazine's review of sub-custodians, and was named the region's best sub-custodian in several other industry awards. Initiatives to increase our penetration into the personal financial services market throughout the region will continue to be a major focus in 2000.

Corporate and Institutional Banking

Corporate and Institutional Banking provides dedicated relationship management to over 1,000 of the Group's major corporate and financial institutional clients worldwide. During 1999, we concentrated on deepening relationships with this core client sector to ensure that they benefited from the Group's reach and strong product range. Closer alignment with Investment Banking and Markets, a key component of this strategic initiative, gained considerable momentum during the year.

Trade Services

Trade Services continued to grow in our principal markets, aided in particular by improving economic conditions in Asia-Pacific. For the fourth consecutive year, HSBC was named 'best trade documentation bank' by *Trade Finance* magazine. Our TradeSolutions and TradeAdvance products continue to be well received and are a continuing source of business generation.

Payments and Cash Management

HSBC's position as a leading global cash management provider was reinforced by its strong market position as a clearing bank for the European single currency, the euro, and by winning two awards for pan-Asian transaction services excellence, from *Euromoney* and *Treasury Management International*.

The Hong Kong Monetary Authority's selection in January 2000 of HSBC as the settlement institution for the new US dollar clearing system in Hong Kong confirms our strong position in inter-bank settlement. In 1999, we also established ourselves as a leader in the development of Continuous Linked Settlement, the banking industry's initiative to eliminate foreign exchange settlement risk.

The advent of e-commerce has created opportunities for a wider geographic distribution of our products and easier access to our global network. Our planned internet solutions will benefit the corporate market and deliver more services to link corporate clients with consumers and suppliers.

Securities Services

Securities Services experienced further growth in all areas of its business, retaining a leading role in all its main product lines: custody, issuer support and fund

Group Chief Executive's Review of Operations (continued)

administration. Our UK operations increased their assets under management in 1999 to over US$1 trillion.

Investment Banking and Markets

Investment Banking and Markets comprises the HSBC Group's treasury, capital markets, advisory, equity securities origination and distribution, trading and research, asset management, merchant banking, private banking and trustee, and private equity activities.

Attributable profit from investment banking increased by 85 per cent over 1998, as new issue and advisory businesses increased in Europe and economic conditions in Asia improved, giving rise to substantial gains on disposal of investments. Equity commissions and trading income increased markedly, particularly in Europe, where markets were buoyant and our market position improved. Merchant banking maintained its position as a leading provider of syndicated and structured finance.

HSBC Equator Bank plc (HSBC Group interest: 60 per cent) experienced a disappointing credit environment in Africa, but continued to improve its investment banking capability in key markets. The bank continued to diversify its business in several sub-Saharan countries.

HSBC Asset Management reaped the benefit of strong equity markets in 1999, while investment performance continued to improve. Efforts to expand the distribution of fund management products to the Group's personal customers yielded encouraging results.

Private Equity performed well and disposed of a number of investments from its portfolio, while increasing the level of funds from third-party investors.

Our private banking business performed solidly in 1999. The acquisition in December of Republic New York Corporation and Safra Republic Holdings S.A. — now called HSBC Republic Holdings (Luxembourg) S.A. — has doubled the Group's private banking business to 55,000 international clients, with over US$120 billion of funds under management, thus making the Group a global player in private banking. The combined business, with a greatly increased geographical spread, now operates under the brand name HSBC Republic. Private banking is a key part of the Group's Managing for Value strategy and will be given a high priority in 2000.

We continued to provide a full range of treasury and capital markets services in all areas. The focus on customer-driven business was emphasised in 1999 as management continued to strengthen relationships with corporate and institutional banking clients of the Group. The acquisition of Republic National Bank of New York brings world-leading banknote and bullion businesses to our treasury. The integration of these profitable businesses into the Group is well under way.

Trading activities were managed within conservative risk parameters, and showed improved results. Interest rate movements during the year allowed us to profit from increased business flows in established markets such as London and Hong Kong, and also in our newer franchises in South America. Foreign exchange earnings fell slightly as Asian currencies stabilised after the exceptional volatility of the preceding two years and, at the same time, margins narrowed. The introduction of the euro also saw a predicted reduction in volumes in European markets, particularly in the early part of the year, but core customer-driven business held up in the face of external pressures.

Insurance

Revenue from HSBC's insurance operations continued to grow strongly in 1999, increasing by 31 per cent over 1998, and reaching an average compound growth rate of 33 per cent over the past three years. Growth was both organic and as a result of acquisitions.

Life, pensions and investment-linked product revenues grew particularly strongly, representing 36 per cent of total insurance revenues. This is in line with the wealth management objectives of the Managing for Value strategy.

The UK was again the biggest contributor, with 51 per cent of total revenue. Further solid progress was recorded in Brazil, Argentina and South-East Asia. Of the total revenue, 45 per cent was derived from personal banking customers and 12 per cent from commercial and corporate clients, with the balance coming from external sources.

Premium growth, at 5.1 per cent, was partially contained as a result of continuing price competitiveness across most lines of business. However, our underwriting businesses reflected a continued improvement in the quality of risks taken on from non-bank sources through more rigorous assessment of insurable risk.

We developed our skills and information technology to identify and match customer needs, resulting in an improvement in cross-sales ratios. During the year, the number of insurance sales staff increased by 19 per cent, while the number of bank staff licensed to sell insurance products rose by 26 per cent.

As the internet becomes an increasingly more important distribution channel for insurance products, we launched a number of initiatives in motor and other personal line insurance, which are expected to grow in significance in the years ahead.

Strategic Outlook

HSBC's Managing for Value strategy, introduced in late 1998, has been adopted widely by all Group members and is leading to increased revenues, particularly from wealth management activities. An integral part of the strategy is the emphasis we have placed on our personal customers. During 1999, we laid the foundations for the provision of a full range of wealth management services to this important segment.

As a global banking group, we consider ourselves well placed to provide products and services to those personal customers who require delivery across the world. The launch of HSBC *Premier* in March 2000 in all our large and major and selected international businesses clearly demonstrates our commitment to provide an enhanced wealth management service across our extensive network. HSBC *Premier* combines a high level of service with value-added benefits, including personal relationship management, access to independent financial advice, and the HSBC *Premier* debit or credit card. Wherever they are in the world and regardless of where their account is held, HSBC *Premier* customers can expect a dedicated service.

In many countries, we now provide a consolidated statement, embracing each customer's total relationship with us.

Significant investment has been made, and will continue to be made, in technology to deliver consistently high levels of service and allow our personal clients to carry out their business with HSBC on a global basis, using their preferred means of access. In 2000, our technology expenditure will amount to US$2 billion, about 17 per cent of our total overheads. This represents an increase of about US$300 million over 1999. In addition, our information technology capital budget will increase by US$500 million.

We are connecting the Group's major product systems, making them available over the internet, by PC over a private network, by fixed and mobile telephones and by interactive TV. This Interactive Financial Services system — mentioned in the 'Group Chairman's Statement' on page 5 — is well advanced and will give HSBC a strong competitive advantage as we move forward.

Another important target is to develop an e-business presence, under the brand name hsbc.com, and to make it the online destination of choice for customers seeking financial services.

Corporate customers also feature prominently in our technology plans. A radically re-engineered version of our very successful Hexagon electronic banking system will be completed by the end of 2000. The current system handles average daily payments of some US$6 billion. We also have advanced plans for the introduction of commercial banking services on the internet and a new platform for large-scale, computer-to-computer links for our largest customers. Internet-based foreign exchange trading services will also be available to our corporate customers from mid-2000.

The increasing preference shown by our customers for electronic delivery channels fits well with the Group's strengths. We have considerable experience in the early adoption of new concepts, such as telephone banking and PC banking over private networks. We have demonstrated our ability to integrate them with existing channels and services, and deliver them to customers in almost all parts of the world.

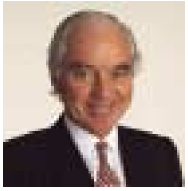
The success of the Managing for Value strategy is ultimately dependent on our greatest resource — our staff. The principles of the strategy are now integrated into all staff training programmes. The message is reinforced continually: to improve customer service and to maximise shareholder value.

We look forward with confidence to giving our customers even more reasons to do business with us, in more ways, and in more places.

Keith Whitson, *Group Chief Executive*

Board of Directors and Group General Managers

Directors



Sir John Bond, *Group Chairman*
Age 58. An executive Director since 1990; Group Chief Executive from 1993 to 1998. Joined HSBC in 1961; an executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1988 to 1992. Chairman of HSBC Bank plc, HSBC USA Inc., HSBC Bank USA and HSBC Bank Middle East. A Director of The Hongkong and Shanghai Banking Corporation Limited and The Saudi British Bank. Chairman of the Institute of International Finance and a member of the Banking Advisory Group of the International Finance Corporation.

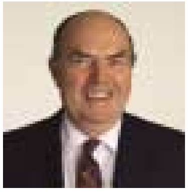
* **The Baroness Dunn,** DBE, *Deputy Chairman and senior non-executive Director*
Age 59. Executive Director of John Swire & Sons Limited and a Director of Swire Pacific Limited and Marconi p.l.c. A non-executive Director since 1990 and a non-executive Deputy Chairman since 1992. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1981 to 1996. Former senior member of the Hong Kong Executive Council and Legislative Council.

† **Sir Peter Walters,** *Deputy Chairman and senior non-executive Director*
Age 68. Non-executive Chairman of SmithKline Beecham plc and a non-executive Director of Saatchi & Saatchi plc. A non-executive Director since 1992 and a non-executive Deputy Chairman since 1993. Chairman of HSBC Bank plc from 1991 to 1994.

K R Whitson
Age 56. Group Chief Executive. An executive Director since 1994. A Director of HSBC Bank plc since 1992, Chief Executive from 1994 to 1998 and Deputy Chairman since 1998. Joined HSBC in 1961. Deputy Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt KGaA. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC USA Inc., HSBC Bank Canada and HSBC Argentina Holdings S.A. A non-executive Director of the Financial Services Authority.

† **The Lord Butler,** GCB, CVO
Age 62. Master, University College, Oxford and a non-executive Director of Imperial Chemical Industries plc. A non-executive Director since 1998. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to 1998.

† **R K F Ch'ien,** CBE
Age 48. A Director of Inchcape plc and Chairman of Inchcape Greater China. A non-executive Director since 1998. Chairman of HSBC Private Equity (Asia) Limited and Chairman of Chinadotcom Corporation. A member of the Executive Council of the Hong Kong SAR. Chairman of the Hong Kong Industrial Technology Centre Corporation and the Hong Kong/Japan Business Co-operation Committee and a member of the Economic Advisory Committee to the Financial Secretary of the Hong Kong SAR. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997.



* **D E Connolly,** OBE
Age 68. Chartered Accountant. A Director of Kowloon-Canton Railway Corporation. A non-executive Director since 1990 and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1985 to 1997.

W R P Dalton

Age 56. An executive Director since 1998. Director and Chief Executive, HSBC Bank plc and Chairman of HSBC Asset Finance (UK) Limited since 1998. Joined HSBC in 1980. President and Chief Executive Officer, HSBC Bank Canada from 1992 to 1997. A Director of HSBC Investment Bank Holdings plc and HSBC Bank Malta p.l.c. Deputy Chairman of The Chartered Institute of Bankers. A non-executive Director of MasterCard International Inc. and a non-executive Director and Chairman of Young Enterprise Limited.

D G Eldon

Age 54. An executive Director since January 1999. Joined HSBC in 1968. Appointed an executive Director and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited in 1996; Chairman since January 1999. Non-executive Chairman of Hang Seng Bank Limited and a non-executive Director of Swire Pacific Limited and Mass Transit Railway Corporation.

D J Flint

Age 44. Group Finance Director. An executive Director since 1995. A Director of HSBC Investment Bank Holdings plc, HSBC Bank Malaysia Berhad, HSBC Argentina Holdings S.A., HSBC USA Inc. and HSBC Bank USA. A member of the Urgent Issues Task Force of the Accounting Standards Board. A former partner in KPMG.

† **W K L Fung,** OBE

Age 51. Group Managing Director and Chief Executive Officer of Li & Fung Limited. A non-executive Director since 1998. Past Chairman of the Hong Kong General Chamber of Commerce. A member of the Economic Advisory Committee to the Financial Secretary of the Hong Kong SAR and Chairman of the Hong Kong Committee for Pacific Economic Co-operation. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1995.

S K Green

Age 51. Executive Director Investment Banking and Markets. An executive Director since 1998. Joined HSBC in 1982. Group Treasurer from 1992 to 1998. Chairman of HSBC Investment Bank Holdings plc and a Director of HSBC Bank plc, HSBC Guyerzeller Bank AG, HSBC Bank USA and HSBC Trinkaus & Burkhardt KGaA.

A W Jebson

Age 50. Group IT Director. An executive Director since 1 January 2000. Joined HSBC in 1978. Non-executive Deputy Chairman of CLS Services Limited.

†**The Lord Marshall**

Age 66. Chairman of British Airways Plc, Inchcape plc and Invensys plc. Deputy Chairman of British Telecommunications plc. A non-executive Director since 1993. A member of the Board of the New York Stock Exchange. A non-executive Director of HSBC Bank plc from 1989 to 1994.

† **C Miller Smith**

Age 60. Chairman of Imperial Chemical Industries plc. A non-executive Director since 1996. A former Director of Unilever plc and Unilever N.V. and a non-executive Director of HSBC Bank plc from 1994 to 1996. Non-executive Chairman of Scottish Power plc.

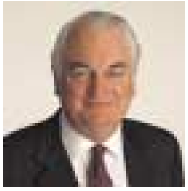
Board of Directors and Group General Managers (continued)

† **Sir Brian Moffat,** OBE
Age 61. Chairman of Corus Group plc. A non-executive Director since 1998. A non-executive Director of Enterprise Oil plc.

† **M Murofushi**
Age 68. Chairman of ITOCHU Corporation. A non-executive Director since 1992. Chairman of the Japan Foreign Trade Council. Special Advisor to the Chairman of the Japan Chamber of Commerce and Industry. Vice Chairman of the Tokyo Chamber of Commerce and Industry. Chairman of the Japan-Brazil Economic Committee of Keidanren (Japan Federation of Economic Organizations). A member of the Foreign Investment Advisory Council of the Russian Federation.

† **C E Reichardt**
Age 68. Former Chairman and Chief Executive of Wells Fargo & Company. A non-executive Director since 1996. A Director of Columbia/HCA Healthcare Corporation, ConAgra, Inc., Ford Motor Company, McKesson HBOC, Inc., Newhall Management Corporation and PG&E Corporation.

* **H Sohmen,** OBE
Age 60. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited, World Finance International Limited and N&T Argonaut AB. A non-executive Director since 1990. A member of the APEC Business Advisory Council. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1984 and Deputy Chairman since 1996.



† **Sir Adrian Swire**
Age 68. Executive Director and Honorary President of John Swire & Sons Limited and a Director of Swire Pacific Limited and Cathay Pacific Airways Limited. A non-executive Director since 1995. Former Chairman of the International Chamber of Shipping and former President of the General Council of British Shipping.

* *Non-executive Director*
† *Independent non-executive Director*

Adviser to the Board

D J Shaw
Age 53. An Adviser to the Board since 1998. Solicitor. A partner of Norton Rose from 1973 to 1998. A Director of HSBC Investment Bank Holdings plc.

Secretary

R G Barber
Age 49. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of HSBC Bank plc from 1994 to 1996.

Group General Managers

R J Arena
Age 51. Group General Manager, Global e-business. Joined HSBC in October 1999. Appointed a Group General Manager on 25 February 2000.

D W Baker
Age 57. Chief Operating Officer and Director, HSBC Bank plc. Joined HSBC in 1962. Appointed a Group General Manager in June 1999.

D Beath
Age 61. Group General Manager, Internal Audit. Joined HSBC in 1960. Appointed a Group General Manager in 1993.

R E T Bennett
Age 48. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

V H C Cheng, OBE
Age 51. Executive Director, The Hongkong and Shanghai Banking Corporation Limited and Chief Executive Officer, Hang Seng Bank Limited. Joined HSBC in 1978. Appointed a Group General Manager in 1995.

A Dixon, OBE
Age 55. Deputy Chairman, HSBC Bank Middle East. Joined HSBC in 1965. Appointed a Group General Manager in 1995.

M F Geoghegan
Age 46. President and Chief Executive Officer, HSBC Bank Brasil S.A.-Banco Múltiplo. Joined HSBC in 1973. Appointed a Group General Manager in 1997.

A P Hope
Age 53. Group General Manager, Insurance. Joined HSBC in 1971. Appointed a Group General Manager in 1996.

M B McPhee
Age 58. Group General Manager, Credit and Risk. Joined HSBC in 1984. Appointed a Group General Manager in 1997.

A Mehta
Age 53. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1968. Appointed a Group General Manager in 1991.

Y A Nasr
Age 45. President and Chief Executive Officer, HSBC USA Inc. and HSBC Bank USA. Joined HSBC in 1976. Appointed a Group General Manager in 1998.

T W O'Brien, OBE
Age 52. Group General Manager, Strategic Development. Joined HSBC in 1969. Appointed a Group General Manager in 1992.

R M J Orgill
Age 61. Group General Manager, Corporate and Institutional Banking. Joined HSBC in 1958. Appointed a Group General Manager in 1986.

J C S Rankin
Age 58. Group General Manager, Human Resources. Joined HSBC in 1960. Appointed a Group General Manager in 1990.

Report of the Directors

Results for 1999

The Group reported operating profits before provisions up 7 per cent to US$9,653 million. The Group's profit for the year attributable to shareholders of the Company was US$5,408 million, a 17.5 per cent return on shareholders' funds.

A first interim dividend of US$0.133 per ordinary share was paid on 7 October 1999. The Directors have declared a second interim dividend of US$0.207 per ordinary share, making a total distribution for the year of US$2,872 million. The second interim dividend will be payable on 27 April 2000 in cash in United States dollars, or in sterling or Hong Kong dollars at exchange rates to be fixed on 18 April 2000, with a scrip dividend alternative. The reserves available for distribution before accounting for the second interim dividend of US$1,754 million are US$6,125 million.

Further information about the results is given in the consolidated profit and loss account on page 56.

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 5,000 offices in 80 countries and territories in the Asia-Pacific region, Europe, the Americas, the Middle East and Africa. Taken together, the five largest customers of the Group do not account for more than 1 per cent of the Group's income.

The Company acquired Republic New York Corporation, subsequently merged with HSBC USA Inc., and Safra Republic Holdings S.A., subsequently renamed HSBC Republic Holdings (Luxembourg) S.A., on 31 December 1999 for a consideration of US$9,733 million. The acquisitions represent a major step forward for the Group towards achieving three strategic objectives. They double HSBC's private banking business to approximately 55,000 international private banking clients with over US$120 billion of client funds under management; they extend HSBC's US domestic personal and commercial banking business, with the combined operations having the largest branch network in New York State with over 450 branches serving more than two million customers; and they enhance HSBC's global markets business in treasury and foreign exchange and add world leading businesses in banknotes and bullion.

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 'Group Chairman's Statement' and the 'Group Chief Executive's Review of Operations' on pages 3 to 21.

The Group's five-year strategy is designed to focus on shareholder value. The results of the first year of the strategy reflect solid progress in implementing 'Managing for Value'. The Company's governing objective is to exceed the total shareholder return ('TSR') of a benchmark comprising a peer group of financial institutions, with a minimum objective of doubling shareholder return over a five-year period. TSR for this first year was 172 per cent, compared with 120 per cent for the TSR benchmark. An explanation of the basis of calculation of TSR can be found on page 33.

Capital and Reserves

Under the terms of the share capital reorganisation on 2 July 1999, each shareholder of HSBC Holdings plc received three new ordinary shares of US$0.50 for each existing ordinary share of 75p or ordinary share of HK$10 held.

The following events also occurred during the year:

Placing

1. 28,762,000 ordinary shares of 75p each and 34,746,000 ordinary shares of HK$10 each were issued at £21 and 24,492,000 ordinary shares of HK$10 each were issued at HK$265 (aggregate nominal values £21,571,500, HK$347,460,000 and HK$244,920,000) on 17 May 1999 to James Capel (Nominees) Limited and Wardley Securities Nominees Limited in connection with a placing of new shares with investors. The net proceeds of the placing amounted to US$2,968 million and were used as part of the financing of the acquisition of Republic New York Corporation, subsequently merged with HSBC USA Inc., and Safra Republic Holdings S.A., subsequently renamed HSBC Republic Holdings (Luxembourg) S.A.

Scrip dividends

2. 4,338,031 ordinary shares of 75p each and 10,237,488 ordinary shares of HK$10 each were issued at par on 28 April 1999 to shareholders who elected to receive new shares in lieu of the 1998 second interim dividend. The

market value per share used to calculate shareholders' entitlements to new shares was US$30.87, being the United States dollar equivalent of £18.88.

3. 18,908,016 ordinary shares of US$0.50 each were issued at par on 7 October 1999 to shareholders who elected to receive new shares in lieu of the 1999 first interim dividend. The market value per share used to calculate shareholders' entitlements to new shares was US$12.1107, being the United States dollar equivalent of £7.485.

Executive share options

4. During the period 1 January to 2 July 1999, 470,084 ordinary shares of 75p each were issued at prices ranging from £6.518 to £18.83 per share in connection with the exercise of options under the Executive Share Option Scheme. Options over 336,940 ordinary shares of 75p each lapsed.

5. Options over 24,077,500 ordinary shares of 75p each were awarded at nil consideration on 29 March 1999. The options are exercisable between the third and 10th anniversaries of the award at a price of £19.126 per share, the average market value over the five business days immediately preceding the date of the award. As a result of the share capital reorganisation on 2 July 1999, these awards have been adjusted by multiplying the number of shares by three and dividing the exercise price by three.

6. Options over 302,250 ordinary shares of US$0.50 each were awarded at nil consideration on 10 August 1999. The options are exercisable between the third and 10th anniversaries of the award at a price of £7.421 per share, the average market value over the five business days immediately preceding the date of the award.

7. Options over 4,000 ordinary shares of US$0.50 each were awarded at nil consideration on 31 August 1999. The options are exercisable between the third and 10th anniversaries of the award at a price of £7.871 per share, the average market value over the five business days immediately preceding the date of the award.

8. During the period 2 July to 31 December 1999, 362,470 ordinary shares of US$0.50 each were issued at prices ranging from £2.1727 to £6.3754 per share in connection with the exercise of options under the Executive Share Option Scheme. Options over 703,818 ordinary shares of US$0.50 each lapsed.

Savings-related share options

9. During the period 1 January to 2 July 1999, 362,709 ordinary shares of 75p each were issued at prices ranging from £5.418 to £15.6638 per share in connection with the exercise of options under the Savings-Related Share Option Scheme. Options over 734,285 ordinary shares of 75p each lapsed.

10. Options over 9,919,259 ordinary shares of 75p each were awarded at nil consideration on 1 April 1999 to 35,633 Group employees resident in 41 countries and territories. The options are exercisable within six months following the fifth anniversary of the commencement of the relevant savings contract on 1 August 1999 at a price of £16.1942 per share, a 15 per cent discount to the average market value over the five business days immediately preceding the date of the invitation. As a result of the share capital reorganisation on 2 July 1999, these awards have been adjusted by multiplying the number of shares by three and dividing the exercise price by three.

11. Options over 1,503,102 ordinary shares of US$0.50 each were awarded at nil consideration on 10 August 1999 for the benefit of 4,707 US resident Group employees under the Savings-Related Share Option Scheme (USA Section). The options are exercisable within six months following the fifth anniversary of the commencement of the relevant savings contract on 1 July 1999 at a price of £6.3078 per share, a 15 per cent discount to the average market value over the five business days immediately preceding the date of the award.

12. During the period 2 July to 31 December 1999, 11,834,883 ordinary shares of US$0.50 each were issued at prices ranging from £1.806 to £5.398 per share in connection with the exercise of options under the Savings-Related Share Option Scheme. Options over 2,116,814 ordinary shares of US$0.50 each lapsed.

13. During the period 2 July to 31 December 1999, 2,409 ordinary shares of US$0.50 each were issued at prices ranging from £3.253 to £6.5187 per share in connection with the exercise of options under the Savings-Related Share Option Scheme (USA section).

Report of the Directors (continued)

HSBC Bank option schemes

14. During the period 1 January to 2 July 1999, 10,202 ordinary shares of 75p each were issued at prices ranging from £1.1843 to £2.3712 per share in connection with the exercise of options under the HSBC Bank (formerly Midland Bank) Savings-Related and Executive Share Option Schemes.

Qualifying Employee Share Trust ('QUEST')

15. The Company has established an employee trust, HSBC QUEST, to satisfy maturing options exercised by participants under the UK Savings-Related Share Option Scheme. During the period 2 July to 31 December 1999, 19,564,285 ordinary shares of US$0.50 each were issued and allotted by the Company, at market values ranging from £6.845 to £8.545, to HSBC QUEST Trustee (UK) Limited, the corporate trustee of the HSBC QUEST. These shares were immediately transferred to those exercising options under the UK Savings-Related Share Option Scheme.

Valuation of Freehold and Leasehold Land and Buildings

The Group's freehold and long leasehold properties, together with all leasehold properties in the Hong Kong SAR, were revalued in November 1999 in accordance with the Group's policy of annual valuation. As a result of this revaluation, the net book value of land and buildings has increased by US$323 million.

Further details are included in Note 23 of the 'Notes on the Accounts'.

Board of Directors

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

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

The Directors who served during the year were Sir John Bond, Baroness Dunn, Sir Peter Walters, K R Whitson, Lord Butler, R K F Ch'ien, D E Connolly, W R P Dalton, D G Eldon, D J Flint, W K L Fung, S K Green, Lord Marshall, C Miller Smith, Sir Brian Moffat, M Murofushi, Sir Wilfrid Newton, C E Reichardt, H Sohmen, and Sir Adrian Swire.

Sir Wilfrid Newton retired on 28 May 1999.

A W Jebson was appointed a Director on 1 January 2000. Having been appointed since the Annual General Meeting in 1999, he will retire at the forthcoming Annual General Meeting and offers himself for election.

R K F Chi'en, D E Connolly, Sir Brian Moffat, H Sohmen, Sir Adrian Swire and K R Whitson will retire by rotation at the forthcoming Annual General Meeting and offer themselves for re-election.

Brief biographical particulars for each Director are set out on pages 22 to 24.

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.

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 Group Executive Committee are K R Whitson (Chairman), Sir John Bond, W R P Dalton, D G Eldon, D J Flint, S K Green and A W Jebson, all of whom are executive Directors, and R J Arena, A P Hope, M B McPhee, A Mehta, Y A Nasr and R M J Orgill, all of whom are 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 auditor to consider the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The members of the Group Audit Committee are Sir Brian Moffat (Chairman), D E Connolly and C E Reichardt, all of whom are non-executive Directors. Sir Wilfrid Newton served as Chairman of the Committee from 1993 until his retirement in May 1999.

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. The members of the Remuneration Committee are Sir Peter Walters (Chairman), W K L Fung and Lord Marshall, all of whom are independent non-executive Directors. Baroness Dunn served as Chairman and H Sohmen served as a member of the Committee, both from 1993 until 31 December 1999.

Nomination Committee

The Nomination Committee carries out the process of nominating candidates to fill vacancies on the Board of Directors. Nominations are considered by the Board. All Directors are subject to election by shareholders at the Annual General Meeting following their appointment and to re-election at least every three years. The members of the Nomination Committee are Baroness Dunn (Chairman), Sir John Bond, H Sohmen and Sir Peter Walters.

Corporate Governance

The Group is committed to high standards of corporate governance. The Company has complied throughout the year with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong and with the best practice provisions of the Combined Code on corporate governance introduced by the London Stock Exchange.

Internal Control

The Directors are responsible for internal control in the Company and its subsidiaries and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The key procedures that the Directors have established are designed to provide effective internal control within the Group and accord with the Internal Control Guidance for Directors on the Combined Code issued by the Institute of Chartered Accountants in England and Wales. Such procedures have been in place throughout the year and up to 28 February 2000, the date of approval of the *Annual Report and Accounts*. In the case of companies acquired during the year, including Mid-Med Bank p.l.c. (now HSBC Bank Malta p.l.c.), 70.03 per cent of which was acquired on 2 June 1999, and Republic New York Corporation and Safra Republic Holdings S.A., acquired on 31 December 1999, the internal controls in place in these companies have been reviewed against the Group's benchmarks since they were acquired and they are being integrated into the Group's systems. The Group's key internal control procedures 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 by the Group Executive Committee under powers delegated by the Board. 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 identify, control and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, 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 has been given responsibility to set policies, procedures and standards in the areas of finance; legal and regulatory compliance; internal audit; human resources; credit; market risk; 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 Audit Committee has kept under review the effectiveness of this system of internal control and has reported regularly to the Board of Directors. The key processes used by the Committee in carrying out its reviews include regular reports from the heads of key risk functions; the production and regular updating of summaries of key controls applied by subsidiary companies measured against Group benchmarks which cover all internal controls, both financial and non-financial; annual confirmations from chief executives of principal subsidiary companies that there have been no material losses, contingencies or uncertainties caused by weaknesses in internal controls; internal audit reports; external audit reports; prudential reviews; and regulatory reports. Internal control aspects of the Princeton Note Matter (see Note 42 of the 'Notes on the Accounts') have been considered by Group management. They have reported to the Group Audit Committee on the action that has been taken, including changes to personnel and the business activities of Republic New York Securities Corporation.

Communication with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the *Annual Report and Accounts* and the *Interim Report* which are sent to shareholders. There is regular dialogue with institutional investors and enquiries from individuals on matters relating to their shareholdings and the business of the Group are welcomed and are dealt with in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting or the informal meeting of shareholders held in Hong Kong to discuss the progress of the Group.

Remuneration

Policy

Within the authority delegated 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 agreeing the individual remuneration packages of executive Directors and other senior Group employees. No Directors are involved in deciding their own remuneration.

The Remuneration Committee strives to ensure that total remuneration is fair and attractive to potential employees, whilst motivating and retaining existing high-calibre staff. The remuneration packages are structured to take due account of levels and composition of pay and the market positioning in the many countries and businesses in which the Group operates. In appropriate circumstances, performance-related payments and share awards are provided with the objective of rewarding achievement and aligning the interests of the individual with those of the Company's shareholders. The Remuneration Committee seeks to respond to the variety of environments and circumstances which are faced by different businesses in different markets at different times.

In determining the terms of annual bonus and incentive schemes, individual remuneration awards, retirement benefit arrangements, notice periods and severance terms, the Remuneration Committee considers 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 operates and the executive Director or employee is employed. Due regard is paid to advice rendered by external professional consultants.

As part of the Group's strategy, the use of the existing share schemes has been extended so that more employees participate in the success they help to create. The vesting of awards is subject to the attainment of total shareholder return targets.

Share options are awarded to employees under Executive and Savings-Related Share Option Schemes in order to align the interests of staff with those of shareholders. When share options are exercised and new shares are issued, the impact on existing equity is shown in diluted earnings per share on the face of the consolidated profit and loss account, with further details being disclosed in Note 10 of the 'Notes on the Accounts'. The dilutive effect of exercising all outstanding share options would be only 0.8 per cent of basic earnings per share.

Basic salary and benefits

Salaries are reviewed annually in the context of individual and business performance, market practice and internal relativities. Allowances and benefits are largely determined by local market practice.

Annual performance-related payments

The level of performance-related payment depends upon the performance of the Company, constituent businesses and the individual concerned. Key measures of success include achievement of financial goals, concerning both revenue generation and expense control; maintenance of customer relationships; full utilisation of professional skills; and adherence to the Group's ethical standards. The Group has a long history of paying close attention to its customers in order to provide value for its shareholders. This has been achieved by ensuring that the interests of the Group and its staff are aligned with those of its shareholders, and that the Group's approach to risk management serves the interests of all. Closer alignment with the interests of shareholders is being achieved by extending employee participation in the existing share schemes.

Bonus ranges are reviewed in the context of prevailing market practice and overall remuneration.

Long-term share awards

The Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive rewards to the creation of superior shareholder value. This is achieved by focusing on predetermined total shareholder return targets. The shares awarded would normally be held under restrictions for at least three years and pass to the individuals only after the attainment of a performance condition which will demonstrate the sustained and above average financial performance of the Group.

Executive Directors and Group General Managers have been eligible to receive conditional awards of Performance Shares under the Restricted Share Plan since 1996. The award of Performance Shares under the Restricted Share Plan was extended to other senior executives from 1999. Those awarded Performance Shares in the Restricted Share Plan are not eligible to participate in the Executive Share Option Scheme, although options previously granted remain valid.

Participants in the Restricted Share Plan and Executive Share Option Scheme are also eligible to participate in the Savings-Related Share Option Scheme on the same terms as other eligible employees.

Directors' service contracts

No 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 fixed terms not exceeding three years.

K R Whitson and A W Jebson, who are to stand for re-election at the forthcoming Annual General Meeting, are employed on contracts which require 12 months' notice to be given by either party.

Report of the Directors (continued)

Directors' emoluments

The emoluments of the Directors of the Company for 1999 were as follows:

	Fees £000	*Salary and other remuneration £000*	*Benefits in kind £000*	*Discretionary bonuses[1] £000*	*Total 1999 £000*	*Total 1998 £000*
Executive Directors						
Sir John Bond	25	524	1	200	750	655
W R P Dalton	25	400	16	—[2]	441	415
D G Eldon[3]	20	397	603	94[4]	1,114	—
D J Flint	25	361	7	110	503	465
S K Green	25	353	8	120	506	398
K R Whitson	25	412	23	160	620	526
Non-executive Directors						
Lord Butler	25	—	—	—	25	17
R K F Ch'ien	141	—	—	—	141	92
D E Connolly	33	—	—	—	33	33
Baroness Dunn	33	—	—	—	33	33
W K L Fung	45	—	—	—	45	30
Lord Marshall	25	—	—	—	25	25
C Miller Smith	25	—	—	—	25	25
Sir Brian Moffat	34	—	—	—	34	23
M Murofushi	25	—	—	—	25	25
Sir Wilfrid Newton[5]	23	—	—	—	23	60
C E Reichardt	33	—	—	—	33	25
H Sohmen	23	—	—	—	23	25
— waived	(30)				(30)	(30)
Sir Adrian Swire	25	—	—	—	25	25
Sir Peter Walters	30	—	—	—	30	30
Total (£)	665	2,447	658	684	4,454	2,927
Total (US$)	1,076	3,959	1,065	1,107	7,207	4,854

1 *These discretionary bonuses are in respect of 1999 and will be paid in 2000.*
2 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount (£120,000) which would otherwise have been paid.*
3 *The emoluments of D G Eldon include housing and other expatriate benefits in kind that are normal within the location in which he is employed.*
4 *Of the amount shown, 50 per cent has been awarded in cash and 50 per cent in Restricted Shares with a three-year restricted period.*
5 *Retired 28 May 1999. £17,000 was subsequently paid by HSBC Bank plc in respect of fees as chairman of a Board committee.*

Executive Directors who are also Directors of The Hongkong and Shanghai Banking Corporation Limited may elect to receive a fee from either the Company or The Hongkong and Shanghai Banking Corporation Limited. H Sohmen has elected to waive any fees payable to him by the Company.

2000 conditional awards under the Restricted Share Plan

The Remuneration Committee has decided that conditional awards of Performance Shares under the Restricted Share Plan should be made in 2000 and that the Trustee to the Plan should be provided with funds to acquire ordinary shares of US$0.50 each between 28 February and 10 March 2000. The 2000 awards to executive Directors and Group General Managers in respect of 1999 will have an aggregate value at the date of award of £3.98 million and will include awards to the following values to executive Directors:

	£000
Sir John Bond	550
W R P Dalton	250
D G Eldon	250
D J Flint	225
S K Green	250
A W Jebson	200
K R Whitson	350
Total	2,075

Purpose

The Restricted Share Plan is intended to reward the delivery of sustained financial growth of the Company. So as to align the interests of Directors and senior employees more closely with those of shareholders, the Restricted Share Plan links the vesting of 2000 awards to the attainment of predetermined total shareholder return (TSR) targets.

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

The vesting of awards made in 1997 and 1998 is linked to growth in earnings per share, details of which are set out in the 1996 and 1997 *Annual Report and Accounts*. From 1999, the vesting of awards was linked to the attainment of predetermined TSR targets, particulars of the terms of which are set out below.

Vesting schedule

Having regard to the Company's size and status within the financial sector, a benchmark has been established which takes account of:

1. a peer group of nine banks;
2. the five largest banks from each of the United States, the United Kingdom, continental Europe and the Far East, other than any within 1 above; and
3. the banking sector of the Morgan Stanley Capital International World Index, excluding any within 1 and 2 above.

By combining the above three elements and weighting the average so that 50 per cent is applied to 1, 25 per cent is applied to 2 and 25 per cent is applied to 3, an appropriate market comparator is determined.

For vesting of the 2000 awards to be achieved, the Company's TSR over a three-year period must exceed the mean of the benchmark. The calculation of the share price component within the Company's TSR will be the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 2000 was 28 February. The starting point will be, therefore, the average over the period 28 February to 24 March inclusive. TSR for the benchmark banks will be based on the published share price for 24 March 2000.

If the Company's TSR exceeds the benchmark mean, but is less than the top quartile of the benchmark, the shares will be deemed to have vested in full but will be retained by the Trustee for a further two years, with release being dependent upon the participant remaining with the Company. If the Company's TSR is in the top quartile of the benchmark, an additional award of 20 per cent of the original shares will be added, to be released to the participants two years later, again subject to continued employment. The two-year additional retention period is intended to encourage longer-term shareholding by those concerned.

Report of the Directors (continued)

If the Company's TSR has not exceeded the benchmark mean at the end of year 3, then the test will be applied over a four-year period at the end of year 4; if still not attained, then the test will be applied over a five-year period at the end of year 5. If the test is satisfied in either case, the shares will be released after five years, contingent upon continued employment. If the test has not been satisfied by the end of year 5, then the particular share award will be forfeited. No additional shares will be awarded, even where the Company's TSR is in the top quartile where a share award has to rely on the year 4 or year 5 test in order to vest.

The Remuneration Committee retains discretion to allow early release of share awards in the event of termination of employment due to retirement, injury, illness, disability, redundancy or death. Awards will be forfeited if the participant is dismissed or resigns from the Group.

In the event of any occurrence that would cause awards to vest in whole or in part or not to vest in circumstances which the Remuneration Committee considers to be anomalous, the right is reserved to the Remuneration Committee to make such adjustments as in its absolute discretion it deems appropriate to make.

Pensions

The pension entitlements earned by the executive Directors during the year are shown below.

The pension arrangements for Sir John Bond, S K Green, A W Jebson and K R Whitson to contractual retirement age of 60 are provided under the HSBC Bank (UK) Pension Scheme. The pensions accrue at a rate of one-thirtieth of pensionable salary per year of pensionable service in the United Kingdom. In addition to the arrangement outlined above, supplementary provision is made for S K Green, via an employer contribution to a personal pension plan, with £3,648 having been made during 1999 (1998: £3,040).

The pension arrangements for D G Eldon are provided under the HSBC International Staff Retirement Benefits Scheme. Pension accrues at a rate of one twenty-seventh of pensionable salary per year of pensionable service.

The pension arrangements for W R P Dalton to contractual retirement age of 60 are provided under the HSBC Canada Pension Plan A at an accrual rate of one-thirtieth of pensionable salary per year of pensionable service and under the HSBC Holdings Overseas (No.1) Pension Plan on a defined contribution basis, with an employer contribution during 1999, including a bonus waiver of £120,000, of £249,000 (1998: £129,000).

	Accrued annual pension at 31 December 1999 £000	*Increase in accrued pension during 1999, excluding any increase for inflation £000*	*Personal contributions towards pension £000*	*Transfer value relating to increase in accrued pension £000*[1]
Sir John Bond	120	17	—	302
W R P Dalton	238[2]	—	—	—
D G Eldon[3]	194	7	13	141
S K Green	86	11	—	159
K R Whitson	100	13	—	219

1 *The transfer value represents a liability of the Group's pension funds and not a sum paid or due to the individual; it cannot meaningfully be added to annual remuneration.*
2 *Entitlement unchanged at C$560,000 — difference over 1999 reflects movement in exchange rates only.*
3 *Since attaining age 53, Mr Eldon has been able, under the terms of the scheme, to retire at any time with an immediate pension equal to his accrued pension. As at 1 January 1999, this immediate pension entitlement amounted to £184,000 per annum.*

Only basic salary is pensionable. No other Director participated in any Group pension schemes and none of the Directors participating in Group pension schemes is subject to the earnings cap introduced by the 1989 Finance Act.

Pension payments totalling £315,000 (1998: £261,000) were made to four former Directors of the Company; of this £157,000 (1998: £152,000) was paid by HSBC Bank plc to two of them as former Directors of the bank.

Directors' Interests

According to the registers of Directors' interests maintained by the Company pursuant to 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 unless otherwise stated, in the shares and loan capital of the Company;

	At 1 January 1999 Ordinary shares of 75p or HK$10	*At 2 July 1999 Ordinary shares of US$0.50; post share reorganisation*[1]	*At 31 December 1999 Ordinary shares of US$0.50*				
			Personal	*Family*	*Corporate*	*Other*	*Total*
Ordinary shares							
Sir John Bond[2]	18,893	57,684	55,363	2,954	—	—	58,317
R K F Ch'ien	7,405	22,215	22,456	—	—	—	22,456
D E Connolly	16,400	50,082	50,632	—	—	—	50,632
W R P Dalton[2]	314	957	3,798	—	—	—	3,798
Baroness Dunn	30,788	123,591	100,684	—	—	24,000[3]	124,684
D G Eldon[2]	850	1,731	1,749	—	—	—	1,749
D J Flint[2]	1,730	5,277	5,336	—	—	—	5,336
W K L Fung	95,834	287,502	287,502	—	—	—	287,502
S K Green[2]	4,221	12,888	—	13,030	—	—	13,030
Lord Marshall	2,196	6,705	6,780	—	—	—	6,780
C Miller Smith	—	—	452	—	—	—	452
Sir Brian Moffat	1,713	5,232	—	5,289	—	—	5,289
C E Reichardt	10,000	30,000	30,000	—	—	—	30,000
H Sohmen	870,437	2,269,311	—	361,998	2,157,313[4]	—	2,519,311
Sir Adrian Swire	116,833	383,499	—	—	—	425,000[3]	425,000
Sir Peter Walters	13,005	39,015	39,015	—	—	—	39,015
K R Whitson[2]	1,814	5,538	5,598	—	—	—	5,598
11.69 per cent subordinated bonds 2002 of £1							
Sir John Bond	500,000	—	500,000	—	—	—	500,000
A W Jebson[2]	—	—	100,000	—	—	—	100,000[5]
Lord Marshall	975	—	975	—	—	—	975
Sir Peter Walters	6,500	—	6,500	—	—	—	6,500

1 *As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p or HK$10 was replaced with three new ordinary shares of US$0.50 each.*
2 *Details of additional interests in ordinary shares of US$0.50 each under the Share Option Schemes and Restricted Share Plan are set out below.*
3 *Non-beneficial.*
4 *Interests held by private investment companies.*
5 *Interests at 1 January 2000 — date of appointment.*

Share options

At 31 December 1999, the undernamed Directors held options to acquire the number of ordinary shares of US$0.50 each set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the Savings-Related Share Option Scheme are exercisable at a 15 per cent discount to the market value at the date of award. Except as otherwise indicated, there are no performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares of US$0.50 each at 31 December 1999 was £8.63. The highest and lowest market values of the ordinary shares of 75p from 1 January to 2 July 1999 were £24.68 and £15.58 and of the ordinary shares of US$0.50 from 5 July to

Report of the Directors (continued)

31 December 1999 were £8.655 and £6.32. Market value is the mid-market price quoted on the London Stock Exchange on the relevant date.

	At 1 January 1999 Options held over ordinary shares of 75p	*Options exercised during year (ordinary shares of 75p)*	*At 31 December 1999 Options held over ordinary shares of US$0.50 adjusted to reflect share reorganisation*[1]	*Adjusted exercise price £*	*Date of award*	*Exercisable from*[2]	*Exercisable until*
Sir John Bond	20,181	—	60,543	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	20,181	—	60,543	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	25,000	—	75,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	3,183	—	9,549[3]	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	25,000	—	75,000[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
W R P Dalton	7,568	—	22,704	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	10,091	—	30,273	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	12,000	—	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	2,875	—	8,625[3]	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	12,000	—	36,000[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
D G Eldon	8,577	8,577[5]	—	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	10,091	10,091[6]	—	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	12,000	—	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	13,500	—	40,500[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
D J Flint	12,000	—	36,000[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,271	—	3,813[3]	4.5206	9 Apr 1997	1 Aug 2002	31 Jan 2003
S K Green	8,072	—	24,216	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	12,108	—	36,324	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	15,000	—	45,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	15,000	—	45,000[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,879	—	5,637[3]	3.0590	3 Apr 1996	1 Aug 2001	31 Jan 2002
A W Jebson[7]	—	—	15,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	—	—	22,500[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
K R Whitson	12,613	—	37,839	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	20,000	—	60,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	3,183	—	9,549[3]	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	20,000	—	60,000[4]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006

No options were awarded to Directors during the period.

1 *As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p each was replaced with three new ordinary shares of US$0.50 each and awards under the Share Option Schemes were adjusted by multiplying the number of shares by three and dividing the relevant exercise price by three.*
2 *May be advanced in certain circumstances, e.g. retirement.*
3 *Options awarded under the Savings-Related Share Option Scheme.*
4 *The exercise of these options was conditional upon the growth in earnings per share over a three-year period being equal to or greater than a composite rate of inflation (comprising 50 per cent of the Hong Kong Composite Consumer Price Index, 35 per cent of the UK Retail Price Index and 15 per cent of the USA All Urban Consumer Price Index) plus 2 per cent per annum. This condition has been satisfied.*
5 *As at the date of exercise, 28 April 1999, the option price was £7.2184 per share and the market value per share was £23.18, resulting in a gain of £136,903.*
6 *As at the date of exercise, 28 April 1999, the option price was £8.5127 per share and the market value per share was £23.18, resulting in a gain of £148,008.*
7 *Options at 1 January 2000 — date of appointment.*

Restricted Share Plan

	Ordinary shares of 75p each			*Ordinary shares of US$0.50 each*			
	Awards held at 1 January 1999	*Awards made during year*	*Monetary value of awards made during year £000*	*Awards vested during year*	*Equivalent number of ordinary shares of US$0.50*[1]	*Awards held at 31 December 1999*[2]	*Year in which awards may vest*
Sir John Bond	8,156	—	—	—	24,468	25,179	2001 or 2002
	8,613	—	—	—	25,839	26,614	2002 or 2003
	—	16,741	300	—	50,223	51,688	2004
W R P Dalton	5,101	—	—	—	15,303	15,747	2001 or 2002
	10,345	—	—	—	31,035	31,938[3]	2001
	5,748	—	—	—	17,244	17,745	2002 or 2003
	—	9,765	175	—	29,295	30,152	2004
D G Eldon	6,121	—	—	—	18,363	18,897	2001 or 2002
	6,896	—	—	—	20,688	21,290	2002 or 2003
	—	9,765	175	—	29,295	30,152	2004
D J Flint	5,101	—	—	—	15,303	15,747	2001 or 2002
	5,748	—	—	—	17,244	17,745	2002 or 2003
	—	9,765	175	—	29,295	30,152	2004
S K Green	6,121	—	—	—	18,363	18,897	2001 or 2002
	6,896	—	—	—	20,688	21,290	2002 or 2003
	—	9,765	175	—	29,295	30,152	2004
A W Jebson[4]	—	—	—	—	—	10,498	2001 or 2002
	—	—	—	—	—	8,873	2002 or 2003
	—	—	—	—	—	25,844	2004
K R Whitson	6,121	—	—	—	18,363	18,897	2001 or 2002
	6,896	—	—	—	20,688	21,290	2002 or 2003
	—	13,950	250	—	41,850	43,074	2004

Unless otherwise indicated, vesting of these shares is subject to the performance tests described in the 'Report of the Directors' in the 1996, 1997 and 1998 Annual Report and Accounts *being satisfied.*

1 *As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p each was replaced with three new ordinary shares of US$0.50 each.*
2 *Includes additional shares arising from scrip dividends.*
3 *Award not subject to performance conditions.*
4 *Interests at 1 January 2000 — date of appointment.*

S K Green has a personal interest in €75,000 of HSBC Holdings plc 5$^1/_2$ per cent Subordinated Notes 2009, which he acquired during the year. Mr Green also has a personal interest in £100,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005, which he held throughout the year.

H Sohmen has a corporate interest in £1,200,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005, which he held throughout the year. Dr Sohmen also has a corporate interest in US$3,000,000 of HSBC Bank plc Senior Subordinated Floating Rate Notes 2009, which he acquired during the year.

Report of the Directors (continued)

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 held by Directors lapsed during the year.

Subsequent to the end of the year, the automatic reinvestment of residual dividend balances carried forward by a Personal Equity Plan manager has resulted in the personal and the family interests of Sir John Bond and the personal interests of D J Flint each being increased by one ordinary share of US$0.50. The non-beneficial interests of Sir Adrian Swire were reduced following the disposal of 45,000 ordinary shares of US$0.50 each by a charity whose portfolio of investments is managed by independent investment managers. Sir Adrian takes no part in the decision-making process and had a technical non-beneficial interest in the disposal as a Trustee. There have been no other changes in Directors' interests from 31 December 1999 to the date of this report. Any subsequent changes up to the last practicable date before the publication of the 'Notice of Annual General Meeting' will be set out in the notes to that Notice.

Other Directorships

Executive Directors, if so authorised by the Board, may accept appointments as non-executive Directors of suitable companies which are not part of the Group. Executive Directors normally would 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.

Employees' Emoluments

Set out below is information in respect of the five individuals, who are not Directors of the Company, whose emoluments (excluding commissions or bonuses related to the revenue or profits generated by employees individually or collectively with others engaged in similar activities) were the highest in the Group for the year ended 31 December 1999.

	£000
Basic salaries, allowances and benefits in kind	1,231
Pension contributions	996
Bonuses paid or receivable	7,308
Amounts paid as inducements to join or on joining the Group	610
Total	10,145

Their emoluments are within the following bands:

	Number of employees
£1,600,001 – £1,700,000	2
£1,800,001 – £1,900,000	1
£2,000,001 – £2,100,000	1
£2,800,001 – £2,900,000	1

Employee Involvement

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Group's performance through management channels, in-house magazines and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving 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 58,400 Group employees in 44 countries and territories worldwide now participating in one or more of the Group's employee share plans.

Employment of Disabled Persons

The Company continues to be committed to providing equal opportunities to employees. 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.

Supplier Payment Policy

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

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by its subsidiary undertaking, HSBC Bank plc. Included in the balance with HSBC Bank plc is the amount due to trade creditors which, at 31 December 1999, represented 12 days' average daily purchases of goods and services received from such creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Substantial Interests in Share Capital

According to the register maintained under section 211 of the Companies Act 1985, the Hong Kong Special Administrative Region Government ('SAR Government') has an interest in 6.97 per cent of the ordinary shares of US$0.50 each of the Company for the account of the Exchange Fund. In addition, the SAR Government has an interest in units in the Tracker Fund of Hong Kong ('TraHK'), which it holds with the intention of meeting its obligations to distribute loyalty bonus units to eligible investors under the terms of the Loyalty Bonus Scheme outlined in the prospectus for TraHK. As a consequence, the SAR Government has an undivided interest in all the ordinary shares of the Company in TraHK's portfolio, but has no ability to exercise any voting rights in respect of those shares. To the best of the SAR Government's knowledge, the TraHK's portfolio represents an interest in 1.01 per cent of the ordinary shares of the Company, giving the SAR Government a 7.98 per cent interest overall.

No substantial interest, being 10 per cent or more, in any of the equity share capital is recorded in the register maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance.

Dealings in HSBC Holdings plc Shares

Save for the dealings by HSBC Investment Bank plc, trading as an intermediary in the Company's shares in London, neither the Company nor any subsidiary undertaking has bought or sold any shares of the Company during the 12 months ended 31 December 1999.

Connected Transactions

The following constitute connected transactions under the rules of The Stock Exchange of Hong Kong.

In January 1999, HSBC Argentina Holdings S.A., a wholly owned subsidiary, agreed to acquire a further 14 per cent of the equity of Máxima S.A. AFJP, La Buenos Aires-New York Life Seguros de Retiro S.A. and La Buenos Aires-New York Life Seguros de Vida S.A., to increase participation in the future growth of these businesses, for US$57.6 million (HK$446.35 million). The shares were acquired from International Finance Corporation, a 10 per cent shareholder in a subsidiary of HSBC Argentina Holdings S.A. In April 1999, a further 17 per cent was acquired in each of the three companies from a person not connected with the Company.

In November 1999, HSBC International Financial Services (UK) Limited, a wholly owned subsidiary, acquired 30 per cent of the equity of HSBC Pantelakis Securities S.A. for a consideration of £9.6 million (US$15.3 million), increasing the Group's holding to 88 per cent. The remaining 12 per cent is subject to a put/call option, exercisable in tranches over the next five years. The shares and options were acquired from directors of HSBC Pantelakis Securities S.A.

Report of the Directors (continued)

Donations

During the year, the Group made charitable donations totalling US$16,644,000. Of this amount, US$4,913,000 was given for charitable purposes in the United Kingdom.

No political donations were made during the year.

Year 2000 Readiness

The Group recognised that in the transition to the new millennium any inability of systems around the world to recognise the date change from 31 December 1999 to 1 January 2000 could have posed significant issues. The Group adopted the Year 2000 conformity requirements issued by the British Standards Institution as its definition of Year 2000 compliance.

Steering Committees were formed in all the key business units and progress on the Year 2000 compliance programme ('the Year 2000 Programme') was reported regularly to their Boards of Directors and to the Group Audit and Executive Committees. The Group's operations and its services to customers were not significantly disrupted as a result of any Group systems not being Year 2000 compliant. Prior to the year-end, a small number of the Group's retailer customers in the UK experienced customer transaction-processing difficulties caused by terminals provided by a third party supplier. Customers were advised of a simple solution and the terminals worked normally from 1 January 2000.

The Year 2000 Programme involved testing all of the Group's relevant systems to ensure that they were Year 2000 compliant and seeking confirmation from suppliers and service providers that their products and services were Year 2000 compliant. The Group assessed its customers' commitment to achieving compliance and provided information and assistance to help customers understand the risks and issues. Relevant credit and investment policies were revised and relationship managers trained to ensure that Year 2000 risks were taken account of in credit and investment evaluations.

Over the millennium change period, the Group undertook relevant checks on systems and equipment, and provided appropriate information and reports to interested parties within and outside the Group. As part of its Year 2000 Programme, the Group tested various dates in 2000 that might cause systems and equipment problems and appropriate plans have been formulated to mitigate any outstanding risks. In addition, our business customers were encouraged to ensure they would not be impacted by any Year 2000 problems within their supply chain.

For more than a decade, parts of the Group have been modifying their systems to be Year 2000 compliant when making other enhancements. The costs of the Year 2000 modifications made as part of such a combined package have not been separately identified. Costs incurred for the year ended 31 December 1999 were US$53 million (1998: US$113 million), including US$21 million (1998: US$48 million) attributable to incremental external costs. Estimated costs for the remaining Year 2000 work to 31 March 2000 are US$6 million. Costs relating to major systems changes that are not directly related to the Year 2000 but which address some Year 2000 issues are not included in these costs.

Annual General Meeting

The Annual General Meeting of the Company will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 26 May 2000 at 11.00 a.m.

An informal meeting of shareholders will be held at Level 28, 1 Queen's Road Central, Hong Kong on Tuesday, 23 May 2000 at 4.00 p.m.

Auditor

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

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

28 February 2000

Financial Review

Summary of Financial Performance

Group profit

The HSBC Group made a profit before tax of US$7,982 million in 1999, an increase of US$1,411 million, or 21 per cent, over 1998. Profit attributable to shareholders was US$5,408 million, an increase of 25 per cent.

Net interest income of US$11,990 million was US$443 million, or 4 per cent, higher than 1998. Other operating income rose by US$504 million, or 6 per cent, to US$9,012 million.

The Group's cost:income ratio improved to 54.0 per cent from 54.9 per cent in 1998.

The charge for bad and doubtful debts was US$2,073 million, which was US$564 million lower than in 1998 and reflected a much more stable environment in Asia. Given the time lag generally experienced between improvement in economic conditions and the bottom of the credit cycle, the special general provision of US$290 million in respect of Asian risk raised in 1997 continued intact. However, if economic conditions continue to improve in Asia, the Group may begin to release this provision during the course of 2000.

Gains on disposal of investments of US$450 million were US$228 million higher than in 1998.

Shareholder ratios

Basic earnings per share increased by 20 per cent, from US$0.54 to US$0.65. Diluted earnings per share increased by 23 per cent, from US$0.53 to US$0.65.

The headline earnings per share, which is calculated in accordance with the Institute of Investment Management and Research Statement of Investment Practice, increased by 13 cents, or 25 per cent, to US$0.66. The headline earnings per share excluded the gains on the sale of fixed assets (other than investment securities) and included the add-back of amortised goodwill.

The return on average shareholders' funds, at 17.5 per cent, increased from 15.5 per cent in 1998.

Shareholders' funds rose by a net US$6,006 million to US$33,408 million, including the retention of US$2,536 million of Group profits, and the take-up of new share capital subscribed (net of issue costs), scrip dividends and shares issued under options totalling US$3,952 million in aggregate. These were augmented by a surplus on the revaluation of Group and investment properties of US$325 million.

The Directors have declared a second interim dividend of US$0.207 per ordinary share (in lieu of a final dividend), which, together with the first interim dividend of US$0.133 already paid, will make a total distribution for the year of US$0.34 per share (US$0.308 per share in 1998), an increase of 10.3 per cent. The dividend is covered 1.9 times by attributable profit (1998: 1.7 times).

Economic profit

In 1999, HSBC enhanced its internal performance measures with economic profit which takes into account the cost of the capital invested in the Group by its shareholders. HSBC prices that cost of capital internally and the difference between that cost and post-tax profit is the amount of economic profit generated. Economic profit is used by management to decide where to allocate resources so that they will be most productive. HSBC's cost of capital, used internally for such benchmark purposes, is currently estimated to be 12.5 per cent.

Economic profit increased by US$658 million, or 103.1 per cent, compared with 1998 as shown in the table below. Measurement of economic profit involves a number of assumptions and, therefore, management believes that the trend over time is more relevant than the absolute economic profit reported for a single period.

US$m	1999	%	1998	%
Average invested capital	**37,063**		33,086	
Annual return on capital*	**5,929**	**16.0**	4,774	14.4
Cost of capital	**(4,633)**	**(12.5)**	(4,136)	(12.5)
Economic profit	**1,296**	**3.5**	638	1.9

* *Annual return on capital represents profit after tax adjusted for non-equity minority interests, goodwill amortisation and other non-cash items.*

Financial Review (continued)

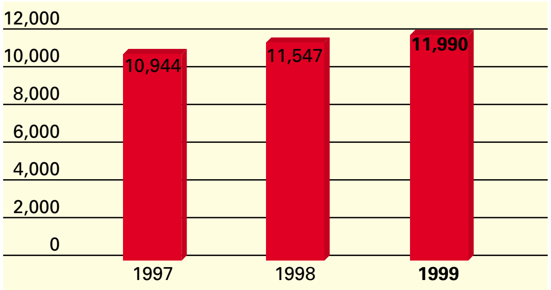
Net interest income

Net interest income improved by 3.8 per cent compared with 1998. In Europe, net interest income benefited from increased customer balances in the UK, to which a revision to the UK bank's product range and pricing in 1998 contributed. Net interest income levels in Hong Kong benefited from a higher level of interest-earning liquid assets, lower funding rates and the widening of the gap between best lending rate and interbank rates. In the rest of Asia-Pacific, net interest income remained broadly at the same level as in 1998. North America benefited from the interest generated on the equity funds raised to acquire Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('SRH'). In Brazil, the translation impact of the devaluation of the Brazilian real at the beginning of 1999 was partially offset by the exceptional margins achieved as a result of high interest rates during a period of economic instability. This benefit began to decline in the second half of 1999.

Average interest-earning assets increased by US$13.3 billion, or 3.3 per cent, compared with 1998. The growth arose mainly from the reinvestment of higher customer deposit flows in Hong Kong and the rest of Asia-Pacific where credit demand was particularly subdued. In the UK, an increase in personal customer lending largely offset a reduction in lower-yielding treasury assets.

The Group's net interest margin, at 2.86 per cent, was in line with 1998. The decline in interest rates resulted in a reduced contribution from net free funds. Spreads were higher as a result of the increased spreads on time deposits in Hong Kong and the effects of the widening of the gap between the Hong Kong best lending rate and interbank rates. In addition, increased customer deposits in Hong Kong and the United Kingdom reduced the need for higher cost wholesale funding. The high margins achieved in Brazil also benefited spread. These benefits were partially offset by the impact of a more liquid balance sheet.

Net interest income (US$m)

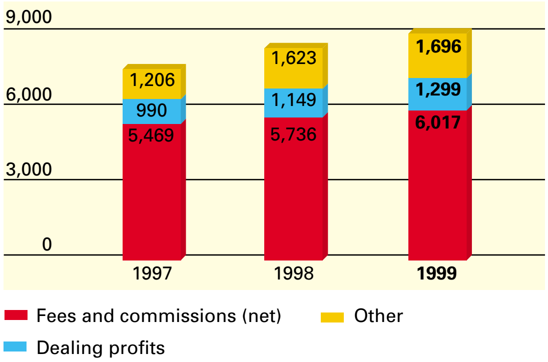


Non-interest income

The Group's non-interest income remained resilient. Foreign exchange profits were lower, particularly in Asia, as the exceptional market volatility and spreads seen in the first quarter of 1998 at the height of the Asian crisis were not repeated as Asia's economic conditions stabilised and improved. The improved economic conditions in Asia provided the backdrop to higher fees and commissions, with growth in Hong Kong and the rest of Asia-Pacific amounting to 15.3 per cent and 14.0 per cent respectively. Encouraging progress was made in the development of fee-based services to the Group's customers, with particularly strong growth in the UK achieved in wealth management and personal banking products. Increased fee income was earned by Investment Banking and Markets, primarily resulting from success in enhancing relationships with large corporate customers of the Group's major banking operations. Investment banking commissions were stronger in buoyant equities markets. Together, investment banking fees and commissions grew by 17.1 per cent to US$1,565 million.

The Group's securities and capital markets operations had a good year, although trading income in the second half was impacted by provisioning against bonds issued by a major Korean corporate. Equities and other trading activities delivered very strong profits, both as a result of certain activities causing losses in 1998 being curtailed and a high volume of business from the strong equities markets during the year.

Non-interest income (US$m)



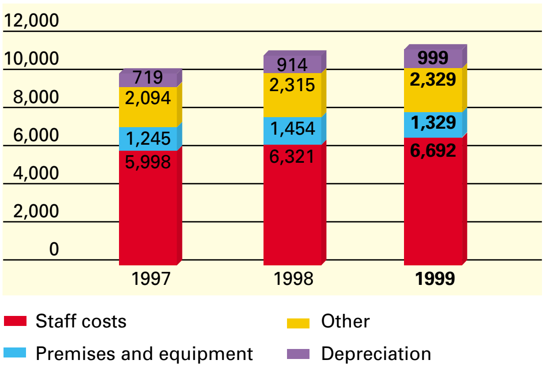
In Latin America, the devaluation of the Brazilian real accounted for approximately 60 per cent of the decline in net fee and commission income.

Analysis of income from dealing in financial instruments (US$m)	1999 Dealing profits	1999 Dividend and net interest income	1999 Total	1998 Dealing profits	1998 Dividend and net interest income	1998 Total
Foreign exchange	**797**	**21**	**818**	953	24	977
Interest rate derivatives	**67**	**7**	**74**	67	2	69
Debt securities	**197**	**81**	**278**	116	84	200
Equities and other trading	**238**	**66**	**304**	13	77	90
	1,299	**175**	**1,474**	1,149	187	1,336

Operating expenses

In markets where revenue growth was subdued, considerable focus was directed to controlling our cost base. In particular, operating costs continued to be tightly controlled in Hong Kong and the rest of Asia-Pacific as cost structures were adjusted to the changed economic environment. The business in Hong Kong operated under a pay freeze, which is continuing into 2000. However, higher performance-related remuneration, reflecting improved investment banking results, caused an overall increase in staff costs in Hong Kong. In Malaysia, we introduced a voluntary separation scheme, at a cost of US$16 million, which has reduced year-end headcount by 1,000. Elsewhere in the rest of Asia-Pacific, there were cost increases to support business expansion with 15 new branches opened across the region, call centres upgraded in Malaysia and Australia and mobile sales forces established or expanded in India, Taiwan and Malaysia.

Operating expenses (US$m)



In Europe, higher business volumes and new business initiatives (particularly in wealth management products) contributed to an increase in costs in UK Banking and stronger investment banking results also led to higher performance-related remuneration.

The devaluation of the Brazilian real benefited expenses by US$524 million and, on a constant exchange basis, the Latin American cost base grew by 22.2 per cent. Our former associates in Argentina, Máxima and La Buenos Aires-New York Life, which offer pension management and life insurance services, became subsidiaries during the year and HSBC Bank Malta (formerly Mid-Med Bank) joined the Group in June 1999. These structural changes added US$124 million to the 1999 cost base when compared to 1998. Although the 1999 results do not include any contributions from RNYC and SRH, US$164 million of restructuring charges in respect of these acquisitions was charged to expenses in 1999. Costs for 1998 included US$180 million for the prospective move to Canary Wharf. The cost growth within Investment Banking and Markets was essentially in performance-related remuneration based on exceptional results.

Staff numbers Full-time equivalent	**1999**	1998	1997
Europe	**53,861**	49,798	48,595
Hong Kong	**23,932**	24,447	25,050
Rest of Asia-Pacific	**21,375**	21,116	19,701
North America	**19,498**	14,500	14,499
Latin America	**27,181**	26,572	24,440
Total staff numbers	**145,847**	136,433	132,285

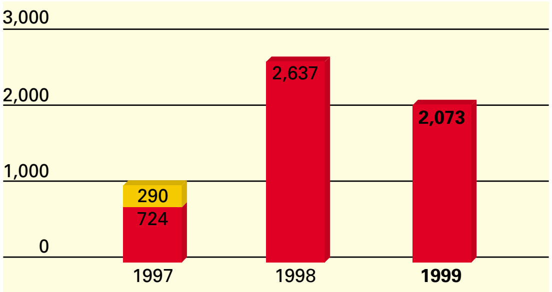
The Group's cost:income ratio improved to 54.0 per cent.

Financial Review (continued)

Bad and doubtful debts

The charge for bad and doubtful debts was US$2,073 million, which was US$564 million lower than in 1998 and reflected a much more stable environment in Asia. New and additional specific provisions against exposures to customer advances were 8.6 per cent lower than in 1998. Releases and recoveries also improved in 1999 and the bad and doubtful debt charge fell by 21.0 per cent to US$2,077 million, representing 89 basis points of average loans and advances to customers.

Charge for bad and doubtful debts (US$m)



The Group's credit experience in 1999 reflected the different stages reached in the economic cycles throughout the world. The significant provisions made in 1998 against exposures to customers in Indonesia and Thailand have proved to be appropriately conservative and further provisioning against exposures in these countries in 1999 was approximately 12 per cent of the comparable charge in 1998.

Bad and doubtful debt charge by geographical segment (US$m)	1999		1998	
		%		%
Europe	**438**	**21.1**	369	14.0
Hong Kong	**585**	**28.2**	747	28.3
Rest of Asia-Pacific	**809**	**39.1**	1,219	46.3
North America	**108**	**5.2**	109	4.1
Latin America	**133**	**6.4**	193	7.3
Group total	**2,073**	**100.0**	2,637	100.0

In Malaysia, the deterioration in credit quality experienced since the second half of 1998 has stabilised. Although the 1999 charge against Malaysian exposure was broadly in line with that for 1998, the second half charge was significantly lower than in the first half and reflected the slower growth in non-performing loans during the latter part of the year.

A single major Korean relationship adversely impacted the second half bad and doubtful debt charge, with the provisioning requirement impacting facilities arising in Asia and the UK. The other major deterioration in credit quality in 1999 arose from certain exposures related to mainland China. Just over 30 per cent of the provisions booked in Hong Kong and the rest of Asia-Pacific, excluding those in Malaysia and the Korean relationship referred to above, was attributable to these exposures. However, there are signs that asset quality related to mainland China exposures is stabilising.

Asset quality in Hong Kong has stabilised and economic conditions have improved, with the result that the 1999 charge for bad and doubtful debts was significantly lower than in 1998.

In the UK, the increase in the provision charge reflected both the return to a more normal credit environment and an increase in the level of personal lending. Personal lending exposure, by its nature, requires a higher level of provisioning and this, together with provisions raised against a small number of corporate lending exposures, resulted in the increased charge in 1999.

There was a small net release of general provisions. This mainly reflected the contraction in corporate lending in Asia. Given the time lag generally experienced between an improvement in economic conditions and the bottom of the credit cycle, the special general provision of US$290 million in respect of Asian risk raised in 1997 remained intact. However, if economic conditions continue to improve in Asia, the Group may begin to release this provision during the course of 2000.

Gains on disposal of investments

The Group's gains on disposal of investments of US$450 million were US$228 million higher than 1998. HSBC Private Equity Europe recorded a US$114 million profit from venture capital investment disposals (1998: US$95 million). The investment bank in Asia recorded profits of US$205 million on the partial disposal of an investment.

Taxation

The 1999 effective rate of tax was 25.5 per cent, compared with 27.2 per cent in 1998. The effective tax rate was below the average standard rate of UK corporation tax of 30.25 per cent (1998: 31 per cent) mainly because of lower rates of tax in major subsidiaries overseas. Although further unrelieved losses and provisions arose in 1999, they were at a much lower level, as well as being partly cushioned by utilisation of some of the previously unrelieved losses.

The improved financial position in Asia resulted in a greater proportion of the Group's profits being earned in more lowly taxed areas in 1999 than in 1998, thereby helping to reduce the Group's effective tax rate in 1999.

Analysis of overall tax charge (US$m)	1999	1998
Taxation at UK corporation tax rate of 30.25 per cent (1998 – 31 per cent)	**2,415**	2,037
Impact of differently taxed overseas profits in principal locations	**(418)**	(339)
Net unrecognised tax benefits	**35**	71
Other items	**6**	20
Overall tax charge	**2,038**	1,789

Assets

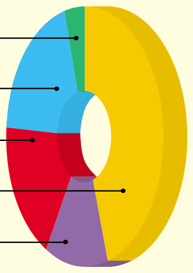
Total assets increased by US$86 billion, US$73 billion of which arose as a result of the acquisitions of RNYC and SRH, made during the year. The acquired assets included debt securities of US$32 billion and loans and advances to customers of US$18 billion.

Excluding RNYC and SRH, an underlying increase in gross lending to customers in Europe, from a growth in personal lending, was offset by reductions in Asia and Latin America as a result of the weak economic conditions and currency devaluation in Brazil. In Hong Kong, advances fell due to a reduced demand for corporate lending and the Group taking a lower market share of new residential mortgage business as a result of intense price competition. This was partially offset by an increase in advances made under the Government Home Ownership Scheme. In the rest of the Asia-Pacific region, there was an encouraging increase in the level of personal lending following the expansion of personal banking in several countries. However, this growth was outweighed by a fall in demand for corporate lending.

Debt securities held in accrual books showed an unrecognised loss, net of off-balance-sheet hedges, of US$110 million (December 1998: unrecognised gain US$298 million). The movement in securities values was primarily due to changes in market interest rates. Equity shares included US$1,521 million (December 1998: US$1,140 million) held on investment account, on which there was an unrecognised gain of US$911 million (December 1998: US$589 million).

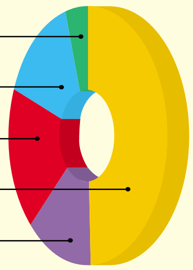
Assets 1999 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Treasury and other eligible bills	**4.1**	**23.2**
Debt securities	**19.7**	**110.1**
Loans and advances to banks	**17.9**	**100.1**
Loans and advances to customers	**45.4**	**253.6**
Other	**12.9**	**72.2**
Total	**100.0**	**559.2**



Assets 1998 (excluding Hong Kong Government certificates of indebtedness)

	%	US$b
Treasury and other eligible bills	4.6	22.0
Debt securities	14.5	69.2
Loans and advances to banks	18.0	85.3
Loans and advances to customers	49.5	235.3
Other	13.4	63.9
Total	100.0	475.7



Credit and Risk Management

Credit risk

The Group's credit and risk management process is discussed in Note 13 in the 'Notes on the Accounts'.

Financial Review (continued)

Loans and advances to customers — industry exposures

Loans and advances to customers are spread across the various industrial sectors, as well as geographically. Approximately 40 per cent of loans and advances to customers are to the personal banking sector and 60 per cent are to commercial enterprises. Residential mortgages comprised 25 per cent of the overall portfolio. While personal banking advances grew in Europe, commercial lending contracted in Asia as demand fell.

Acquisitions added approximately US$8 billion to personal lending and US$13 billion to commercial lending in the year.

Gross loans and advances to customers by industry exposure

	1999		1998	
	US$m	%	US$m	%
Residential mortgages	**66,397**	**25.3**	62,212	25.7
Hong Kong SAR Government Home Ownership Scheme	**6,565**	**2.5**	6,291	2.6
Other personal	**31,706**	**12.1**	25,732	10.6
Total personal	**104,668**	**39.9**	94,235	38.9
Commercial, industrial and international trade	**60,843**	**23.2**	61,411	25.3
Commercial real estate	**24,823**	**9.5**	24,116	9.9
Other property related	**8,208**	**3.1**	8,249	3.4
Government	**5,173**	**2.0**	5,285	2.2
Non-bank financial institutions	**17,125**	**6.5**	11,763	4.9
Settlement accounts	**3,769**	**1.4**	4,963	2.0
Other commercial*	**37,742**	**14.4**	32,467	13.4
Total	**262,351**	**100.0**	242,489	100.0

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

Bad debt provisions

Customer loans and advances (US$m)	**1999**	1998
Gross loans and advances	**262,351**	242,489
Suspended interest	**(788)**	(567)
	261,563	241,922
Provisions:		
General	**(2,304)**	(2,019)
Specific	**(5,692)**	(4,608)
Total provisions	**(7,996)**	(6,627)
Net loans and advances	**253,567**	235,295

Provisions to customer loans and advances (%)	**1999**	1998
Specific provisions	**2.25**	1.93
General provisions		
— held against Asian risk	**0.11**	0.12
— other	**0.80**	0.72
Total provisions	**3.16**	2.77

Total provisions against loans and advances to customers amounted to US$7,996 million at 31 December 1999 and represented 3.16 per cent of gross lending, net of suspended interest and reverse repo transactions, compared with 2.77 per cent at the end of 1998.

Non-performing customer advances, which included those coming from acquisitions, increased by US$1,501 million to US$10,372 million in 1999, although the rate of growth slowed considerably in the second half of the year. Non-performing loans grew by US$551 million, net of write-offs, in the second half of 1999 and were impacted by acquisitions and the Korean relationship referred to earlier. At 31 December 1999, non-performing advances represented 4.0 per cent of gross customer advances (31 December 1998: 3.7 per cent).

Non-performing customer loans* and provisions (US$m)	**1999**	1998
Non-performing loans*	**10,372**	8,871
Provisions	**7,996**	6,627
Total provisions cover as a percentage of non-performing loans* and advances	**77.1**	74.7

Non-performing loans* and specific provisions outstanding against loans and advances to customers by geographical segment (US$m)

	1999		1998	
	Loans	Provisions	Loans	Provisions
Europe	**2,679**	**1,411**	2,326	1,286
Hong Kong	**3,133**	**1,428**	2,520	1,059
Rest of Asia-Pacific	**3,534**	**2,221**	3,032	1,701
North America	**584**	**254**	590	223
Latin America	**442**	**378**	403	339
Group total	**10,372**	**5,692**	8,871	4,608

** Net of suspended interest.*

Total customer provisions cover as a percentage of non-performing loans and advances increased from 74.7 per cent at 31 December 1998 to 77.1 per cent at 31 December 1999.

Against loans and advances to banks, net of suspended interest, of US$100,101 million (1998: US$85,346 million), specific provisions amounted to US$24 million (1998: US$31 million). Non-performing loans to banks were US$40 million (1998: US$42 million).

The table below provides in-country and cross-border outstandings and claims under contracts in financial derivatives for Indonesia, South Korea, Thailand and Brazil, all of which have negotiated arrangements with the International Monetary Fund (IMF), as well as Malaysia, which implemented currency control restrictions in 1998. They are prepared in accordance with the Bank of England Country Exposure Report (Form C1) guidelines. On this basis, the figures exclude accrued interest and intra-Group exposures.

In-country obligations represent local offices' on-balance-sheet exposures to and acceptances given under facilities opened on behalf of local residents.

Net cross-border obligations represent non-local offices' on-balance-sheet exposures to and acceptances given under facilities opened on behalf of customers based on the country of residence of the borrower or guarantor of ultimate risk, irrespective of whether such exposures are in local or foreign currency.

Cross-border risk is controlled centrally through a well-developed system of country limits, which are frequently reviewed to avoid concentrations of transfer, economic or political risks.

Brazil signed an agreement with the IMF in December 1998 designed to sustain confidence in Brazil's exchange rate regime following economic uncertainty after the default by Russia on its domestic debt. After the float of the Brazilian currency in January 1999, Brazil agreed to revised economic targets with the IMF, thereby allowing it to resume drawing funds under the IMF programme. Subsequently, in March 1999, Brazil reached agreement with a group of international banks (including HSBC) whereby the banks voluntarily maintained their trade-related business and inter-bank lines with Brazil for a period of six months. This agreement was not extended in view of the improvement in economic stability and an inflow of foreign investment.

In September 1998, Malaysia introduced a limited form of exchange controls to curb currency speculation against the Malaysian ringgit following the regional economic crisis which commenced in 1997. This involved, *inter alia*, fixing the exchange rate at 3.8 Malaysian ringgit to the US dollar. As pressure on the ringgit subsided, interest rates fell and the markets calmed, the Malaysian authorities have subsequently been able to relax the majority of these controls. A comprehensive programme to restructure and recapitalise the banking system has been put in place through the establishment of two government agencies: Pengurusan Danaharta Nasional Berhad, which has absorbed non-performing loans from Malaysian banks; and Danamodal Nasional Berhad, which works to recapitalise banks where required.

On 31 March 1998, a loan agreement was signed between a group of international banks (including HSBC) and the Republic of Korea, which was the first stage of the programme to address South Korea's economic problems. The loan agreement facilitated a voluntary exchange of short-term credits owed by Korean banks for new loans with one-, two- and three-year maturities guaranteed by the Republic of Korea. Subsequent to the completion of the loan exchange, foreign currency liquidity pressures in South Korea eased considerably, and the sovereign rating of the country was reinstated to investment grade. On 8 April 1999, repayment of the one-year maturity tranche of these loans took place and all principal and interest remains current. In September 1999, some Korean

Country risk and cross-border exposure (US$b)

	Brazil	Indonesia	Malaysia	South Korea	Thailand
As at 31 December 1999					
In-country local currency obligations	**6.2**	**0.5**	**6.2**	**1.1**	**0.7**
In-country foreign currency obligations	**0.2**	**0.8**	**0.7**	**0.8**	**0.4**
Net cross-border obligations	**1.3**	**0.5**	**0.5**	**1.3**	**0.2**
	1.5	**1.3**	**1.2**	**2.1**	**0.6**
Claims under contracts in financial derivatives	**0.1**	**—**	**—**	**—**	**—**
Total at 31 December 1999	**7.8**	**1.8**	**7.4**	**3.2**	**1.3**
Total at 31 December 1998	9.2	1.4	7.4	3.6	2.3

Financial Review (continued)

obligors prepaid a portion of their remaining debt under this scheme.

Thailand has not entered into any specific arrangements with the foreign banking community to restructure its foreign currency obligations. However, Thailand has taken positive steps under its IMF programme to recapitalise its financial system.

On 4 June 1998, an agreement was reached between the Steering Committee of Banks for Indonesia (including HSBC) and the Indonesia Debt Negotiation team for a comprehensive programme to address Indonesia's external debt problems. The programme consists of three principal components: (i) the voluntary maintenance of trade finance by foreign banks to the Indonesian banking system, effected by the completion of individual agreements between Bank Indonesia (the central bank) and the foreign banks during the second half of 1998; (ii) an exchange offer through which foreign banks could exchange specified existing exposures to Indonesian banks for loans guaranteed by Bank Indonesia with maturities of one, two, three and four years, which is evidenced by a number of separate loan agreements completed during the second half of 1998; and (iii) 'INDRA', the Government of Indonesia's voluntary programme for the provision of foreign exchange availability to Indonesian corporate obligors which is applicable on a case-by-case basis. In respect of (ii) above, on 8 April 1999, a second exchange offer was concluded extending maturities in years 2000 and 2001 to years 2002 to 2005. In August 1999, repayments of the one-year maturities were made on schedule.

Off-Balance-Sheet Financial Instruments

Risks associated with derivatives

Risks associated with derivatives are discussed in Note 36a in the 'Notes on the Accounts'.

The following table analyses the replacement cost of all third-party exchange rate, interest rate and equities contracts with positive mark-to-market gains, after netting where possible, by maturity and by category of counterparty at 31 December 1999 and 31 December 1998. The table shows that the replacement cost of derivatives is predominantly with banks and under five years.

The maturity profile of the notional principal values of third-party derivative contracts outstanding as at 31 December 1999 and 31 December 1998 below shows that the vast majority of contracts are executed over the counter and mature within one year.

Replacement cost of derivatives contracts with third parties

	Residual maturity				
	1999				1998
US$m	Less than 1 year	1-5 years	Over 5 years	Total	Total
Governments	**68**	**34**	**65**	**167**	200
Banks	**4,442**	**3,438**	**1,008**	**8,888**	13,194
Non-bank financial institutions					
— exchanges*	**384**	**36**	**1**	**421**	284
— other	**1,171**	**619**	**372**	**2,162**	2,449
Other sectors	**1,413**	**448**	**121**	**1,982**	2,287
Total **1999**	**7,478**	**4,575**	**1,567**	**13,620**	
Total 1998	10,100	5,881	2,433		18,414

** Exchanges with margining requirements.*

Contract amounts of derivatives contracts with third parties

	Residual maturity				
	1999				1998
US$m	Less than 1 year	1-5 years	Over 5 years	Total	Total
Exchange rate, interest rate and equities contracts					
— exchanges*	**235,346**	**41,234**	**1,536**	**278,116**	222,093
— other contracts	**888,055**	**337,365**	**93,805**	**1,319,225**	1,633,934
Total **1999**	**1,123,401**	**378,599**	**95,341**	**1,597,341**	
Total 1998	1,362,184	397,612	96,231		1,856,027

** Exchanges with margining requirements.*

Capital Management

Capital measurement and allocation

The Financial Services Authority (FSA) is the supervisor of the HSBC Group on a consolidated basis and, in this capacity, 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, non-banking subsidiaries may be subject to 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.

Under the European Union's Own Funds, Solvency Ratio and Consolidated Supervision Directives, the FSA requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets. The method the FSA 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 Amending Directive (Directive 98/31/EC) to the Capital Adequacy Directive (CAD2). This modification allows banks to calculate capital requirements for market risk in the trading book using value at risk techniques.

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.

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 Group's capital is divided into two tiers: tier 1, comprising shareholders' funds, excluding revaluation reserves, and minority interests in tier 1 capital; and tier 2, comprising general loan loss provisions, property revaluation reserves, qualifying subordinated loan capital and minority interests in tier 2 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 goodwill and intangible assets, and unconsolidated investments, investments in the capital of banks and other regulatory deductions are made from tier 1 capital and total capital, respectively.

Under CAD2, banking operations are categorised as either trading book (broadly, marked-to-market activities) or banking book (all other activities) and risk-weighted assets are determined accordingly. Banking book risk-weighted assets are measured by means of a hierarchy of risk weightings classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. Banking book off-balance-sheet items giving rise to credit, foreign exchange or interest rate risk are assigned weights appropriate to the category of the counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market-related risks, such as foreign exchange, interest rate and equity position risks, as well as counterparty risk.

Financial Review (continued)

Group capital structure

The table below sets out the analysis of regulatory capital at the end of 1999 and 1998:

	1999 US$m	1998 US$m
Composition of capital		
Tier 1:		
Shareholders' funds	**33,408**	27,402
Minority interests	**4,217**	4,275
Less: property revaluation reserves	**(2,342)**	(2,121)
intangible assets and goodwill	**(6,750)**	(204)
Total qualifying tier 1 capital	**28,533**	29,352
Tier 2:		
Property revaluation reserves	**2,353**	2,121
General provisions	**2,088**	1,807
Perpetual subordinated debt	**3,264**	3,276
Term subordinated debt	**10,151**	6,433
Minority interests in tier 2 capital	**577**	—
Total qualifying tier 2 capital	**18,433**	13,637
Unconsolidated investments	**(1,487)**	(1,266)
Investments in other banks	**(1,032)**	(503)
Other deductions	**(177)**	(128)
Total capital	**44,270**	41,092
Total risk-weighted assets	**336,126**	301,950
Capital ratios (per cent)		
Total capital	**13.2**	13.6
Tier 1 capital	**8.5**	9.7

During 1999, the Group's total capital ratio decreased from 13.6 per cent to 13.2 per cent and its tier 1 capital ratio decreased from 9.7 per cent to 8.5 per cent.

Tier 1 capital decreased by US$3.4 billion due to the acquisition of RNYC and SRH. The US$3 billion ordinary share capital raised to fund partially the acquisitions was more than offset by US$6.2 billion of goodwill. Internal capital generation continued to be strong, with US$2.5 billion of profit retained being added to capital during the year.

Tier 2 capital increased mainly due to the subordinated debt and preference shares taken on with RNYC and SRH as part of their acquisition (US$2.9 billion) and issues made by HSBC Holdings during the year (US$1.3 billion).

Risk-weighted assets increased following the acquisition of RNYC and SRH (US$29 billion and US$9 billion respectively). These increases were partially offset by small reductions elsewhere in the Group.

Deployment of shareholders' funds

The shareholders' funds of HSBC Holdings plc are deployed mainly in investments in its subsidiaries. At 31 December 1999, the major investments of shareholders' funds, compared with the previous year, are shown in the table.

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. Movements in the figures reflect these retentions, capital injections to fund expansions in business operations and the acquisition of RNYC and SRH on 31 December 1999.

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.

	1999 US$m	1998 US$m
Hang Seng Bank — 62.14% owned (1998: 62.14%)	**2,847**	3,456
The Hongkong and Shanghai Banking Corporation and other subsidiaries	**6,810**	6,462
The Hongkong and Shanghai Banking Corporation and subsidiaries	**9,657**	9,918
HSBC Bank plc	**6,998**	7,059
HSBC North America Inc.	**4,111**	1,857
HSBC Bank Middle East	**637**	625
HSBC Bank Malaysia Berhad	**295**	333
HSBC Bank Canada	**864**	530
HSBC Bank Brasil S.A.-Banco Múltiplo	**270**	423
HSBC Bank Argentina S.A.	**438**	339
HSBC Investment Bank plc	**538**	538
HSBC Republic Holdings (Luxembourg) S.A. (formerly Safra Republic Holdings — 99.38% owned)	**5,103**	—
Holding company and non-trading subsidiaries	**1,783**	2,133
Other subsidiaries	**2,200**	3,208
Associates	**514**	439
	33,408	27,402

Market Risk Management

Market risk

The Group's market risk management process is discussed in Note 38 in the 'Notes on the Accounts'.

Trading VAR

VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. Technical details of the calculation of the Group VAR are provided in Note 38a in the 'Notes on the Accounts'.

Trading VAR for the Group, excluding RNYC and SRH at 31 December is shown in the table.

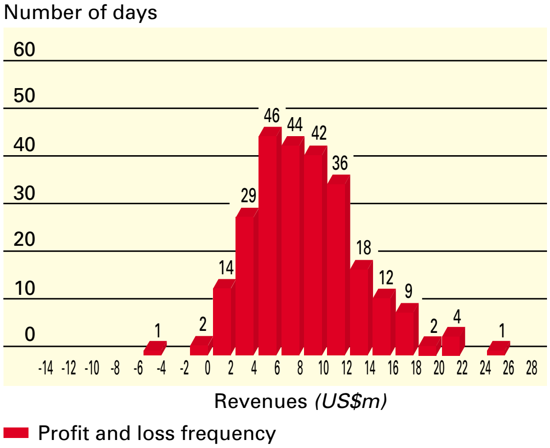
VAR for RNYC's and SRH's trading activities at 31 December 1999 was US$14.5 million and US$1.4 million respectively.

The average daily revenue earned from market risk-related treasury activities in 1999, including accrual book net interest income and funding related to dealing positions, was US$8.2 million (1998 US$7.8 million). The standard deviation of these daily revenues was US$4.5 million. An analysis of the frequency distribution of daily revenues shows that negative revenues were reported on only three days during 1999. The most frequent result was a daily revenue of between US$4 million and US$6 million, with 46 occurrences. The highest daily revenue was US$26 million.

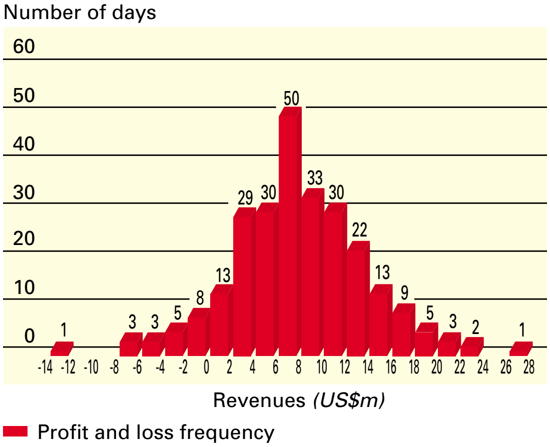
US$m	1999	Minimum during the year	Maximum during the year	Average for the year	1998*
Total trading activities	**46.1**	**42.7**	**101.9**	**66.7**	23.2
Foreign exchange trading positions	**12.8**	**10.2**	**58.5**	**25.0**	14.2
Interest rate trading positions	**39.4**	**32.2**	**82.1**	**54.1**	13.1
Equities trading positions	**16.2**	**11.1**	**26.8**	**16.4**	12.0

* *The comparative figures for 1998 have been recalculated using a 99 per cent confidence level for a 10-day holding period using the VAR models in place at that date. It is not practicable retrospectively to amend these comparatives for other technical changes made to the VAR models since 31 December 1998.*

Daily distribution of market risk revenues 1999
Group treasury centres



Daily distribution of market risk revenues 1998
Group treasury centres



Financial Review (continued)

Foreign exchange exposure

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

Foreign exchange trading exposure arises from foreign exchange dealing within Group Treasury, 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 activities within limits approved by the Group Executive Committee. VAR on foreign exchange trading positions is shown in the table on page 51.

The average one-day foreign exchange revenue in 1999 was US$2.3 million (US$4.0 million in 1998).

The Group's structural foreign currency translation exposures are 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. Gains or losses on structural foreign currency exposures are taken to reserves. Details of the Group's structural foreign currency exposures are given in Note 38d in the 'Notes on the Accounts'.

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 in Note 38 in the 'Notes on the Accounts'. Interest rate risk arises on both trading positions and accrual books.

The average daily revenues earned from treasury-related interest rate activities for 1999 were US$5.9 million (US$3.8 million for 1998). The interest rate risk on interest rate trading positions is set out in the trading VAR table on page 51.

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

Assuming no management action in response to interest rate movements, an immediate hypothetical 100 basis points parallel rise in all yield curves worldwide on 1 January 2000 would decrease planned net income for the 12 months to 31 December 2000 by US$116 million, while a hypothetical 100 basis points parallel fall in all yield curves would increase planned income by US$82 million.

Rather than assuming that all interest rates move together, HSBC's interest rate exposures can be grouped into blocs whose interest rates are considered more likely to move together. The sensitivity of net interest income for 2000 can then be described as follows:

US$m	US dollar bloc	Sterling bloc	Asian bloc	Latin American bloc	Euro bloc	Total 2000	Total 1999
Change in 2000 projected net interest income							
+ 100 basis points shift in yield curves	(5)	(83)	(32)	13	(9)	(116)	**(3)**
– 100 basis points shift in yield curves	(4)	62	28	(13)	9	82	**(16)**

The projections assume that rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections also make other simplifying assumptions, including an assumption that all positions run to maturity. In practice, these exposures are actively managed.

Equities exposure

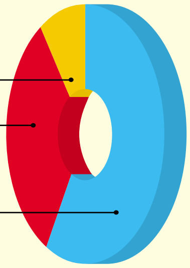
The Group's equities exposure comprises trading equities, forming the basis of value at risk, and long-term equities investments. The latter are reviewed annually by the Group Executive Committee and regularly monitored by the subsidiaries' ALCOs. VAR on equities trading positions is set out in the trading VAR table on page 51.

Liquidity Management

HSBC requires operating entities to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due. The process of liquidity management is discussed in detail in Note 36d in the 'Notes on the Accounts'.

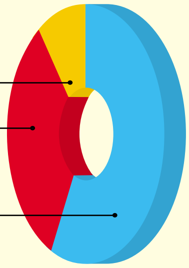
Customer accounts and deposits by banks 1999

	%	US$b
Deposits by banks	9.6	38.1
Current	32.2	128.2
Savings and other deposits	58.2	231.8
Total	100.0	398.1

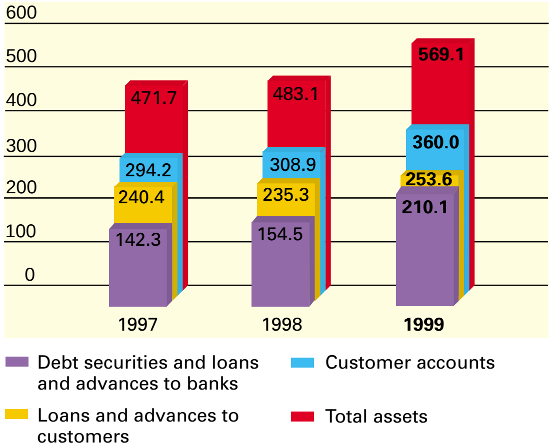


Customer accounts and deposits by banks 1998

	%	US$b
Deposits by banks	10.0	34.3
Current	32.7	112.3
Savings and other deposits	57.3	196.7
Total	100.0	343.3



Assets, deposits and advances (US$b)



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 these deposits, achieved through the Group's diverse geographical retail banking activities. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities. Customer accounts represented 90.4 per cent of HSBC's deposit base at 31 December 1999, compared with 90.0 per cent at 31 December 1998. As at 31 December 1999, 70.4 per cent of HSBC's customer accounts were deployed in loans and advances to customers, compared with 76.2 per cent at 31 December 1998. Debt securities and loans and advances to banks have increased to 36.9 per cent of total assets at 31 December 1999, compared with 32.0 per cent at 31 December 1998.

Financial Reporting

The accounting policies used in the preparation of the 1999 financial accounts are consistent with the previous year except as noted below.

During the year, the Group adopted Financial Reporting Standards (FRS) 12 and 13 as issued by the Accounting Standards Board. FRS 12, 'Provisions, Contingent Liabilities and Contingent Assets', sets out the principles of accounting for provisions, contingent liabilities and contingent assets, with the objective of ensuring that appropriate recognition criteria and measurement bases are applied to these and sufficient information is disclosed in the 'Notes on the Accounts' to enable readers to understand their nature, timing and amount. FRS 13, 'Derivatives and other Financial Instruments: Disclosures', requires disclosure of how financial instruments affect the Group's risk profile, performance and financial condition and how the risks associated with financial instruments are managed.

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditor's statement of its responsibilities set out in its report on page 55, 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 56 to 114, 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*

28 February 2000

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

We have audited the financial statements on pages 56 to 114.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the *Annual Report*. As described on page 54 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on pages 29 and 30 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the *Annual Report*, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 1999 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Registered Auditor
Chartered Accountants
London

28 February 2000

Consolidated Profit and Loss Account for the Year Ended 31 December 1999

1998 US$m		Note	**1999 US$m**	*1999 £m*	*1999 HK$m*
	Interest receivable				
	— interest receivable and similar income				
3,892	arising from debt securities		**4,373**	*2,703*	*33,930*
29,728	— other interest receivable and similar income		**24,831**	*15,345*	*192,664*
(22,073)	Interest payable		**(17,214)**	*(10,638)*	*(133,564)*
11,547	**Net interest income**		**11,990**	*7,410*	*93,030*
148	Dividend income	*3*	**157**	*97*	*1,218*
6,970	Fees and commissions receivable		**7,149**	*4,418*	*55,470*
(1,234)	Fees and commissions payable		**(1,132)**	*(700)*	*(8,783)*
1,149	Dealing profits	*4*	**1,299**	*803*	*10,079*
1,475	Other operating income		**1,539**	*951*	*11,941*
20,055	**Operating income**	*6*	**21,002**	*12,979*	*162,955*
(10,090)	Administrative expenses	*5,6*	**(10,350)**	*(6,396)*	*(80,306)*
	Depreciation and amortisation				
(904)	— tangible fixed assets	*23*	**(963)**	*(595)*	*(7,472)*
(10)	— goodwill	*22*	**(36)**	*(22)*	*(279)*
9,051	**Operating profit before provisions**		**9,653**	*5,966*	*74,898*
	Provisions				
(2,637)	— provisions for bad and doubtful debts	*16*	**(2,073)**	*(1,282)*	*(16,085)*
	— provisions for contingent liabilities				
(144)	and commitments	*30*	**(143)**	*(88)*	*(1,110)*
(85)	Amounts written off fixed asset investments		**(28)**	*(17)*	*(217)*
6,185	**Operating profit**		**7,409**	*4,579*	*57,486*
	Share of operating profit in				
136	associated undertakings		**123**	*76*	*954*
	Gains on disposal of				
222	— investments		**450**	*278*	*3,492*
28	— tangible fixed assets		**—**	*—*	*—*
6,571	**Profit on ordinary activities before tax**	*6*	**7,982**	*4,933*	*61,932*
(1,789)	Tax on profit on ordinary activities	*7*	**(2,038)**	*(1,260)*	*(15,813)*
4,782	**Profit on ordinary activities after tax**		**5,944**	*3,673*	*46,119*
	Minority interests				
(393)	— equity		**(460)**	*(284)*	*(3,569)*
(71)	— non-equity		**(76)**	*(47)*	*(589)*
	Profit for the financial year attributable				
4,318	**to shareholders**		**5,408**	*3,342*	*41,961*
(2,495)	Dividends	*9*	**(2,872)**	*(1,775)*	*(22,284)*
1,823	**Retained profit for the year**		**2,536**	*1,567*	*19,677*
US$			**US$**	*£*	*HK$*
0.54	**Basic earnings per ordinary share**	*10*	**0.65**	*0.40*	*5.04*
0.53	**Diluted earnings per ordinary share**	*10*	**0.65**	*0.40*	*5.04*
0.53	**Headline earnings per ordinary share**	*10*	**0.66**	*0.41*	*5.12*
0.308	**Dividends per ordinary share**	*9*	**0.34**	*0.21*	*2.64*

Movements in reserves are set out in Note 34.

Consolidated Balance Sheet at 31 December 1999

1998 US$m		Note	1999 US$m	*1999 £m*	*1999 HK$m*
	ASSETS				
3,048	Cash and balances at central banks		**6,179**	*3,825*	*48,029*
5,911	Items in the course of collection from other banks		**5,826**	*3,606*	*45,285*
21,980	Treasury bills and other eligible bills	*11*	**23,213**	*14,369*	*180,435*
7,408	Hong Kong SAR Government certificates of indebtedness	*12*	**9,905**	*6,131*	*76,994*
85,315	Loans and advances to banks	*14*	**100,077**	*61,948*	*777,899*
235,295	Loans and advances to customers	*15*	**253,567**	*156,958*	*1,970,976*
69,185	Debt securities	*18*	**110,068**	*68,132*	*855,559*
4,221	Equity shares	*19*	**4,478**	*2,772*	*34,807*
889	Interests in associated undertakings	*20*	**926**	*573*	*7,198*
309	Other participating interests	*21*	**280**	*173*	*2,176*
146	Intangible fixed assets	*22*	**6,541**	*4,049*	*50,843*
12,108	Tangible fixed assets	*23*	**12,868**	*7,965*	*100,023*
32,352	Other assets	*25*	**29,363**	*18,176*	*228,239*
4,961	Prepayments and accrued income		**5,848**	*3,620*	*45,454*
483,128	Total assets		**569,139**	*352,297*	*4,423,917*
	LIABILITIES				
7,408	Hong Kong SAR currency notes in circulation	*12*	**9,905**	*6,131*	*76,994*
34,342	Deposits by banks	*26*	**38,103**	*23,586*	*296,175*
308,910	Customer accounts	*27*	**359,972**	*222,823*	*2,798,062*
4,206	Items in the course of transmission to other banks		**4,872**	*3,016*	*37,870*
29,190	Debt securities in issue	*28*	**33,780**	*20,910*	*262,572*
48,662	Other liabilities	*29*	**59,584**	*36,881*	*463,143*
4,805	Accruals and deferred income		**6,129**	*3,794*	*47,641*
	Provisions for liabilities and charges	*30*			
1,268	— deferred taxation		**1,388**	*859*	*10,789*
2,906	— other provisions for liabilities and charges		**2,920**	*1,807*	*22,697*
	Subordinated liabilities	*31*			
3,247	— undated loan capital		**3,235**	*2,002*	*25,146*
7,597	— dated loan capital		**12,188**	*7,545*	*94,737*
	Minority interests				
2,315	— equity		**2,072**	*1,283*	*16,106*
870	— non-equity	*32*	**1,583**	*980*	*12,305*
3,443	Called up share capital	*33*	**4,230**	*2,618*	*32,880*
480	Share premium account	*34*	**2,882**	*1,784*	*22,402*
2,120	Revaluation reserves	*34*	**2,342**	*1,450*	*18,204*
21,359	Profit and loss account	*34*	**23,954**	*14,828*	*186,194*
27,402	Shareholders' funds		**33,408**	*20,680*	*259,680*
483,128	Total liabilities		**569,139**	*352,297*	*4,423,917*
	MEMORANDUM ITEMS				
	Contingent liabilities	*37*			
4,032	— acceptances and endorsements		**4,482**	*2,774*	*34,839*
23,686	— guarantees and assets pledged as collateral security		**27,319**	*16,911*	*212,350*
64	— other contingent liabilities		**39**	*24*	*303*
27,782			**31,840**	*19,709*	*247,492*
146,652	Commitments	*37*	**168,738**	*104,499*	*1,311,600*

Sir John Bond, *Group Chairman*

Company Balance Sheet at 31 December 1999

1998 US$m		Note	1999 US$m	1999 £m	1999 HK$m
	FIXED ASSETS				
8	Tangible assets	23	**10**	6	78
	Investments	24			
26,935	— shares in Group undertakings		**32,079**	19,857	249,349
1,068	— loans to Group undertakings		**7,033**	4,353	54,668
1,097	— other investments other than loans		**6**	4	47
29,108			**39,128**	24,220	304,142
	CURRENT ASSETS				
	Debtors				
44	— money market deposits with Group undertakings		**917**	568	7,128
2,395	— other amounts owed by Group undertakings		**1,883**	1,165	14,638
93	— amounts owed by Group undertakings (falling due after more than 1 year)		**91**	56	707
5	— other debtors		**17**	11	132
	Investments				
—	— other investments		**362**	224	2,813
2,537			**3,270**	2,024	25,418
	Cash at bank and in hand				
850	— balances with Group undertakings		**515**	319	4,003
3,387			**3,785**	2,343	29,421
	CREDITORS: amounts falling due within 1 year				
(941)	Amounts owed to Group undertakings		**(975)**	(604)	(7,579)
(201)	Other creditors		**(2,807)**	(1,737)	(21,819)
(218)	Taxation		**—**	—	—
(1,499)	Proposed dividend	9	**(1,754)**	(1,086)	(13,634)
(2,859)			**(5,536)**	(3,427)	(43,032)
528	**NET CURRENT ASSETS/(LIABILITIES)**		**(1,751)**	(1,084)	(13,611)
29,636	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**37,377**	23,136	290,531
	CREDITORS: amounts falling due after more than 1 year				
	Subordinated liabilities	31			
(1,343)	— owed to third parties		**(2,615)**	(1,618)	(20,327)
(349)	— owed to Group undertakings		**(349)**	(216)	(2,713)
(221)	Amounts owed to Group undertakings		**(716)**	(443)	(5,565)
	PROVISIONS FOR LIABILITIES AND CHARGES				
(321)	Deferred taxation	30	**(289)**	(179)	(2,246)
27,402	**NET ASSETS**		**33,408**	20,680	259,680
	CAPITAL AND RESERVES				
3,443	Called up share capital	33	**4,230**	2,618	32,880
480	Share premium account	34	**2,882**	1,784	22,402
19,566	Revaluation reserve	34	**21,874**	13,541	170,026
3,913	Profit and loss account	34	**4,422**	2,737	34,372
27,402			**33,408**	20,680	259,680

Sir John Bond, *Group Chairman*

Statement of Total Consolidated Recognised Gains and Losses for the Year Ended 31 December 1999

	1999	1998
	US$m	US$m
Profit for the financial year attributable to shareholders	**5,408**	4,318
Impairment of land and buildings	**—**	(38)
Unrealised (deficit) on revaluation of investment properties		
— subsidiaries	**(45)**	(190)
— associates	**(1)**	(56)
Unrealised surplus/(deficit) on revaluation of land and buildings (excluding investment properties)	**371**	(1,787)
Exchange and other movements	**(622)**	(31)
Total recognised gains and losses for the year	**5,111**	2,216

Reconciliation of Movements in Consolidated Shareholders' Funds for the Year Ended 31 December 1999

	1999	1998
	US$m	US$m
Profit for the financial year attributable to shareholders	**5,408**	4,318
Dividends	**(2,872)**	(2,495)
	2,536	1,823
Other recognised gains and losses relating to the year	**(297)**	(2,102)
New share capital subscribed, net of costs	**3,273**	17
Amounts arising on shares issued in lieu of dividends	**679**	584
Capitalised reserves on exercise of share options issued via a qualifying employee share ownership trust	**(185)**	—
Net addition to shareholders' funds	**6,006**	322
Shareholders' funds at 1 January	**27,402**	27,080
Shareholders' funds at 31 December	**33,408**	27,402

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 1999

	Note	1999 US$m	1998 US$m
Net cash inflow from operating activities	*39*	**21,544**	9,687
Dividends received from associated undertakings		**86**	82
Returns on investments and servicing of finance:			
Interest paid on finance leases and similar hire purchase contracts		**(25)**	(25)
Interest paid on subordinated loan capital		**(809)**	(813)
Dividends paid to minority interests			
— equity		**(668)**	(339)
— non-equity		**(76)**	(65)
Net cash (outflow) from returns on investments and servicing of finance		**(1,578)**	(1,242)
Taxation paid		**(1,575)**	(1,893)
Capital expenditure and financial investments:			
Purchase of investment securities		**(108,376)**	(59,814)
Proceeds from sale of investment securities		**91,385**	50,568
Purchase of tangible fixed assets		**(1,169)**	(2,537)
Proceeds from sale of tangible fixed assets		**209**	266
Net cash (outflow) from capital expenditure and financial investments		**(17,951)**	(11,517)
Acquisitions and disposals:			
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings		**725**	(176)
Purchase of interest in associated undertakings and other participating interests		**(123)**	(55)
Proceeds from disposal of associated undertakings and other participating interests		**28**	18
Net cash inflow/(outflow) from acquisitions and disposals		**630**	(213)
Equity dividends paid		**(1,938)**	(1,744)
Net cash (outflow) before financing		**(782)**	(6,840)
Financing:			
Issue of ordinary share capital		**3,088**	17
Subordinated loan capital issued		**2,101**	443
Subordinated loan capital repaid		**(599)**	(215)
Net cash inflow from financing	*40*	**4,590**	245
Increase/(decrease) in cash	*41*	**3,808**	(6,595)

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 has adopted the provisions of Financial Reporting Standards ('FRSs'): FRS 12, 'Provisions, Contingent Liabilities and Contingent Assets' and FRS 13, 'Derivatives and other Financial Instruments: Disclosures'.

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. For HSBC Bank Canada (formerly Hongkong Bank of Canada), which in previous years had a 31 October year-end, accounts for a period of 14 months were used in the 1998 consolidated accounts. In the case of the principal banking and insurance subsidiaries of HSBC Bank Argentina (formerly HSBC Banco Roberts S.A.), whose accounts are made up to 30 June annually to comply with local regulations, the Group uses audited interim accounts, drawn up to 31 December 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 are eliminated on consolidation.

Within these accounts, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong'.

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*

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

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

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

— where cash collateral is held covering the total of principal and interest due and the right to set-off is legally sound; or

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

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

Notes on the Accounts (continued)

2 Principal accounting policies *(continued)*

Specific provisions

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

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

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

— the realisable value of any security for the loan;

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

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

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

General provisions

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. The Group requires operating companies to maintain a general provision equivalent to a minimum percentage of customer lending as set from time to time, currently 0.6 per cent. This level has been determined as appropriate taking into account the structure and risk characteristics of the Group's loan portfolio and an evaluation of historic levels of latent risk, and its continuing appropriateness is regularly reviewed. Where entities operate in a significantly higher risk environment, an increased level of general provisioning will apply, taking into account local market conditions and economic and political factors.

General provisions are deducted from loans and advances to customers in the balance sheet but, unlike specific provisions, are included in tier 2 capital when calculating the Group's capital base for regulatory purposes.

Loans on which interest is being suspended

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

Non-accrual loans

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

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

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.

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 so as to give a constant rate of return. 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 'Gains on disposal of 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 banks' or 'Loans and advances to customers'.

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d *Subsidiary and associated undertakings and other participating interests*

i The Company's investments in subsidiary undertakings are stated at net asset values, including attributable goodwill. Changes in net assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

ii Interests in associated undertakings are stated at the Group's share of their net assets, including attributable goodwill.

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 arises on the acquisition of subsidiary or associated undertakings when the cost of acquisition exceeds the fair value of the Group's share of separable net assets acquired. For acquisitions made on or after 1 January 1998, goodwill is included in the balance sheet in 'Intangible fixed assets' in respect of subsidiary undertakings, and in 'Interests in associated undertakings' in respect of associated undertakings. Capitalised goodwill is amortised over its estimated life on a straight-line basis. For acquisitions prior to 1 January 1998, goodwill was charged against reserves in the year of acquisition.

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

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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; and

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

2 Principal accounting policies *(continued)*

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 five 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.

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 banks' or 'Loans and advances to customers'. 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 majority of staff are members of defined benefit schemes.

For UK defined benefit 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.

2 Principal accounting policies *(continued)*

i *Foreign currencies*

i Assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the year-end. The results of branches and subsidiary and associated undertakings not reporting in US dollars are translated into US dollars 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.

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j *Off-balance-sheet financial instruments*

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

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

Trading transactions

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

Transactions undertaken for trading purposes are marked to market 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.

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

Non-trading transactions

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

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

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

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

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

Derivatives that do not qualify as hedges or synthetic alterations at inception are marked to market through the profit and loss account, with gains and losses included within 'Dealing profits'.

Notes on the Accounts (continued)

3 Dividend income

	1999	1998
	US$m	US$m
Income from equity shares	**145**	138
Income from participating interests other than associated undertakings	**12**	10
	157	148

4 Dealing profits

	1999	1998
	US$m	US$m
Foreign exchange	**797**	953
Interest rate derivatives	**67**	67
Debt securities	**197**	116
Equities and other trading	**238**	13
	1,299	1,149

5 Administrative expenses

a

	1999	1998
	US$m	US$m
Staff costs		
— wages and salaries	**5,845**	5,440
— social security costs	**355**	398
— other pension costs (Note 5b below)	**492**	483
	6,692	6,321
Premises and equipment (excluding depreciation)	**1,329**	1,454
Other administrative expenses	**2,329**	2,315
	10,350	10,090

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

	1999	1998
	Number	Number
Commercial banking	**138,543**	136,331
Investment banking	**8,354**	8,190
	146,897	144,521

b *Retirement benefits*

The Group operates some 135 pension schemes throughout the world, covering 87% of the Group's employees, with a total pension cost of US$492 million (1998: US$483 million), of which US$223 million (1998: US$223 million) relates to overseas schemes. Of the overseas schemes, US$25 million (1998: US$23 million) has been determined in accordance with best practice and regulations in the United States and Canada.

The majority of the schemes are funded defined benefit schemes, which cover 61% of the Group's employees, with assets, in the case of most of the larger schemes, held in trust or similar funds separate from the Group. The pension cost relating to these schemes was US$368 million (1998: US$401 million) which is assessed in accordance with the advice of qualified actuaries. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the countries in which they are situated.

In the UK, the HSBC Bank (UK) Pension Scheme (formerly the Midland Bank Pension Scheme) covers employees of HSBC Bank plc and certain other employees of the Group. This scheme comprises a funded defined benefit

5 Administrative expenses *(continued)*

scheme ('the Principal Scheme') and a defined contribution scheme which was established on 1 July 1996 for new employees. The latest valuation of the Principal Scheme was made at 31 December 1996 by C G Singer, Fellow of the Institute of Actuaries, of Watson Wyatt Partners. At that date, the market value of the Principal Scheme's assets was US$7,351 million. The actuarial value of the assets represented 107% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to US$496 million. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 7.6% per annum, salary increases of 4.5% per annum, equity dividend increases and rental growth of 3.5% per annum, and post-retirement pension increases of 3.0% per annum.

As a result of the Finance (No.2) Act 1997, which came into force in July 1997, pension schemes are no longer able to claim a tax credit on UK equity dividend income. The actuaries have estimated that the effect on the Principal Scheme will be largely to offset the surplus shown by the 31 December 1996 valuation and this has been accounted for over the average remaining service lives of the employees in the Principal Scheme in accordance with Urgent Issues Task Force Abstract 18.

In consultation with the actuaries, it has been decided to maintain contributions at 16.1% of pensionable salaries until the next actuarial valuation. The next actuarial valuation is in the course of preparation based on the circumstances as at 31 December 1999. Based upon the method and assumptions adopted at the 1996 valuation, preliminary indications are that there is unlikely to be a deficit within the Scheme.

For The Hongkong and Shanghai Banking Corporation Limited Local Staff Retirement Benefits Scheme, the latest valuation was made at 31 December 1999 and was performed by E Chiu, Fellow of the Society of Actuaries of the United States of America, of HSBC Life (International) Limited, a subsidiary of the Group. At that date, the market value of the scheme's assets was US$789 million. On an ongoing basis, the actuarial value of the scheme's assets represented 120% of the benefits accrued to members, after allowing for expected future increases in salaries, and the resulting surplus amounted to US$132 million. On a wind-up basis, the actuarial value of the scheme's assets represents 129% of the members' vested benefits, based on current salaries, and the resulting surplus amounted to US$177 million. The actuarial method used was the projected unit credit method and the main assumptions used in this valuation were a long-term investment return of 7% per annum and salary increases of 6% per annum.

In Brazil, the HSBC Bank Brasil S.A. - Banco Múltiplo Lump Sum Retirement Benefit Scheme provides retirement benefits under an unfunded defined benefit scheme. The latest valuation was made at 31 December 1999 and was performed by Carl de Montigny, Fellow of the Society of Actuaries, of William M Mercer. At that date, the present value of the accumulated benefit obligation amounted to US$58 million. US$53 million has been provided in these accounts and the deficit evidenced by the latest valuation will be spread forward over the expected remaining service lives of the current employees. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 5.0% over the rate of inflation per annum, salary increases of 2.0% over the rate of inflation per annum and post-retirement pension increases at the rate of inflation per annum.

In the US, the HSBC Bank USA Pension Plan (the 'principal scheme') covers employees of HSBC Bank USA and certain other employees of the Group. The latest valuation of the principal scheme was made at 1 January 1999 by R G Gendron and K G Leister, Fellows of the Society of Actuaries, of Hewitt Associates LLC. At that date, the market value of the principal scheme's assets was US$520 million. The actuarial value of the assets represented 115% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to US$69 million. The method employed for this valuation was the projected unit credit method and the main assumptions used a discount rate of 7.00% per annum and average salary increases of 4.65% per annum.

The HSBC Bank (UK) Pension Scheme, The Hongkong and Shanghai Banking Corporation Limited Local Staff Retirement Benefits Scheme, the HSBC Bank Brasil S.A.-Banco Múltiplo Lump Sum Retirement Benefit Scheme and the HSBC Bank USA Pension Plan cover 59% (1998: 55%) of the Group's employees.

The pension cost for defined contribution schemes, which cover 26% (1998: 16%) of the Group's employees, was US$87 million (1998: US$52 million).

The Group also provides post-retirement health-care benefits under schemes, mainly in the UK and also in the United States, Canada and Brazil. The charge relating to these schemes, which are unfunded, is US$37 million for the year (1998: US$30 million). The latest actuarial review estimated the present value of the accumulated post-

5 Administrative expenses *(continued)*

retirement benefit obligation at US$379 million (1998: US$357 million), of which US$232 million (1998: US$240 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 1997 are price inflation at 3% per annum, health-care claims cost escalation of 8.5% per annum and a discount rate of 7% 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:

	1999	1998
	US$000	US$000
Fees	**1,076**	1,063
Salaries and other emoluments	**5,024**	5,275
Discretionary bonuses	**1,107**	965
	7,207	7,303
Gains on the exercise of share options	**460**	—

In addition, there were annual commitments under retirement benefit agreements with former Directors of US$435,000 (1998: US$303,000). The provision as at 31 December 1999 in respect of unfunded pension obligations to former Directors amounted to US$5,627,000 (1998: US$5,856,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$402,000 (1998: US$214,000).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee. The cost of the conditional awards under the Restricted Share Plan is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

Details of Directors' remuneration are included in the 'Report of the Directors' (see pages 29 to 38).

d *Auditors' remuneration*

Auditors' remuneration amounted to US$19.9 million (1998: US$17.3 million). In addition, US$17.7 million (1998: US$8.3 million) was paid by Group companies to the auditors and their associates for non-audit work analysed as follows:

	1999	1998
	US$m	US$m
Regulatory work	**4.0**	3.5
Tax services	**3.3**	1.4
Consultancy and recruitment	**1.2**	1.5
Acquisition due diligence and related services	**7.5**	—
US registration	**1.1**	0.4
Other	**0.6**	1.5
	17.7	8.3

In 1999, the auditors provided extensive support in due diligence work, particularly on the proposed acquisition of Seoul Bank, as well as on the acquisitions described in Note 24c.

Of fees paid to auditors for non-audit work, US$0.7 million were capitalised.

6 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:	**1999**	1998
	US$m	US$m
i Income		
Aggregate rentals receivable, including capital repayments, under		
— finance leases and hire purchase contracts	**3,260**	3,458
— operating leases	**511**	501
Income from listed investments	**2,187**	1,987
Profits less losses on debt securities and equities dealing	**442**	190
Gains on disposal of investment securities	**439**	210
ii Charges		
Charges incurred with respect to subordinated liabilities	**826**	814
Finance charges in respect of finance leases and similar hire purchase contracts	**26**	26
Hire of plant and machinery	**75**	92
Rentals payable on premises held under operating leases	**442**	429

In 1999, US$164 million has been charged in respect of restructuring costs arising from the acquisition of Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('SRH').

Gains on the disposal of investments and tangible fixed assets attracted a tax charge of US$93 million (1998: US$45 million). Of the after-tax amount, US$6 million (1998: US$3 million) is attributable to minority interests.

7 Tax on profit on ordinary activities

The charge for taxation comprises:	**1999**	1998
	US$m	US$m
United Kingdom corporation tax charge	**883**	745
Relief for overseas taxation	**(287)**	(13)
	596	732
Overseas taxation	**1,313**	1,118
Deferred taxation (Note 30)	**129**	(71)
	2,038	1,779
Associated undertakings	**—**	10
	2,038	1,789

The Company and its subsidiary undertakings in the UK provide for UK corporation tax at 30.25% (1998: 31.0%). Overseas tax includes Hong Kong profits tax of US$367 million (1998: US$293 million). Subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 16.0% (1998: 16.0%) on the profits for the year assessable in Hong Kong. Other overseas subsidiary undertakings and overseas branches provide for taxation at the appropriate rates in the countries in which they operate.

8 Profit of the Company

The profit of the Company for the year was US$2,565 million (1998: US$1,072 million).

Notes on the Accounts (continued)

9 Dividends

	1999		1998	
	US$ per share	**US$m**	US$ per share	US$m
First interim	**0.133**	**1,118**	0.123	996
Second interim	**0.207**	**1,754**	0.185	1,499
	0.340	**2,872**	0.308	2,495

The 1998 comparatives have been restated to reflect the share capital reorganisation discussed in Note 10.

Of the first interim dividend for 1999, US$229 million (1998: US$107 million) was settled by the issue of shares. Of the second interim dividend for 1998, US$450 million (1997: US$477 million) was settled by the issue of shares in 1999.

10 Earnings per ordinary share

Under the terms of the share capital reorganisation approved by the High Court on 30 June 1999, each shareholder of the Company received three new ordinary shares of US$0.50 for each existing ordinary share of HK$10 or ordinary share of 75p held on 2 July 1999. Figures for 1998 earnings per share and dividends per share reflect the share capital reorganisation.

Basic earnings per ordinary share was calculated by dividing the earnings of US$5,408 million (1998: US$4,318 million) by the weighted average number of ordinary shares outstanding in 1999 of 8,296 million (1998: 8,067 million).

Diluted earnings per share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive ordinary potential shares, by the weighted average number of shares outstanding plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (being share options outstanding not yet exercised) in 1999 of 8,374 million (1998: 8,124 million).

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

	1999 US$	1998 US$
Basic earnings per ordinary share	**0.65**	0.54
Adjustments:		
Amortisation of goodwill	**0.01**	—
Gains on disposal of tangible fixed assets	**—**	(0.01)
Headline earnings per ordinary share	**0.66**	0.53

11 Treasury bills and other eligible bills

	1999 US$m	1998 US$m
Treasury bills and similar securities	**20,500**	19,553
Other eligible bills	**2,713**	2,427
	23,213	21,980

Of the total treasury bills and other eligible bills, US$18,601 million are non-trading book items; these are mainly short-term in maturity with a book value not materially different from market value.

12 Hong Kong SAR currency notes in circulation

The Hong Kong Special Administrative Region currency notes in circulation are secured by the deposit of funds in respect of which the Government of the Hong Kong Special Administrative Region certificates of indebtedness are held.

13 Credit and risk management

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 Group standards, 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 larger credit exposures; the control of the Group's cross-border exposures, as well as those to banks and financial institutions; 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 large credit exposures, asset concentrations, industry exposures, levels of bad debt provisioning and country risk 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.

14 Loans and advances to banks

	1999	1998
	US$m	US$m
Remaining maturity		
— repayable on demand	**11,526**	11,155
— 3 months or less but not repayable on demand	**78,900**	63,986
— 1 year or less but over 3 months	**7,836**	6,794
— 5 years or less but over 1 year	**1,314**	2,265
— over 5 years	**525**	1,146
Specific bad and doubtful debt provisions (Note 16)	**(24)**	(31)
	100,077	85,315

Amounts include:	**1999**	1998
	US$m	US$m
Due from associated undertakings		
— unsubordinated	**74**	82

Notes on the Accounts (continued)

15 Loans and advances to customers

	1999	1998
	US$m	US$m
Remaining maturity		
— repayable on demand or at short notice	**40,437**	33,832
— 3 months or less but not repayable on demand or at short notice	**42,245**	39,204
— 1 year or less but over 3 months	**32,779**	30,251
— 5 years or less but over 1 year	**71,896**	67,659
— over 5 years	**74,206**	70,976
General and specific bad and doubtful debt provisions (Note 16)	**(7,996)**	(6,627)
	253,567	235,295
Amounts include:		
Subordinated advances	**107**	119
Securitised advances not qualifying for linked presentation under FRS 5 (‘Reporting the Substance of Transactions’)	**1,679**	1,143
Due from associated undertakings		
— unsubordinated	**272**	319

16 Provisions for bad and doubtful debts

	Provisions against advances			*Suspended*
	Specific	*General*	*Total*	*interest*
	US$m	**US$m**	**US$m**	**US$m**
At 1 January 1999	**4,639**	**2,019**	**6,658**	**768**
Amounts written off	**(1,186)**	**—**	**(1,186)**	**(162)**
Recoveries of advances written off in previous years	**165**	**—**	**165**	**—**
Charge/(credit) to profit and loss account	**2,120**	**(47)**	**2,073**	**—**
Interest suspended during the year	**—**	**—**	**—**	**723**
Suspended interest recovered	**—**	**—**	**—**	**(251)**
Exchange and other movements	**(22)**	**332**	**310**	**(5)**
At 31 December 1999	**5,716**	**2,304**	**8,020**	**1,073**
Included in:				
Loans and advances to banks (Note 14)			**24**	
Loans and advances to customers (Note 15)			**7,996**	
			8,020	
	US$m	US$m	US$m	US$m
At 1 January 1998	3,157	2,021	5,178	702
Amounts written off	(1,398)	—	(1,398)	(458)
Recoveries of advances written off in previous years	172	—	172	—
Charge to profit and loss account	2,627	10	2,637	—
Interest suspended during the year	—	—	—	647
Suspended interest recovered	—	—	—	(117)
Exchange and other movements	81	(12)	69	(6)
At 31 December 1998	4,639	2,019	6,658	768
Included in:				
Loans and advances to banks (Note 14)			31	
Loans and advances to customers (Note 15)			6,627	
			6,658	

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

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

	1999	1998
	US$m	US$m
Gross	**7,666**	6,435
Net of specific provisions	**3,571**	3,148

17 Concentrations of exposure

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

Total gross advances to customers:	*Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
At 31 December 1999	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Residential mortgages	**22,047**	**23,614**	**3,028**	**16,942**	**766**	**66,397**
Hong Kong SAR Government Home Ownership Scheme	**—**	**6,565**	**—**	**—**	**—**	**6,565**
Other personal	**16,668**	**4,409**	**3,748**	**5,857**	**1,024**	**31,706**
Commercial, industrial and international trade	**27,380**	**9,762**	**12,317**	**8,914**	**2,470**	**60,843**
Commercial real estate	**6,519**	**8,987**	**3,353**	**5,709**	**255**	**24,823**
Other property-related	**2,020**	**2,093**	**2,034**	**1,893**	**168**	**8,208**
Government	**3,405**	**140**	**749**	**726**	**153**	**5,173**
Non-bank financial institutions	**7,227**	**2,262**	**1,047**	**6,380**	**209**	**17,125**
Settlement accounts	**2,827**	**114**	**200**	**619**	**9**	**3,769**
Other commercial*	**17,982**	**6,874**	**5,349**	**6,670**	**867**	**37,742**
	106,075	**64,820**	**31,825**	**53,710**	**5,921**	**262,351**

Total gross advances to customers:	*Europe*	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
At 31 December 1998	US$m	US$m	US$m	US$m	US$m	US$m
Residential mortgages	20,716	25,051	2,746	13,059	640	62,212
Hong Kong SAR Government Home Ownership Scheme	—	6,291	—	—	—	6,291
Other personal	12,000	4,257	3,322	5,265	888	25,732
Commercial, industrial and international trade	28,224	10,952	13,189	6,444	2,602	61,411
Commercial real estate	6,418	9,420	3,601	4,615	62	24,116
Other property-related	2,110	2,248	2,126	1,591	174	8,249
Government	3,381	551	567	651	135	5,285
Non-bank financial institutions	4,638	2,259	1,527	3,238	101	11,763
Settlement accounts	877	78	231	3,734	43	4,963
Other commercial*	15,200	7,377	5,071	3,934	885	32,467
	93,564	68,484	32,380	42,531	5,530	242,489

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

The geographical information shown above has been classified by the location of the principal operations of the subsidiary undertaking, or in the case of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA, by location of the branch responsible for advancing the funds.

Notes on the Accounts (continued)

18 Debt securities

	1999		1998	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	**US$m**	US$m	US$m
Issued by public bodies				
Investment securities				
— government securities and US government agencies	**46,843**	**46,792**	21,475	21,722
— other public sector securities	**2,737**	**2,736**	1,520	1,566
	49,580	**49,528**	22,995	23,288
Other securities				
— government securities and US government agencies	**11,740**		13,532	
— other public sector securities	**274**		336	
	61,594		36,863	
Issued by other bodies				
Investment securities				
— bank and building society certificates of deposit	**16,465**	**16,475**	4,963	4,957
— other debt securities	**22,295**	**22,249**	9,536	9,671
	38,760	**38,724**	14,499	14,628
Other securities				
— bank and building society certificates of deposit	**810**		10,159	
— other debt securities	**8,904**		7,664	
	48,474		32,322	
	110,068		69,185	
Due within 1 year	**48,168**		38,202	
Due 1 year and over	**61,900**		30,983	
	110,068		69,185	
Amounts include:				
Subordinated debt securities	**101**		124	
Unamortised net (discounts)/premiums on investment securities	**(765)**		85	
Investment securities				
— listed on a recognised UK exchange	**11,195**	**11,152**	5,675	5,722
— listed in Hong Kong	**966**	**984**	783	821
— listed elsewhere	**46,985**	**46,762**	12,670	12,903
— unlisted	**29,194**	**29,354**	18,366	18,470
	88,340	**88,252**	37,494	37,916
Other securities				
— listed on a recognised UK exchange	**2,795**		5,721	
— listed in Hong Kong	**1,072**		1,004	
— listed elsewhere	**13,665**		11,462	
— unlisted	**4,196**		13,504	
	110,068		69,185	

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.

18 Debt securities *(continued)*

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 US$88,230 million (1998: US$37,792 million).

Investment securities:

	Cost	*Provisions*	*Book value*
	US$m	**US$m**	**US$m**
At 1 January 1999	**37,560**	**(66)**	**37,494**
Additions	**108,166**	**—**	**108,166**
Acquisition of subsidiaries	**31,796**	**—**	**31,796**
Disposals and amounts repaid	**(90,729)**	**—**	**(90,729)**
Provisions made	**—**	**(16)**	**(16)**
Amortisation of discounts and premiums	**112**	**—**	**112**
Exchange and other movements	**1,504**	**13**	**1,517**
At 31 December 1999	**88,409**	**(69)**	**88,340**

19 Equity shares

	1999		1998	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	**US$m**	US$m	US$m
Investment securities				
— listed on a recognised UK exchange	**43**	**92**	45	84
— listed in Hong Kong	**282**	**915**	306	623
— listed elsewhere	**417**	**475**	122	170
— unlisted	**779**	**950**	667	852
	1,521	**2,432**	1,140	1,729
Other securities				
— listed on a recognised UK exchange	**1,515**		1,400	
— listed in Hong Kong	**138**		14	
— listed elsewhere	**1,188**		1,550	
— unlisted	**116**		117	
	4,478		4,221	

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 3,671,507 (1998: 458,865) shares in the Company held by subsidiary undertakings as equity market-makers.

Investment securities:

	Cost	*Provisions*	*Book value*
	US$m	**US$m**	**US$m**
At 1 January 1999	**1,321**	**(181)**	**1,140**
Additions	**210**	**—**	**210**
Acquisition of subsidiaries	**450**	**—**	**450**
Disposals	**(226)**	**18**	**(208)**
Provisions made	**—**	**(23)**	**(23)**
Provisions released	**—**	**13**	**13**
Provisions written off	**(25)**	**25**	**—**
Exchange and other movements	**(66)**	**5**	**(61)**
At 31 December 1999	**1,664**	**(143)**	**1,521**

Notes on the Accounts (continued)

20 Interests in associated undertakings

	1999 US$m
At 1 January 1999	**889**
Additions	**119**
Negative goodwill on acquisition	**(11)**
Acquisition of subsidiaries	**2**
Disposals	**(7)**
Transfers to subsidiaries	**(65)**
Retained profits and losses	**31**
Exchange and other movements	**(32)**
At 31 December 1999	**926**

	1999 US$m	1998 US$m
a Shares in banks	**669**	647
Other	**257**	242
	926	889
Listed shares (all listed outside the UK and Hong Kong)	**490**	427
Unlisted shares	**436**	462
	926	889

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*
Barrowgate Limited	31.12.99	Hong Kong	Property	25%	*
British Arab Commercial Bank Limited	31.12.99	England	Banking	47%	US$81m £32m fully paid £5m nil paid
British Interactive Broadcasting Holdings Limited (formerly British Interactive Broadcasting Limited)	31.12.99	England	Digital interactive services	20%	†
The Cyprus Popular Bank Limited	31.12.99	Cyprus	Banking	22%	C£75m
Egyptian British Bank S.A.E.	31.12.99	Egypt	Banking	40%	E£101m
Mondex Holdings Limited	31.12.99	England	Electronic cash	50%	†
The Saudi British Bank	31.12.99	Saudi Arabia	Banking	40%	SR1,600m
Wells Fargo HSBC Trade Bank, N.A.	31.12.99	United States	Trade finance	20%	¶
World Finance International Limited	30.6.99	Bermuda	Shipping	50%	US$58m

* *Issued equity capital is less than HK$1 million.*
† *Issued equity capital is less than £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, and British Arab Commercial Bank Limited which operates in the Middle East.

20 Interests in associated undertakings *(continued)*

c The associated undertakings listed above have no loan capital, except for British Arab Commercial Bank Limited, which has issued US$44.5 million of subordinated unsecured loan stock in which the Group has a 22.8% interest; Barrowgate Limited, which has HK$845 million of loan capital in which the Group has a 25% interest; and The Cyprus Popular Bank Limited, which has issued C£15 million of convertible debentures in which the Group has a 43.5% 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. The Group has a 40% economic interest in Wells Fargo HSBC Trade Bank, N.A. by virtue of the joint agreement under which the Group's equity capital and preferred stock interests are held.

21 Other participating interests

	1999	1998
	US$m	US$m
Listed other than on a recognised UK exchange or in Hong Kong	**3**	4
Unlisted	**277**	305
	280	309
Market value of listed securities	**6**	6
Other participating interests in banks	**257**	287

	Cost	*Provisions*	*Carrying value*
	US$m	**US$m**	**US$m**
At 1 January 1999	**336**	**(27)**	**309**
Additions	**4**	**—**	**4**
Disposals	**(18)**	**—**	**(18)**
Provisions made	**—**	**(4)**	**(4)**
Exchange and other movements	**(11)**	**—**	**(11)**
At 31 December 1999	**311**	**(31)**	**280**

22 Intangible fixed assets

Goodwill

	Cost
	US$m
At 1 January 1999	**156**
Additions	**6,446**
Exchange movements	**(15)**
Cost at 31 December 1999	**6,587**

	Accumulated amortisation
	US$m
Accumulated amortisation at 1 January 1999	**(10)**
Charge to the profit and loss account	**(36)**
Accumulated amortisation at 31 December 1999	**(46)**
Net book value at 31 December 1999	**6,541**
Net book value at 31 December 1998	146

Notes on the Accounts (continued)

22 Intangible fixed assets *(continued)*

Additions represent goodwill arising on acquisitions of subsidiaries during 1999 which is being amortised over periods of between five and 20 years. The goodwill arising on the acquisitions of RNYC and SRH, which took place on 31 December 1999, will be amortised over 20 years (Note 24c), reflecting its expected useful life.

23 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*
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Cost or valuation at 1 January 1999	**2,211**	**3,314**	**2,778**	**3,702**	**3,604**	**15,609**
Additions	**78**	**59**	**95**	**586**	**351**	**1,169**
Acquisition of subsidiaries	**572**	**4**	**93**	**83**	**—**	**752**
Disposals	**(67)**	**(5)**	**(23)**	**(307)**	**(272)**	**(674)**
Transfer of accumulated depreciation arising on revaluation	**(46)**	**(50)**	**(47)**	**—**	**—**	**(143)**
Surplus on revaluation	**108**	**149**	**66**	**—**	**—**	**323**
Exchange and other movements	**(133)**	**(28)**	**(24)**	**(102)**	**(89)**	**(376)**
Cost or valuation at 31 December 1999	**2,723**	**3,443**	**2,938**	**3,962**	**3,594**	**16,660**
Accumulated depreciation at 1 January 1999	**(5)**	**—**	**(459)**	**(2,243)**	**(794)**	**(3,501)**
Disposals	**—**	**—**	**19**	**278**	**168**	**465**
Transfer of accumulated depreciation arising on revaluation	**46**	**50**	**47**	**—**	**—**	**143**
Charge to the profit and loss account	**(56)**	**(49)**	**(97)**	**(526)**	**(235)**	**(963)**
Exchange and other movements	**(17)**	**(2)**	**8**	**55**	**20**	**64**
Accumulated depreciation at 31 December 1999	**(32)**	**(1)**	**(482)**	**(2,436)**	**(841)**	**(3,792)**
Net book value at 31 December 1999	**2,691**	**3,442**	**2,456**	**1,526**	**2,753**	**12,868**
Net book value at 31 December 1998	2,206	3,314	2,319	1,459	2,810	12,108

* *Included in the cost and net book value of long leasehold land and buildings is a payment on account in respect of a long leasehold interest of US$710 million (1998: US$695 million).*

23 Tangible fixed assets *(continued)*

b *Company*

	Freehold land and buildings	*Equipment, fixtures and fittings*	*Total*
	US$m	**US$m**	**US$m**
Cost or valuation at 1 January 1999	**5**	**4**	**9**
Additions	**—**	**1**	**1**
Disposals	**—**	**(1)**	**(1)**
Surplus on revaluation	**2**	**—**	**2**
Exchange and other movements	**—**	**—**	**—**
Cost or valuation at 31 December 1999	**7**	**4**	**11**
Accumulated depreciation at 1 January 1999	**—**	**(1)**	**(1)**
Disposals	**—**	**1**	**1**
Charge to the profit and loss account	**—**	**(1)**	**(1)**
Accumulated depreciation at 31 December 1999	**—**	**(1)**	**(1)**
Net book value at 31 December 1999	**7**	**3**	**10**
Net book value at 31 December 1998	5	3	8

c *Valuations*

	Group		*Company*	
	1999	1998	**1999**	1998
	US$m	US$m	**US$m**	US$m
Cost or valuation of freehold and long and short leasehold land and buildings (excluding investment properties):				
At 1999 valuation (1998: at 1998 valuation)	**6,513**	7,039	**7**	5
At cost	**2,068**	676	**—**	—
	8,581	7,715	**7**	5
On the historical cost basis, freehold and long and short leasehold land and buildings would have been included as follows (excluding investment properties):				
Cost	**6,933**	6,190	**—**	—
Accumulated depreciation	**(1,219)**	(863)	**—**	—
	5,714	5,327	**—**	—

The Group values its non-investment properties on an annual basis. In November 1999, except as noted below, the Group's freehold and long leasehold properties, together with all leasehold properties in Hong Kong, were revalued on an existing use basis or open market value as appropriate or, in the case of a few specialised properties, at depreciated replacement cost. All freehold, long leasehold and short leasehold properties held by RNYC and SRH were valued in December 1999 on acquisition. The properties were valued either by professional external valuers or by professionally qualified staff.

As a result of the revaluation, the net book value of land and buildings (excluding investment properties) increased by US$393 million. A surplus of US$371 million (net of minority interests of US$22 million) was credited to reserves at 31 December 1999.

Notes on the Accounts (continued)

23 Tangible fixed assets *(continued)*

Included within 'Short leasehold land and buildings' are the following amounts in respect of assets classed as improvements to buildings, which are carried at depreciated historical cost:

	Cost	*Accumulated depreciation*
	US$m	**US$m**
At 1 January 1999	**676**	**(356)**
Additions	**26**	**—**
Acquisition of subsidiaries	**93**	**—**
Disposals	**(16)**	**—**
Charge for the year	**—**	**(86)**
Exchange and other movements	**(30)**	**—**
At 31 December 1999	**749**	**(442)**
Net book value at 31 December 1999 (1998: US$320 million)	**307**	

The property of the Company was also valued by an independent, professionally qualified valuer on an existing use basis. The surplus on revaluation of US$2 million has been credited to reserves at 31 December 1999.

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:

	1999		1998	
	At valuation	*At cost*	*At valuation*	*At cost*
	US$m	**US$m**	US$m	US$m
Freehold land and buildings	**43**	**43**	41	41
Short and long leasehold land and buildings	**480**	**154**	546	147
	523	**197**	587	188

Investment properties are valued on an open market value basis at 31 December annually by professional valuers. Investment properties in Hong Kong, the Macau Special Administrative Region and mainland China, which represent 89% by value of the Group's properties subject to revaluation, were valued by HSBC Property (Asia) Limited, a subsidiary of the Group. The valuations were carried out by qualified valuers who are members of the Hong Kong Institute of Surveyors. As a result of the revaluation, the net book value of investment properties has decreased by US$70 million (1998: deficit of US$289 million). A deficit of US$45 million (net of minority interests of US$25 million) has been charged to reserves at 31 December 1999.

The Company had no investment properties at 31 December 1999 or 1998.

e *Group properties leased to customers*

Group properties leased to customers, none of which was held by the Company, included US$484 million at 31 December 1999 (1998: US$483 million) let under operating leases, net of accumulated depreciation of US$18 million (1998: US$21 million).

23 Tangible fixed assets *(continued)*

f *Land and buildings occupied for own activities*

	1999	1998
	US$m	US$m
Net book value	**7,155**	6,420

There were no such assets in the Company at 31 December 1999 or 1998.

24 Investments

a *Company*

	Shares in Group undertakings	*Loans to Group undertakings*	*Other investments other than loans*	*Total*
	US$m	**US$m**	**US$m**	**US$m**
At 1 January 1999	**26,935**	**1,068**	**1,097**	**29,100**
Additions	**9,790**	**6,154**	**21,469**	**37,413**
Repayments and redemptions	**(7,234)**	**(189)**	**(16,946)**	**(24,369)**
Amortisation of discounts and premiums	**—**	**—**	**90**	**90**
Transfers to other Group companies	**—**	**—**	**(5,704)**	**(5,704)**
Write-up of subsidiary undertakings to net asset value, including attributable goodwill (Note 34)	**2,588**	**—**	**—**	**2,588**
Exchange movements	**—**	**—**	**—**	**—**
At 31 December 1999	**32,079**	**7,033**	**6**	**39,118**

'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.

Included within 'Other investments other than loans' is US$5.8 million, after amortisation, of the Company's own shares (1998: US$2.8 million) held in trust for the purposes of conditional awards under the Restricted Share Plan, details of which are provided in the 'Report of the Directors' on pages 31 and 33 to 34. At 31 December 1999, the trust held 1,315,989 shares of nominal value US$0.50 with a market value at that date of US$18,356,295 (1998: 163,329 shares of nominal value 75p with a market value of US$4,413,494) in respect of these conditional awards.

'Other investments other than loans' includes US$ nil (1998: US$1,094 million) of investments in unlisted US government agencies discount notes. The market value of these investments at 31 December 1999 was US$ nil (1998: US$1,094 million). Such holdings were classified as current asset investments at 31 December 1999.

	1999	1998
	US$m	US$m
On the historical cost basis, shares in Group undertakings would have been included as follows: Cost less provisions of US$170 million (1998: US$170 million)	**26,270**	23,659

24 Investments *(continued)*

b *The principal subsidiary undertakings of the Company are:*

	Country of incorporation or registration	*Principal activity*	*Issued equity capital*
Europe			
HSBC Bank Middle East (formerly The British Bank of the Middle East)	England	Banking	US$247m
HSBC Asset Finance (UK) Limited (formerly Forward Trust Group Limited)	England	Finance	£265m
HSBC Insurance Brokers Limited (formerly HSBC Gibbs Limited)	England	Insurance	£3m
HSBC Investment Bank plc	England	Investment banking	£180m
HSBC Bank plc (formerly Midland Bank plc)	England	Banking	£797m
HSBC Life (UK) Limited (formerly Midland Life Limited)	England	Insurance	£14m
Samuel Montagu & Co. Limited	England	Private banking	£112m
HSBC Guyerzeller Bank AG (formerly Guyerzeller Bank AG) (indirect minority)[1]	Switzerland	Banking	SFr5m
HSBC Trinkaus & Burkhardt KGaA (formerly Trinkaus & Burkhardt KGaA) (partnership limited by shares, 73.47% owned)	Germany	Banking	€67m
HSBC Bank Malta p.l.c. (formerly Mid-Med Bank p.l.c.) (70.03% owned)	Malta	Banking	Lm9m
HSBC Republic Bank (Suisse) S.A. (formerly Republic National Bank of New York (Suisse) S.A.) (99.38% owned)	Switzerland	Banking	SFr425m
HSBC Republic Bank (Guernsey) Limited (formerly Republic National Bank of New York (Guernsey) Limited) (99.38% owned)	Channel Islands	Banking	US$5m[2]
HSBC Republic Holdings (Luxembourg) S.A. (formerly Safra Republic Holdings S.A.) (99.38% owned)	Luxembourg	Holding company	US$178m
Hong Kong			
Hang Seng Bank Limited (62.14% owned)	Hong Kong	Banking	HK$9,559m
The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	Banking	HK$16,254m
HSBC Life (International) Limited	Bermuda	Retirement benefits and life assurance	HK$27m
HSBC Insurance Limited	Hong Kong	Insurance	HK$125m
HSBC Investment Bank Asia Limited	Hong Kong	Investment banking	HK$770m
Wayfoong Finance Limited	Hong Kong	Finance	HK$300m
Rest of Asia-Pacific			
HSBC Bank Australia Limited (formerly HongkongBank of Australia Limited)	Australia	Banking	A$560m
HSBC Bank Malaysia Berhad (formerly Hongkong Bank Malaysia Berhad)	Malaysia	Banking	RM100m

1 *15.82% owned by HSBC Trinkaus & Burkhardt KGaA.*
2 *The Group also owns 100% of the issued redeemable preference share capital of US$16.6 million.*

24 Investments *(continued)*

	Country of incorporation or registration	*Principal activity*	*Issued equity capital*
North America			
HSBC Bank Canada (formerly Hongkong Bank of Canada)	Canada	Banking	C$75m
HSBC USA Inc. (formerly HSBC Americas, Inc.)[3]	United States	Holding company	—[5]
HSBC Securities (USA) Inc. (formerly HSBC Securities, Inc.)	United States	Investment banking	—[5]
HSBC Bank USA (formerly Marine Midland Bank)[4]	United States	Banking	US$185m
Latin America			
HSBC Bank Brasil S.A.-Banco Múltiplo (formerly Banco HSBC Bamerindus S.A.)	Brazil	Banking	BRL898m
HSBC Bank Argentina S.A. (formerly HSBC Banco Roberts S.A.) (99.88% owned)	Argentina	Banking	ARS237m
HSBC Seguros (Brasil) S.A. (formerly HSBC Bamerindus Seguros S.A.) (99.65% owned)	Brazil	Insurance	BRL244m
La Buenos Aires Compañia Argentina de Seguros S.A. (98.72% owned)	Argentina	Insurance	ARS22m
Máxima S.A. AFJP (65.84% owned)	Argentina	Pension fund management	ARS98m

3 *Including the former Republic New York Corporation.*
4 *Including the former Republic National Bank.*
5 *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 issued equity capital of the above undertakings is wholly owned by the Group and, except for HSBC Bank plc and 50.83% of HSBC Republic Holdings (Luxembourg) S.A., is held by subsidiaries of the Company. All the above make their accounts up to 31 December except for HSBC Bank Argentina, whose accounts are made up to 30 June annually.

The principal countries of operation are the same as the countries of incorporation except for HSBC Bank Middle East which operates mainly in the Middle East, and HSBC Life (International) Limited which operates mainly in Hong Kong. All the above subsidiaries are included in the consolidation.

c *Acquisitions*

The Group made the following acquisitions of subsidiary undertakings or net assets and operations in 1999, which are accounted for on an acquisitions basis:

RNYC and SRH

On 31 December 1999, HSBC Americas, Inc., a wholly owned subsidiary of the Group, acquired 100% of the issued ordinary share capital of RNYC through a merger arrangement. HSBC Holdings plc acquired 99.38% of the issued ordinary share capital of SRH through a tender offer. The consideration comprised cash and notes of US$9.7 billion, including US$1.3 million of notes issued, and was settled in January 2000. Goodwill of US$6.2 billion arose on these acquisitions. The fair values of the assets and liabilities acquired have been determined only on a provisional basis at 31 December 1999, pending completion of the fair value appraisal process.

Profit after tax and minority interests for RNYC and SRH for the year ended 31 December 1999 was US$537 million (1998: US$359 million), determined under US generally accepted accounting principles.

Notes on the Accounts (continued)

24 Investments *(continued)*

The assets and liabilities at the dates of acquisition and the total consideration paid are set out in the following table:

RNYC and SRH	*Book value*	*Revaluations*	*Accounting policy alignments*	*Fair value*
	US$m	**US$m**	**US$m**	**US$m**
At date of acquisition:				
Cash and balances at central banks	**571**	**—**	**—**	**571**
Items in the course of collection from other banks	**208**	**—**	**—**	**208**
Treasury bills and other eligible bills	**222**	**—**	**—**	**222**
Loans and advances to banks	**8,782**	**(16)**	**—**	**8,766**
Loans and advances to customers	**18,490**	**(41)**	**—**	**18,449**
Debt securities	**32,439**	**(379)**	**—**	**32,060**
Equity shares	**405**	**38**	**—**	**443**
Intangible fixed assets	**309**	**(309)**	**—**	**—**
Tangible fixed assets	**572**	**131**	**—**	**703**
Other asset categories	**5,113**	**434**	**(153)**	**5,394**
Deposits by banks	**(8,350)**	**—**	**—**	**(8,350)**
Customer accounts	**(38,097)**	**36**	**—**	**(38,061)**
Items in the course of transmission to other banks	**(107)**	**—**	**—**	**(107)**
Debt securities in issue	**(6,861)**	**32**	**—**	**(6,829)**
Provision for liabilities and charges	**(56)**	**(41)**	**—**	**(97)**
Subordinated liabilities	**(3,221)**	**85**	**—**	**(3,136)**
Other liability categories	**(5,855)**	**(101)**	**(60)**	**(6,016)**
	4,564	**(131)**	**(213)**	**4,220**
Less: minority interests — equity	**(22)**	**—**	**—**	**(22)**
— non-equity	**(708)**	**—**	**6**	**(702)**
Net assets acquired	**3,834**	**(131)**	**(207)**	**3,496**
Goodwill (Note 22)				**6,237**
Total consideration including costs of acquisition				**9,733**

The fair value adjustments in the above table represent the following:

a Revaluations, reflecting the recognition of

— the market value of acquired properties;

— the fair value of financial instruments acquired and in issue;

— cost of changes in conditions of employment triggered by the acquisition;

— write-off of goodwill previously recognised on the acquired companies' balance sheets; and

— recognition of pension fund and post-retirement benefit scheme surpluses and deficits.

b Accounting policy alignments reflecting

— the Group's criteria for recognising deferred tax; and

— compliance with Urgent Issues Task Force Abstract 17, 'Employee share schemes'.

24 Investments *(continued)*

Other acquisitions

i On 2 June 1999 HSBC Bank plc, a wholly owned subsidiary of the Group, acquired 70.03% of the issued share capital of HSBC Bank Malta p.l.c. for a consideration of US$212 million, comprising cash paid of US$183 million and the net present value of additional deferred cash consideration of US$29 million payable in June 2000. Goodwill of US$75 million arose on this acquisition.

ii On 1 March 1999 HSBC Bank USA, a wholly owned subsidiary of the Group, acquired 100% of the issued share capital of First Commercial Bank of Philadelphia for a cash consideration of US$25 million. Goodwill of US$17 million arose on this acquisition.

iii HSBC Bank Argentina S.A., a 99.88% owned subsidiary of the Group, increased its stake in Máxima S.A. AFJP successively on 28 January 1999 and 30 April 1999, from 34.84% to 65.84%. HSBC Bank Argentina S.A. also increased its stake in both La Buenos Aires-New York Life Seguros de Vida S.A. and La Buenos Aires-New York Life Seguros de Retiro S.A., both successively on 28 January 1999 and 30 April 1999. The stakes in both were increased from 25.78% to 56.78%. The total consideration for the three acquisitions was US$129 million. Total goodwill of US$97 million arose on these acquisitions.

iv On 19 April 1999, HSBC Bank Argentina S.A. also assumed customer deposits of US$28 million of Banco do Mendoza, the assets and liabilities of which were placed in trust by the Argentine Central Bank. To participate in the dispersal of Banco do Mendoza's assets, HSBC Bank Argentina S.A. received bonds of value US$28 million, issued by the trust which is backed by Banco do Mendoza's assets. No goodwill arose on this transaction as the customer deposit liabilities equalled the bonds received.

v On 4 January 1999, HSBC Bank Canada, a wholly owned subsidiary of the Group, acquired 100% of the share capital of Gordon Capital for a cash consideration of US$43 million, of which US$16 million was used to redeem undated subordinated loan debt assumed on acquisition. No goodwill arose on this acquisition.

vi HSBC Bank Canada also acquired 100% of the share capital of Prenor Trust Company of Canada on 5 December 1999 for a cash consideration of US$15 million, of which US$8 million was used to redeem all the dated subordinated loan debt assumed on acquisition. No goodwill arose on this acquisition.

vii On 30 November 1999, HSBC Bank plc also increased its stake in HSBC Pantelakis Securities from 58% to 88% for a cash consideration of US$15 million, on which goodwill of US$10 million arose. There were also some increases in stakes in certain other minor subsidiary companies in the year, on which goodwill of US$5 million arose. These acquisitions are not included in the table below because they represent increases in stakes in existing subsidiary undertakings. There were no fair value adjustments arising on these acquisitions.

viii The Group undertook certain other minor acquisitions in the year, which involved assets acquired of less than US$6 million in aggregate, on which goodwill of US$5 million arose.

Notes on the Accounts (continued)

24 Investments *(continued)*

The assets and liabilities at the dates of acquisition and the total consideration paid are set out in the following table:

Other acquisitions	*Book value*	*Revaluations*	*Accounting policy alignments*	*Fair value*
	US$m	**US$m**	**US$m**	**US$m**
At date of acquisition:				
Cash and balances at central banks	**47**	**—**	**—**	**47**
Items in the course of collection from other banks	**11**	**—**	**—**	**11**
Treasury bills and other eligible bills	**46**	**—**	**—**	**46**
Loans and advances to banks	**293**	**—**	**—**	**293**
Loans and advances to customers	**1,952**	**—**	**—**	**1,952**
Debt securities	**865**	**(1)**	**—**	**864**
Equity shares	**68**	**—**	**—**	**68**
Interests in associated undertakings	**2**	**—**	**—**	**2**
Tangible fixed assets	**50**	**(1)**	**—**	**49**
Other asset categories	**545**	**10**	**(3)**	**552**
Deposits by banks	**(111)**	**—**	**—**	**(111)**
Customer accounts	**(2,732)**	**—**	**—**	**(2,732)**
Debt securities in issue	**(85)**	**—**	**—**	**(85)**
Provision for liabilities and charges	**(60)**	**—**	**—**	**(60)**
Subordinated liabilities	**(66)**	**—**	**—**	**(66)**
Other liability categories	**(518)**	**(9)**	**—**	**(527)**
	307	**(1)**	**(3)**	**303**
Less: minority interests — equity	**(62)**	**—**	**—**	**(62)**
Net assets aquired	**245**	**(1)**	**(3)**	**241**
Goodwill (Note 22)				**194**
Total consideration including costs of acquisition				**435**

The fair value adjustments in the above table represent the following:

a Revaluations, mainly reflecting the recognition of

— deferred tax assets now recognised in the circumstances of the enlarged Group; and

— current tax liability arising on forfeiture of tax losses on change in ownership.

b Accounting policy alignments reflecting the Group's criteria for recognising deferred tax.

25 Other assets

	1999	1998
	US$m	US$m
Bullion	**865**	309
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	**13,168**	18,206
Current taxation recoverable	**130**	140
Deferred taxation (Note 30)	**299**	195
Long-term assurance assets attributable to policyholders (Note 29)	**9,362**	7,582
Other accounts	**5,539**	5,920
	29,363	32,352

25 Other assets *(continued)*

Included in the above are 7,687,531 (1998: 7,469,733) shares in the Company held by subsidiary undertakings, as part of their insurance and retirement funds for the benefit of the policyholders.

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

	1999	1998
	US$m	US$m
Loans and advances to banks — with Group companies	**251**	261
Debt securities	**3,036**	2,757
Equity shares	**4,002**	2,811
Other assets	**2,188**	2,354
Prepayments and accrued income	**49**	40
Other liabilities	**(164)**	(641)
	9,362	7,582

26 Deposits by banks

	1999	1998
	US$m	US$m
Repayable on demand	**13,353**	12,599
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**19,972**	17,298
— 1 year or less but over 3 months	**3,769**	3,282
— 5 years or less but over 1 year	**771**	1,061
— over 5 years	**238**	102
	38,103	34,342
Amounts include:		
Due to associated undertakings	**96**	47
Due to other participating interests	**4**	4

27 Customer accounts

	1999	1998
	US$m	US$m
Repayable on demand	**158,953**	136,722
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**175,803**	148,597
— 1 year or less but over 3 months	**17,580**	16,417
— 5 years or less but over 1 year	**6,218**	5,136
— over 5 years	**1,418**	2,038
	359,972	308,910
Amounts include:		
Due to associated undertakings	**21**	29

Notes on the Accounts (continued)

28 Debt securities in issue

	1999 US$m	1998 US$m
Bonds and medium-term notes, by remaining maturity:		
— within 1 year	**2,750**	1,895
— between 1 and 2 years	**1,490**	1,752
— between 2 and 5 years	**2,830**	3,409
— over 5 years	**401**	165
	7,471	7,221
Other debt securities in issue, by remaining maturity:		
— 3 months or less	**11,614**	10,025
— 1 year or less but over 3 months	**9,686**	7,537
— 5 years or less but over 1 year	**3,451**	4,007
— over 5 years	**1,558**	400
	33,780	29,190

29 Other liabilities

	1999 US$m	1998 US$m
Short positions in securities:		
Treasury bills and other eligible bills	**2,821**	1,627
Debt securities		
— government securities	**10,419**	8,732
— other public sector securities	**111**	94
— other debt securities	**575**	524
Equity shares	**1,011**	674
	14,937	11,651
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	**14,055**	19,615
Current taxation	**1,461**	1,273
Obligations under finance leases	**325**	310
Dividend payable by the Company	**1,754**	1,499
Long-term assurance liabilities attributable to policyholders (Note 25)	**9,362**	7,582
Other liabilities	**17,690**	6,732
	59,584	48,662
Obligations under finance leases fall due as follows:		
— within 1 year	**27**	33
— between 1 and 5 years	**23**	7
— over 5 years	**275**	270
	325	310

30 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*
	US$m	**US$m**
At 1 January 1999	**1,073**	**321**
Charge/(credit) to profit and loss account (Note 7)	**129**	**(24)**
Exchange and other movements	**(113)**	**(8)**
At 31 December 1999	**1,089**	**289**

	Group		*Company*	
	1999	1998	**1999**	1998
	US$m	US$m	**US$m**	US$m
Included in 'Provisions for liabilities and charges'	**1,388**	1,268	**289**	321
Included in 'Other assets' (Note 25)	**(299)**	(195)	**—**	—
Net deferred taxation provision	**1,089**	1,073	**289**	321
Comprising:				
Short-term timing differences	**12**	(21)	**—**	—
Leasing transactions	**1,068**	985	**—**	—
Relief for tax losses	**(32)**	(11)	**—**	—
Provision for additional UK tax on profit remittances from overseas	**204**	232	**204**	232
Other items	**(163)**	(112)	**85**	89
	1,089	1,073	**289**	321

There is no material 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. Of the US$304 million provision for a potential UK tax charge established upon the acquisition of HSBC Bank plc, US$204 million remained at 31 December 1999 (1998: US$232 million).

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 1999, there were potential future tax benefits of approximately US$520 million (1998: US$380 million) in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowed for tax and capital losses which have not been recognised because recoverability of the potential benefits is not considered certain.

Notes on the Accounts (continued)

30 Provisions for liabilities and charges *(continued)*

b *Other provisions for liabilities and charges*

	Provisions for pension and other post-retirement obligations	*Provisions for contingent liabilities and commitments*	*Insurance provisions*	*Other provisions*	*Total*
	US$m	**US$m**	**US$m**	**US$m**	**US$m**
At 1 January 1999	**750**	**295**	**1,026**	**835**	**2,906**
Additional provisions/increase in provisions*	**79**	**143**	**355**	**188**	**765**
Acquisition of subsidiaries	**31**	**9**	**60**	**1**	**101**
Provisions utilised	**(55)**	**(54)**	**(227)**	**(142)**	**(478)**
Transfers	**—**	**—**	**5**	**45**	**50**
Exchange and other movements	**(133)**	**(6)**	**(152)**	**(133)**	**(424)**
At 31 December 1999	**672**	**387**	**1,067**	**794**	**2,920**

* *The increase in 'Other provisions' includes unwinding of discounts of US$11 million in relation to vacant space provisions and US$7 million in relation to Brazilian labour claims provisions.*

Included within 'Provisions for contingent liabilities and commitments' are provisions for the costs of possible redress relating to the sales of certain personal pension plans of US$174 million. This is the result of an actuarial calculation extrapolated from a sample of cases and the timing of the expenditure depends on settlement of the individual claims.

Included within 'Other provisions' are:

i Provisions for onerous property contracts of US$298 million, of which US$184 million relates to discounted future costs associated with leasehold properties that will become vacant as a consequence of the Group's planned move to Canary Wharf in 2002. The provisions cover rent voids whilst finding new tenants, shortfalls in expected rent receivable compared to rent payable and costs of refurbishing the building to attract tenants. Uncertainties relate to movements in market rents, the delay in finding new tenants and the timing of rental reviews.

ii Labour, civil and fiscal litigation provisions in HSBC Bank Brasil S.A. - Banco Múltiplo of US$317 million. This relates to labour and overtime litigation claims brought by employees after leaving the bank. The provision is based on the expected number of departing employees, their individual salaries and historical trends. Timing of settlement of these potential claims is uncertain.

None of the above provisions relates to the Company (1998: US$ nil).

31 Subordinated liabilities

	1999 US$m	1998 US$m
Undated subordinated loan capital:		
— the Company	**—**	—
— other Group	**3,235**	3,247
	3,235	3,247
Dated subordinated loan capital:		
— the Company	**2,615**	1,343
— other Group	**9,573**	6,254
	12,188	7,597
Total subordinated liabilities:		
— the Company	**2,615**	1,343
— other Group	**12,808**	9,501
	15,423	10,844
Dated subordinated loan capital is repayable:		
— within 1 year	**487**	624
— between 1 and 2 years	**819**	266
— between 2 and 5 years	**3,011**	2,072
— over 5 years	**7,871**	4,635
	12,188	7,597

The total subordinated borrowings of the Company are as follows:

		1999 US$m	1998 US$m
US$1,000m	7.5% subordinated notes 2009[1]	**999**	—
£413m	11.69% subordinated bonds 2002	**668**	685
£250m	9.875% subordinated bonds 2018	**397**	408
€300m	5.5% subordinated notes 2009[1]	**301**	—
US$250m	Subordinated collared floating rate notes 2008	**250**	250
		2,615	1,343
Amounts owed to Group undertakings:			
US$350m	7.525% subordinated loan 2003 — HSBC Finance Nederland B.V.	**349**	349
		2,964	1,692
The Company's dated subordinated loan capital is repayable:			
— between 2 and 5 years		**1,017**	1,034
— over 5 years		**1,947**	658
		2,964	1,692

1 *The proceeds of the issue were used to finance, in part, the Group's acquisitions of RNYC and SRH.*

Notes on the Accounts (continued)

31 Subordinated liabilities *(continued)*

At 31 December 1999, the following other Group subordinated borrowings were US$200 million or over:

		1999	1998
		US$m	US$m
US$1,200m	Primary capital subordinated undated floating rate notes	**1,200**	1,200
US$750m	Undated floating rate primary capital notes	**750**	750
US$500m	Undated floating rate primary capital notes	**500**	500
US$500m	7.625% subordinated notes 2006	**500**	500
£250m	Subordinated unsecured floating rate notes 2001	**404**	414
US$400m	8.625% subordinated notes 2004	**398**	400
HK$3,000m	Subordinated collared (7% to 9%) floating rate notes 2003	**386**	388
US$375m	Subordinated step-up coupon floating rate notes 2009[2]	**372**	—
US$350m	7.4% subordinated guaranteed notes 2003	**350**	350
£200m	9% subordinated notes 2005	**323**	332
£200m	6.5% subordinated notes 2023	**319**	327
US$300m	Undated floating rate primary capital notes (Series 3)	**300**	300
US$300m	6.95% subordinated notes 2011	**300**	300
US$300m	7.65% subordinated notes 2025	**300**	300
US$300m	7% fixed rate subordinated notes 2006	**298**	298
US$250m	7.25% subordinated notes 2002[3]	**249**	—
£150m	9.25% step-up undated subordinated notes	**242**	248
£150m	8.625% step-up undated subordinated notes	**242**	248
£150m	Subordinated step-up coupon floating rate notes 2007	**242**	248
¥24.8b	Fixed rate (5.0% to 5.5%) subordinated loans 2004	**242**	218
US$250m	7.125% subordinated debentures 2997[3]	**220**	—
US$250m	5.875% subordinated notes 2008[3]	**219**	—
US$250m	7.20% subordinated debentures 2097[3]	**214**	—
US$200m	7.808% capital securities 2026	**200**	200
US$200m	8.38% capital securities 2027	**200**	200
US$200m	6.525% subordinated notes 2009[4]	**200**	—
US$200m	Guaranteed floating rate notes 1999	—	200
US$200m	Floating rate subordinated notes 2000	**200**	200
	Other subordinated liabilities less than US$200m	**3,438**	1,380
		12,808	9,501

On 10 January 2000, the Company issued US$250 million subordinated step-up coupon floating rate notes 2010 in connection with the acquisition of SRH and, on 24 January 2000, increased the amount issued to US$350 million.

2 *The proceeds of the issue of the US$375 million subordinated step-up coupon floating rate notes 2009 were used to support the development of the Group and to strengthen further the Group's capital base.*
3 *These subordinated borrowings were assumed on the acquisition of RNYC.*
4 *The proceeds of the issue by HSBC USA Inc. were used to repay a maturing issue of subordinated notes and for general corporate purposes.*

Subordinated loan capital is repayable at par on maturity, but some is repayable prior to maturity at the option of the borrower, generally with the consent of the Financial Services Authority, 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%.

32 Minority interests — non-equity

Preference shares issued by subsidiaries:

		1999	1998
		US$m	US$m
US$875m	Non-cumulative preference shares	**870**	870
US$150m	Depositary shares each representing 25% interest in a share of cumulative preferred stock, Series D*	**150**	—
US$150m	Cumulative preferred stock*	**150**	—
US$125m	Dutch auction rate transferable securities*	**125**	—
US$125m	7.20% Series A cumulative preference shares†	**125**	—
DM105m	6.35% Series B cumulative preference shares†	**77**	—
US$75m	Cumulative preferred stock†	**75**	—
	Other issues	**11**	—
		1,583	870

* *Assumed on the acquisition of RNYC.*
† *Assumed on the acquisition of SRH.*

33 Called up share capital

Authorised:

The authorised ordinary share capital of the Company at 31 December 1999 was US$5,250 million divided into 10,500 million ordinary shares of US$0.50 each, and £301,500 divided into 301,500 non-voting deferred shares of £1 each.

The authorised ordinary share capital of the Company at 31 December 1998 was 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.

On 2 July 1999, the two existing classes of ordinary shares of HK$10 each and 75p each were consolidated into one class of ordinary share of US$0.50 each. This was effected by the cancellation of existing ordinary shares of HK$10 each and 75p each and the issue in their place of three new ordinary shares of US$0.50 each.

At 31 December 1999 and 1998, the authorised preference share capital of the Company is £500 million divided into 500 million non-cumulative preference shares of £1 each.

Issued:	*Number of HK$10 shares*	*Number of 75p shares*	*Number of US$0.50 shares*	**US$m**
At 1 January 1999	1,816,108,390	882,949,598	—	**3,443**
Shares issued under option schemes	—	842,995	31,764,047	**17**
Shares issued in lieu of dividends	10,237,488	4,338,031	18,908,016	**28**
Shares issued, placing	59,238,000	28,762,000	—	**111**
Shares cancelled on reorganisation	(1,885,583,878)	(916,892,624)	—	**(3,515)**
Shares issued on reorganisation	—	—	8,407,429,506	**4,204**
Exchange movements	—	—	—	**(58)**
At 31 December 1999	—	—	8,458,101,569	**4,230**

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

The share placing was undertaken to raise funds for the acquisitions of RNYC and SRH.

Notes on the Accounts (continued)

33 Called up share capital *(continued)*

Options outstanding to subscribe for the Company's ordinary shares under the Group's Executive and Savings-Related Share Option Schemes and in respect of 1998, HSBC Bank's Executive and Savings-Related Share Option Schemes are as follows:

	Number of shares		*Period of exercise*	*Exercise price*
	US$0.50	*75p*		
31 December 1999	**201,926,373**	**—**	**2000 to 2009**	**£1.806 to £7.871**
31 December 1998	—	46,150,679	1999 to 2008	£1.1843 to £23.395

34 Reserves

	Group	*Company*	*Associated undertakings*
	US$m	**US$m**	**US$m**
Share premium account:			
— At 1 January 1999	**480**	**480**	**—**
Shares issued under option schemes	**288**	**288**	**—**
Shares issued in lieu of dividends	**(28)**	**(28)**	**—**
Capitalised in share reorganisation	**(689)**	**(689)**	**—**
Shares issued in year	**2,887**	**2,887**	**—**
Costs of shares issued in year	**(30)**	**(30)**	**—**
Exchange and other movements	**(26)**	**(26)**	**—**
At 31 December 1999	**2,882**	**2,882**	**—**
Revaluation reserves:			
— Investment property revaluation reserve			
At 1 January 1999	**328**	**—**	**48**
Unrealised deficit on revaluation of land and buildings	**(46)**	**—**	**(1)**
Transfer to revaluation reserve	**(6)**	**—**	**—**
Realisation on disposal of properties	**(1)**	**—**	**—**
Exchange and other movements	**(2)**	**—**	**(1)**
At 31 December 1999	**273**	**—**	**46**
Revaluation reserve:			
At 1 January 1999	**1,792**	**19,566**	**8**
Realisation on disposal of properties	**(7)**	**—**	**—**
Unrealised surplus on revaluation of Group properties	**371**	**2**	**—**
Transfer arising on redenomination of share capital	**—**	**(271)**	**—**
Transfer to profit and loss account reserve on disposal of subsidiaries	**—**	**(51)**	**—**
Transfer of depreciation from profit and loss account reserve	**(22)**	**—**	**—**
Transfer from investment property revaluation reserve	**6**	**—**	**—**
Net increase in attributable net assets of subsidiary undertakings (Note 24a)	**—**	**2,588**	**—**
Exchange and other movements	**(71)**	**40**	**(3)**
At 31 December 1999	**2,069**	**21,874**	**5**
Total revaluation reserves	**2,342**	**21,874**	**51**

34 Reserves *(continued)*

	Group	*Company*	*Associated undertakings*
	US$m	**US$m**	**US$m**
Profit and loss account:			
At 1 January 1999	**21,359**	**3,913**	**247**
Retained profit/(deficit) for the year	**2,536**	**(307)**	**123**
Transfer arising on redenomination of share capital	**—**	**271**	**—**
Transfer from revaluation reserve on disposal of subsidiaries	**—**	**51**	**—**
Transfer of depreciation to revaluation reserve	**22**	**—**	**—**
Revaluation reserve realised on disposal of properties	**8**	**—**	**—**
Arising on shares issued in lieu of dividends	**679**	**679**	**—**
Capitalised on exercise of share options issued via QUEST	**(185)**	**(185)**	**—**
Exchange and other movements	**(465)**	**—**	**(145)**
At 31 December 1999	**23,954**	**4,422**	**225**

Cumulative goodwill amounting to US$5,138 million (1998: US$5,136 million) has been charged against reserves in respect of acquisitions of subsidiaries prior to 1 January 1998.

Many of the Group's banking subsidiary and associated 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 30a (ii) above, the remittance of reserves may result in further taxation liabilities.

During the year, the Group established a qualifying employee share ownership trust (QUEST) to operate in conjunction with the Savings-Related Share Option Scheme by acquiring shares in the Company and using them to satisfy share options.

The QUEST has subscribed at market value for ordinary shares at a total cost of US$257 million. The Group provided US$185 million to the QUEST for this purpose and US$72 million was received from the share option scheme participants. The shares were all transferred by the QUEST to participants in the Group's Savings-Related Share Option Scheme in satisfaction of their options. The price paid by option holders, including executive Directors, ranged from £1.806 to £5.398 per ordinary share of US$0.50.

The Group's contribution has been included in the Group's accounts as a capitalisation of reserves.

35 Analysis of total assets and total liabilities

a *Assets subject to sale and repurchase transactions*	**1999**	1998
	US$m	US$m
Total assets subject to sale and repurchase transactions	**15,558**	15,204

b *Assets leased to customers*	**1999**	1998
	US$m	US$m
Loans and advances to customers	**6,918**	7,723
Tangible fixed assets — equipment on operating leases (Note 23a)	**2,753**	2,810
	9,671	10,533

The cost of assets acquired during 1999 for letting to customers under finance leases and hire purchase contracts by the Group amounted to US$2,647 million (1998: US$3,522 million).

Notes on the Accounts (continued)

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

c *Assets charged as security for liabilities*

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

	Amount of liability secured	
	1999	1998
	US$m	US$m
Deposits by banks	**304**	807
Customer accounts	**2,822**	1,678
Debt securities in issue	**4,290**	1,790
Other liabilities	**3,038**	1,652
	10,454	5,927

The amount of assets pledged to secure these amounts is US$23,030 million (1998: US$15,196 million). This is mainly made up of items included in 'Debt securities' and 'Treasury bills and other eligible bills' of US$19,224 million (1998: US$11,790 million).

36 Financial instruments

a *Derivatives*

Off-balance-sheet financial instruments, commonly referred to as derivatives, are contracts the characteristics of which are derived from those of 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. Transactions are negotiated directly with customers, with the Group acting as a counterparty, or can be dealt through exchanges.

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

The Group, through 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.

Derivative instruments are subject both to 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 (Note 38).

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 (Note 13), 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.

36 Financial instruments *(continued)*

i Derivatives held for trading purposes

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

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.

Because all derivative instruments used for trading purposes are marked to market, carrying values are equal to mark-to-market values. Mark-to-market values are determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows. Mark-to-market assets and liabilities are netted where a legal right of set-off exists.

	1999		1998	
	Contract amount	*Replacement cost**	*Contract amount*	*Replacement cost**
	US$m	**US$m**	US$m	US$m
Spot and forward foreign exchange	**548,436**	**4,260**	668,134	6,087
Currency swaps, futures and options purchased	**72,650**	**1,868**	99,691	2,715
Currency options written	**23,552**	**—**	57,034	—
Other contracts	**27,177**	**448**	1,937	25
Total exchange rate contracts	**671,815**	**6,576**	826,796	8,827
Interest rate swaps	**519,697**	**2,829**	583,308	5,619
Interest rate futures, forward rate agreements and options purchased	**388,116**	**776**	430,224	1,265
Interest rate options written	**63,266**	**—**	76,889	—
Total interest rate contracts	**971,079**	**3,605**	1,090,421	6,884
Equities, futures and options purchased	**15,676**	**2,677**	11,739	2,200
Equities options written	**16,933**	**—**	16,341	—
Other contracts	**1,474**	**8**	1,813	13
Total equities contracts	**34,083**	**2,685**	29,893	2,213

* *Third-party contracts only.*

		1999
		Mark-to-market values
		US$m
Exchange rate	— assets	**6,876**
	— liabilities	**(7,061)**
Interest rate	— assets	**3,606**
	— liabilities	**(4,027)**
Equities	— assets	**2,686**
	— liabilities	**(2,967)**

Notes on the Accounts (continued)

36 Financial instruments *(continued)*

ii Derivatives used for risk management purposes

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

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

	1999		1998	
	Contract amount	*Replacement cost**	*Contract amount*	*Replacement cost**
	US$m	**US$m**	US$m	US$m
Spot and forward foreign exchange	**69,070**	**153**	67,749	58
Currency swaps, futures and options purchased	**4,314**	**35**	3,260	14
Total exchange rate contracts	**73,384**	**188**	71,009	72
Interest rate swaps	**78,629**	**411**	73,784	386
Interest rate futures, forward rate agreements and options purchased	**23,034**	**155**	10,601	27
Total interest rate contracts	**101,663**	**566**	84,385	413
Equities, futures and options purchased	**731**	**—**	724	5
Other contracts	**—**	**—**	18	—
Total equities contracts	**731**	**—**	742	5

** Third-party contracts only.*

The table below summarises the carrying value and mark-to-market value of derivative contracts held for risk management purposes. Mark-to-market values for assets and liabilities arising from derivatives held for non-trading purposes are determined in the same way as those set out for trading derivatives above, except that assets and liabilities have not been netted.

		1999	
		Carrying value	*Mark-to-market values*
		US$m	**US$m**
Exchange rate	— assets	**388**	**437**
	— liabilities	**(599)**	**(656)**
Interest rate	— assets	**1,281**	**1,736**
	— liabilities	**(424)**	**(880)**
Equities	— assets	**33**	**134**
	— liabilities	**—**	**(1)**

36 Financial instruments *(continued)*

b *Other financial instruments*

i Financial instruments held for trading purposes

	1999
	Mark-to-market values
Assets:	**US$m**
Treasury bills and other eligible bills	**4,612**
Loans and advances to banks and customers	**18,432**
Debt securities	**21,728**
Equity shares	**2,957**
	47,729
Liabilities:	
Short positions in securities	**14,937**
Debt securities in issue	**292**
Deposits by banks and customer accounts	**14,266**
	29,495

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

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

	1999	
	Carrying value	*Mark-to-market values*
Assets:	**US$m**	**US$m**
Treasury bills and other eligible bills	**18,601**	**18,601**
Debt securities	**88,340**	**88,252**
Equity shares	**1,521**	**2,432**
	108,462	**109,285**
Liabilities:		
Debt securities in issue	**33,488**	**33,546**
Subordinated liabilities	**15,423**	**15,295**
Non-equity minority interests	**1,583**	**1,513**
	50,494	**50,354**

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

Notes on the Accounts (continued)

36 Financial instruments *(continued)*

The valuation techniques used are:

— *Treasury bills and other eligible bills*
Mark-to-market value approximates to carrying value because these are mainly short-term in maturity with a carrying value not materially different from mark-to-market value.

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

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

— *Debt securities in issue, short positions in securities, subordinated liabilities and non-equity minority interests*
Mark-to-market values are estimated using quoted market prices at the balance sheet date.

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

c *Gains and losses on hedges*

Unrecognised gains and losses

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised gains on instruments used for hedging as at 31 December 1999 were US$650 million and the unrecognised losses were US$559 million.

Unrecognised gains of US$164 million and unrecognised losses of US$150 million are expected to be recognised in 2000.

Of the gains and losses included in the profit and loss account in 1999, US$652 million gains and US$535 million losses were unrecognised at 1 January 1999.

d *Liquidity management*

The Group requires operating entities to manage the liquidity structure of their assets, liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

It is the responsibility of local management to ensure compliance with local regulatory and Group Executive Committee requirements. Liquidity is managed on a daily basis by local treasury functions, with the larger regional treasury sites providing support to smaller entities where required.

Compliance with liquidity requirements is monitored by local Asset and Liability Policy Committees which report to Group Head Office on a regular basis. This process includes:

— projecting cash flows by major currency and a consideration of the level of liquid assets in relation thereto;

— maintenance of balance sheet liquidity ratios;

— monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors; and

— maintenance of liquidity contingency plans.

37 Memorandum items

a *Group*

	1999			1998		
	Contract amount	*Credit equivalent amount*	*Risk-weighted amount*	*Contract amount*	*Credit equivalent amount*	*Risk-weighted amount*
	US$m	**US$m**	**US$m**	US$m	US$m	US$m
Contingent liabilities:						
Acceptances and endorsements	**4,482**	**3,288**	**3,215**	4,032	3,202	3,151
Guarantees and assets pledged as collateral security:						
— guarantees and irrevocable letters of credit	**27,319**	**22,201**	**19,880**	23,686	18,427	16,618
Other contingent liabilities	**39**	**39**	**39**	64	64	54
	31,840	**25,528**	**23,134**	27,782	21,693	19,823
Commitments:						
Documentary credits and short-term trade-related transactions	**6,310**	**2,015**	**1,316**	5,927	1,973	1,166
Forward asset purchases and forward forward deposits placed	**487**	**487**	**341**	893	623	212
Undrawn note issuing and revolving underwriting facilities	**82**	**41**	**41**	405	203	203
Undrawn formal standby facilities, credit lines and other commitments to lend:						
— over 1 year	**33,246**	**16,612**	**15,739**	27,028	13,505	12,606
— 1 year and under	**128,613**	**—**	**—**	112,399	—	—
	168,738	**19,155**	**17,437**	146,652	16,304	14,187

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 Financial Services Authority's guidelines which implement the 1988 Basel Capital Accord on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

Contingent liabilities and commitments are credit-related instruments 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.

Notes on the Accounts (continued)

37 Memorandum items *(continued)*

b *Company*

The Company had no contingent liabilities (1998: US$ nil). In addition, the Company enters into guarantees and letters of support on behalf of other Group undertakings in the normal course of business.

c *Concentrations of contingent liabilities and commitments*

The Group has the following concentrations of exposure to contingent liabilities and commitments and these are determined on the basis set out in Note 45:

Contract amounts

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
Contingent liabilities	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
1999	**14,939**	**5,242**	**5,756**	**5,479**	**424**	**31,840**
1998	13,607	4,598	6,170	2,858	549	27,782
Commitments						
1999	**64,977**	**43,672**	**21,379**	**35,933**	**2,777**	**168,738**
1998	57,880	38,200	20,883	27,363	2,326	146,652

38 Market risk management

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

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

The Group manages market risk through risk limits approved by the Group Executive Committee. Group Market Risk, an independent unit within the Company, develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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

a *Trading VAR*

VAR is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group VAR, predominantly calculated on a variance/covariance basis, uses historical movements in market rates and prices, a 99% confidence level, a 10-day holding period and takes account of correlations between different markets and rates and is calculated daily. The movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types. RNYC and SRH calculate VAR using a historical simulation approach, based on the previous two years' data, using a 99% confidence interval over a 10-day holding period; this method differs from that of HSBC and therefore the VAR is shown separately.

38 Market risk management *(continued)*

The Group VAR is a principal component of the management of market risk for the Group. Historically, this has been calculated to a 95% confidence level and for a one-day holding period. From the beginning of 1999, VAR has been calculated on a more conservative basis, at a 99% confidence level for a 10-day holding period*. This change has been made to facilitate consistency with the regulatory requirements for the use of internal models used to calculate market risk capital requirements and remains consistent with the Group's risk management control framework.

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

— The model assumes that changes in risk factors follow a normal distribution. This may not be the case in reality and may lead to an underestimation of the probability of extreme market movements.

— The use of a 10-day holding period assumes that all positions can be liquidated or hedged in 10 days. This may not fully reflect the market risk arising from times of severe illiquidity, when a 10-day holding period may be insufficient to liquidate or hedge all positions fully.

— The use of a 99% confidence level does not take account of any losses that might occur beyond this level of confidence.

— The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.

— The assumption of independence between risk types may be incorrect and therefore result in VAR not fully capturing market risk where correlation between variables is exhibited.

— VAR is calculated at the close of business with intra-day exposures not being subject to intra-day VAR calculations.

— VAR does not necessarily capture all of the higher order market risks and, as such, may underestimate VAR.

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

Trading VAR for the Group, excluding RNYC and SRH, at 31 December was:

	1999	*Minimum during the year*	*Maximum during the year*	*Average for the year*	1998*
	US$m	**US$m**	**US$m**	**US$m**	US$m
Total trading activities	**46.1**	**42.7**	**101.9**	**66.7**	23.2
Foreign exchange trading positions	**12.8**	**10.2**	**58.5**	**25.0**	14.2
Interest rate trading positions	**39.4**	**32.2**	**82.1**	**54.1**	13.1
Equities trading positions	**16.2**	**11.1**	**26.8**	**16.4**	12.0

VAR for RNYC's and SRH's trading activities at 31 December 1999 was US$14.5 million and US$1.4 million respectively.

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

** The comparative figures for 1998 have been recalculated using a 99% confidence level for a 10-day holding period using the VAR models in place at that date. It is not practicable retrospectively to amend these comparatives for other technical changes made to the VAR models since 31 December 1998.*

b *Interest rate sensitivity gap table*

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

Notes on the Accounts (continued)

38 Market risk management *(continued)*

	Not more than three months	*More than three months but not more than six months*	*More than six months but not more than one year*	*More than one year but not more than five years*	*More than five years*	*Non-interest bearing*	*Total*
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Assets							
Treasury bills and other eligible bills	**15,711**	**2,068**	**707**	**96**	**19**	**—**	**18,601**
Loans and advances to banks	**82,041**	**6,802**	**1,506**	**534**	**105**	**2,307**	**93,295**
Loans and advances to customers	**176,141**	**14,902**	**8,924**	**27,935**	**12,648**	**1,367**	**241,917**
Debt securities and equity shares	**41,456**	**5,803**	**7,322**	**12,014**	**21,745**	**1,521**	**89,861**
Other assets	**9,849**	**217**	**275**	**290**	**34**	**64,032**	**74,697**
Total assets	**325,198**	**29,792**	**18,734**	**40,869**	**34,551**	**69,227**	**518,371**
Liabilities							
Deposits by banks	**(24,588)**	**(2,356)**	**(662)**	**(367)**	**(91)**	**(4,512)**	**(32,576)**
Customer accounts	**(300,789)**	**(8,975)**	**(7,575)**	**(2,871)**	**(1,196)**	**(29,827)**	**(351,233)**
Debt securities in issue	**(14,384)**	**(4,224)**	**(6,049)**	**(6,948)**	**(1,883)**	**—**	**(33,488)**
Other liabilities	**(5,331)**	**(102)**	**(552)**	**(394)**	**(260)**	**(57,824)**	**(64,463)**
Loan capital and other subordinated liabilities	**(3,804)**	**(1,467)**	**(245)**	**(2,949)**	**(6,958)**	**—**	**(15,423)**
Minority interests and shareholders' funds	**—**	**—**	**—**	**—**	**—**	**(21,188)**	**(21,188)**
Total liabilities	**(348,896)**	**(17,124)**	**(15,083)**	**(13,529)**	**(10,388)**	**(113,351)**	**(518,371)**
Off-balance-sheet items	**(2,152)**	**682**	**(342)**	**1,844**	**(32)**	**—**	**—**
Interest rate sensitivity gap	**(25,850)**	**13,350**	**3,309**	**29,184**	**24,131**	**(44,124)**	**—**
Cumulative interest rate sensitivity gap	**(25,850)**	**(12,500)**	**(9,191)**	**19,993**	**44,124**	**—**	**—**

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

38 Market risk management *(continued)*

c *Assets and liabilities denominated in foreign currency*

	1999	1998
	US$m	US$m
Denominated in US dollars	**228,969**	154,124
Denominated in currencies other than US dollars	**340,170**	329,004
Total assets	**569,139**	483,128
Denominated in US dollars	**244,501**	142,672
Denominated in currencies other than US dollars	**324,638**	340,456
Total liabilities	**569,139**	483,128

d *Structural currency exposures*

The Group's structural foreign currency 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. Gains or losses on structural foreign currency exposures are taken to reserves.

The Group's structural foreign currency exposures are managed with the primary objective of ensuring, where practical, that the Group's and individual banking subsidiaries' tier 1 capital ratios are protected from the effect of changes in exchange rates. This is usually achieved by denominating tier 1 capital broadly in proportion to the corresponding foreign-currency-denominated risk-weighted assets at a subsidiary bank level. The Group considers hedging structural foreign currency exposures only in limited circumstances, including protecting the tier 1 capital ratio or the US dollar value of capital invested.

As subsidiaries are generally able to balance adequately foreign currency tier 1 capital with foreign currency risk-weighted assets, the Group's foreign currency structural exposures are usually unhedged, including exposures due to foreign-currency-denominated profits arising during the year. Selective hedges were, however, transacted during 1999. There was no material effect from foreign currency exchange rate movements on Group or subsidiary tier 1 capital ratios during the year.

The Group's main operations are in the UK, Hong Kong and the USA, although it also has operations elsewhere in Europe, the rest of Asia-Pacific, North America and Latin America. The main operating (or functional) currencies in which the Group's business is transacted are, therefore, sterling, Hong Kong dollars and US dollars.

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

The Group mitigates the effect of structural currency exposures by hedging a proportion of its net investment in its overseas operations with forward foreign exchange contracts or, to a small extent, by financing with borrowings in the same currencies as the functional currencies involved.

Notes on the Accounts (continued)

38 Market risk management *(continued)*

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

Currency of structural exposure	*Net investments in overseas operations*	*Currency hedges other than borrowings*	*Borrowings taken out in the functional currencies of the overseas operations in order to hedge the net investments in such operations*	*Remaining structural currency exposures*
	US$m	**US$m**	**US$m**	**US$m**
Sterling	**8,865**	**(105)**	**—**	**8,760**
Hong Kong dollars	**8,457**	**—**	**(3)**	**8,454**
Euros	**974**	**—**	**—**	**974**
Canadian dollars	**958**	**(43)**	**—**	**915**
Swiss francs	**911**	**(456)**	**—**	**455**
Brazilian reais	**548**	**—**	**—**	**548**
Singapore dollars	**507**	**(5)**	**—**	**502**
Argentine pesos	**438**	**—**	**—**	**438**
UAE dirham	**430**	**—**	**—**	**430**
Malaysian ringgit	**295**	**—**	**—**	**295**
Australian dollars	**287**	**—**	**(33)**	**254**
Indian rupees	**202**	**—**	**—**	**202**
Chilean pesos	**186**	**—**	**—**	**186**
Korean won	**184**	**—**	**—**	**184**
Maltese lira	**140**	**—**	**—**	**140**
Cyprus pounds	**137**	**—**	**—**	**137**
Thai baht	**110**	**—**	**—**	**110**
Saudi riyals	**352**	**(352)**	**—**	**—**
Others, less than US$100 million	**643**	**(115)**	**—**	**528**
Total	**24,624**	**(1,076)**	**(36)**	**23,512**

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

	1999	1998
	US$m	US$m
Operating profit	**7,409**	6,185
Change in prepayments and accrued income	**359**	(667)
Change in accruals and deferred income	**249**	220
Interest on finance leases and similar hire purchase contracts	**26**	26
Interest on subordinated loan capital	**826**	814
Depreciation and amortisation	**999**	914
Amortisation of discounts and premiums	**(112)**	(53)
Provisions for bad and doubtful debts	**2,073**	2,637
Loans written off net of recoveries	**(1,021)**	(1,226)
Provisions for liabilities and charges	**765**	1,290
Provisions utilised	**(478)**	(974)
Provisions assumed	**—**	377
Amounts written off fixed asset investments	**28**	85
Net cash inflow from trading activities	**11,123**	9,628

39 Reconciliation of operating profit to net cash flow from operating activities *(continued)*

	1999	1998
	US$m	US$m
Net cash inflow from trading activities	**11,123**	9,628
Change in items in the course of collection from other banks	**304**	(242)
Change in treasury bills and other eligible bills	**(2,007)**	(4,797)
Change in loans and advances to banks	**(5,832)**	(5,418)
Change in loans and advances to customers	**1,126**	3,731
Change in other securities	**11,293**	(4,442)
Change in other assets	**7,669**	1,027
Change in deposits by banks	**(4,700)**	(4,804)
Change in customer accounts	**10,269**	14,721
Change in items in the course of transmission to other banks	**559**	161
Change in debt securities in issue	**(2,324)**	1,445
Change in other liabilities*	**(4,618)**	(295)
Elimination of exchange differences†	**(1,318)**	(1,028)
Net cash inflow from operating activities	**21,544**	9,687

* *The change in other liabilities excludes the creditor of US$9,733 million at 31 December in respect of the acquisitions of RNYC and SRH, since this is a non-cash item. This creditor was settled in cash in January 2000.*
† *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as it cannot be determined without unreasonable expense.*

40 Changes in financing during the year

	Subordinated loan capital	*Preference shares**	*Ordinary shares*	*Share premium*
	US$m	**US$m**	**US$m**	**US$m**
Balance at 1 January 1999	**10,844**	**870**	**3,443**	**480**
Shares issued in lieu of dividends	**—**	**—**	**28**	**(28)**
Acquisition of subsidiaries	**3,202**	**702**	**—**	**—**
Issued during the year	**2,101**	**—**	**128**	**2,990**
Costs incurred with share issue	**—**	**—**	**—**	**(30)**
Repaid during the year	**(599)**	**—**	**—**	**—**
Net cash inflow from financing	**1,502**	**—**	**128**	**2,960**
Capitalised on exercise of share options issued via QUEST	**—**	**—**	**—**	**185**
Shares cancelled on reorganisation	**—**	**—**	**(3,515)**	**—**
Shares issued on reorganisation	**—**	**—**	**4,204**	**—**
Exchange and other movements	**(125)**	**11**	**(58)**	**(715)**
Balance at 31 December 1999	**15,423**	**1,583**	**4,230**	**2,882**

* *Preference shares in issue are in subsidiary undertakings (Note 32).*

41 Analysis of cash

a The Group is required to make deposits with central banks as a result of government regulations in the territories in which it operates. As at 31 December 1999, these amounted to US$1,842 million (1998: US$2,557 million).

Notes on the Accounts (continued)

41 Analysis of cash *(continued)*

b *Changes in cash during the year*

	1999	1998
	US$m	US$m
Balance at 1 January	**14,203**	20,756
Net cash inflow/(outflow) before the effect of foreign exchange movements	**3,808**	(6,595)
Effect of foreign exchange movements	**(306)**	42
Balance at 31 December	**17,705**	14,203

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

	1999	1998
	US$m	US$m
Cash and balances at central banks	**6,179**	3,048
Loans and advances to banks	**11,526**	11,155
	17,705	14,203

42 Litigation

The Group, through a number of its subsidiary undertakings, is named in and is defending legal actions in various jurisdictions arising from its normal business. None of these proceedings is regarded as material litigation. In addition, there are certain proceedings relating to the 'Princeton Note Matter' that are described below.

On 1 September 1999, RNYC announced that, as a result of an inquiry received from the Financial Supervisory Agency of Japan, it had commenced an internal investigation of the Futures Division of its wholly owned subsidiary, Republic New York Securities Corporation ('RNYSC'). The investigation focused on the involvement of the Futures Division of RNYSC with its customers Princeton Global Management Ltd. and affiliated entities ('Princeton') and their Chairman, Martin Armstrong (the 'Princeton Note Matter').

A number of regulatory and law enforcement agencies also have commenced investigations of Princeton and Mr Armstrong. RNYC and RNYSC have been co-operating fully with those investigations, including by responding to various subpoenas and requests for information. The Securities and Exchange Commission and the Commodity Futures Trading Commission have commenced civil actions against Princeton and Mr Armstrong. Additionally, Mr Armstrong has been indicted by the US Attorney for the Southern District of New York on charges of fraud and conspiracy.

At the core of these proceedings against Princeton and Mr Armstrong are allegations that Mr Armstrong and Princeton perpetrated a fraud in selling US$3 billion (face value) of promissory notes to certain Japanese entities, approximately US$1 billion (face value) of which allegedly remain outstanding. Since 1995, Princeton had maintained accounts at the Futures Division of RNYSC through which funds, allegedly including proceeds from the sale in Japan of such promissory notes, were invested and traded by Princeton. Mr Armstrong is alleged to have caused employees of the Futures Division of RNYSC to issue letters containing inflated balances of the net asset values in the accounts of Princeton, some of which letters allegedly were provided by Mr Armstrong and Princeton to at least some of its noteholders.

RNYSC has terminated the employment of its president and the president of the Futures Division of RNYSC.

Eleven civil actions have been brought to date against RNYSC by Japanese entities in connection with the Princeton Note Matter; 10 of the 11 actions also assert claims against RNYC and Republic National Bank or HSBC USA Inc. and HSBC Bank USA as their respective successors (together with RNYSC, the 'Republic Parties'). All 11 complaints are pending in the United States District Court for the Southern District of New York, and allege that Armstrong and Princeton perpetrated a fraud on the plaintiffs by selling them notes that remain unpaid. The 11 complaints allege that employees of RNYSC issued letters concerning the Princeton accounts that contained material misstatements.

The 11 civil proceedings commenced to date against one or more of the Republic Parties are Amada Co. v Republic New York Securities Corporation, Gun-ei Chemical Industry Co., Ltd. v Princeton Economics International Ltd., et al, Chudenko Corp. v Republic New York Securities Corporation, et al, and Alps Electric Co., Ltd. v Republic New York Securities Corporation, et al, filed 29 November 1999, 22 December 1999, 20 January 2000 and 7 February 2000, respectively, Itoki Crebio Corp. v HSBC USA Inc., et al, Kissei Pharmaceutical Co., Ltd. v HSBC USA Inc., et al,

42 Litigation *(continued)*

Maruzen Company, Ltd. v HSBC USA Inc., et al, SMC Corporation v HSBC USA Inc., et al, and Asatsu-DK Inc. v HSBC USA Inc., filed on 14 February 2000, and Starzen Co., Ltd. v Republic New York Securities Corporation, et al, filed on 23 February 2000, and Yakult Honsha Co., Ltd. v Republic New York Securities Corporation, filed on 25 February 2000. The Amada action alleges unpaid notes in the amount of ¥12.5 billion (approximately US$123 million), the Gun-ei action alleges unpaid notes in the amount of ¥11.8 billion (approximately US$114 million), the Chudenko action, which is brought by 22 separate Japanese entities, alleges unpaid notes totalling approximately US$360 million, the Alps action alleges unpaid notes in the amount of approximately US$212 million, the Itoki action alleges unpaid notes in the amount of approximately US$4.4 million, the Kissei action alleges unpaid notes of approximately US$24.8 million, the Maruzen action alleges unpaid notes of approximately US$50 million, the SMC action alleges unpaid notes of approximately US$19.5 million, the Asatsu-DK action alleges unpaid notes of approximately US$24.6 million, the Starzen action alleges an unpaid note of US$28.6 million, and the Yakult Honsha action alleges an outstanding note of US$120 million, of which approximately US$25 million remains unpaid, and an unpaid note of approximately US$50 million. All of the actions assert common law claims and claims under either the federal securities laws or the Racketeer Influenced and Corrupt Organization Act ('RICO'), or both. All the actions seek punitive damages, and all but the Gun-ei and Amada actions seek treble damages under the RICO statute. The Republic Parties filed a motion to dismiss the Amada complaint on 4 February 2000; their time to respond to the other actions has not yet occurred. In February 2000, RNYSC received notice that World Nichei Securities Co. Ltd., the defendant in an action relating to the Princeton Note Matter brought in Japan by Hamaya-gurni Co., Ltd., will seek to hold RNYSC and its affiliates liable for any losses it incurs in that action.

In addition, on 7 October 1999, a purported class action entitled Ravens v Republic New York Corporation, et al, was filed in the United States District Court for the Eastern District of Pennsylvania on behalf of investors who acquired common stock of RNYC between 14 May 1999 and 15 September 1999. The complaint alleges that the defendants violated the federal securities laws in the merger transaction between RNYC and HSBC Holdings plc by failing to disclose facts relating to potential liabilities with respect to the Princeton Note Matter. The complaint seeks unspecified damages on behalf of the class.

It is not possible to assess the outcome of these proceedings at present. The Republic Parties intend to defend vigorously against the claims arising from the Princeton Note Matter.

43 Capital commitments

	1999	1998
	US$m	US$m
Expenditure contracted for	**634**	576
Expenditure authorised by Directors but not contracted for	**74**	115
	708	691

There were no capital commitments in respect of the Company (1998: US$ nil).

44 Lease commitments

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

	1999	1998
	US$m	US$m
Leasehold land and buildings		
Operating leases which expire:		
— within 1 year	**42**	33
— between 1 and 5 years	**155**	149
— over 5 years	**149**	125
	346	307

Notes on the Accounts (continued)

44 Lease commitments *(continued)*

	1999	1998
	US$m	US$m
Equipment		
Operating leases which expire:		
— within 1 year	**9**	6
— between 1 and 5 years	**4**	21
	13	27

The Company had no commitments under operating leases at 31 December 1999 (1998: none).

45 Segmental analysis

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

a *By geographic region*

Geographical information has been classified by the location of the principal operations of the subsidiary undertaking or, in the case of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA 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:	**At 31 December 1999**		At 31 December 1998	
	US$m	**%**	US$m	%
Europe*	**211,222**	**37.7**	190,823	40.2
Hong Kong	**165,420**	**29.6**	149,127	31.3
Rest of Asia-Pacific	**55,291**	**9.9**	57,253	12.0
North America*	**110,120**	**19.7**	63,903	13.4
Latin America*	**17,181**	**3.1**	14,614	3.1
	559,234	**100.0**	475,720	100.0
Add: Hong Kong SAR Government certificates of indebtedness	**9,905**		7,408	
Total assets	**569,139**		483,128	

* *Included within total assets in North America, Europe, and Latin America are amounts of US$46,420 million, US$24,131 million and US$189 million, respectively, in relation to businesses acquired during the year.*

Net assets:	**At 31 December 1999**		At 31 December 1998	
	US$m	**%**	US$m	%
Europe	**16,695**	**50.0**	12,098	44.2
Hong Kong	**8,960**	**26.8**	9,427	34.4
Rest of Asia-Pacific	**2,561**	**7.7**	2,186	8.0
North America	**3,730**	**11.1**	2,494	9.1
Latin America	**1,462**	**4.4**	1,197	4.3
Total net assets	**33,408**	**100.0**	27,402	100.0

45 Segmental analysis *(continued)*

Profit on ordinary activities before tax:

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
Year ended 31 December 1999	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Interest receivable	**10,298**	**9,814**	**3,486**	**4,679**	**2,081**	**30,358**
Interest payable	**(6,067)**	**(6,079)**	**(2,246)**	**(2,992)**	**(984)**	**(18,368)**
Net interest income	**4,231**	**3,735**	**1,240**	**1,687**	**1,097**	**11,990**
Dividend income	**93**	**39**	**2**	**12**	**11**	**157**
Fees and commissions receivable	**4,144**	**1,133**	**761**	**680**	**562**	**7,280**
Fees and commissions payable	**(720)**	**(169)**	**(116)**	**(87)**	**(171)**	**(1,263)**
Dealing profits	**543**	**211**	**300**	**181**	**64**	**1,299**
Other operating income	**876**	**338**	**36**	**163**	**324**	**1,737**
Operating income	**9,167**	**5,287**	**2,223**	**2,636**	**1,887**	**21,200**
Operating expenses	**(5,454)**	**(1,896)**	**(1,162)**	**(1,585)**	**(1,450)**	**(11,547)**
Operating profit before provisions	**3,713**	**3,391**	**1,061**	**1,051**	**437**	**9,653**
Provisions for bad and doubtful debts	**(438)**	**(585)**	**(809)**	**(108)**	**(133)**	**(2,073)**
Provisions for contingent liabilities and commitments	**(114)**	**2**	**(30)**	**(1)**	**—**	**(143)**
Amounts written off fixed asset investments	**(20)**	**(5)**	**(1)**	**—**	**(2)**	**(28)**
Operating profit	**3,141**	**2,803**	**221**	**942**	**302**	**7,409**
Share of operating profit in associated undertakings	**(1)**	**15**	**94**	**4**	**11**	**123**
Gains on disposal of investments and tangible fixed assets	**182**	**236**	**14**	**13**	**5**	**450**
Profit on ordinary activities before tax	**3,322**	**3,054**	**329**	**959**	**318**	**7,982**

Notes on the Accounts (continued)

45 Segmental analysis *(continued)*

Year ended 31 December 1998	*Europe* US$m	*Hong Kong* US$m	*Rest of Asia-Pacific* US$m	*North America* US$m	*Latin America* US$m	*Total* US$m
Interest receivable	11,762	10,934	4,196	5,121	2,839	34,852
Interest payable	(7,755)	(7,462)	(2,941)	(3,503)	(1,644)	(23,305)
Net interest income	4,007	3,472	1,255	1,618	1,195	11,547
Dividend income	79	44	2	14	9	148
Fees and commissions receivable	3,793	984	677	669	941	7,064
Fees and commissions payable	(698)	(148)	(111)	(73)	(298)	(1,328)
Dealing profits	342	310	413	76	8	1,149
Other operating income	853	383	33	185	252	1,706
Operating income	8,376	5,045	2,269	2,489	2,107	20,286
Operating expenses	(5,197)	(1,851)	(1,052)	(1,424)	(1,711)	(11,235)
Operating profit before provisions	3,179	3,194	1,217	1,065	396	9,051
Provisions for bad and doubtful debts	(369)	(747)	(1,219)	(109)	(193)	(2,637)
Provisions for contingent liabilities and commitments	(96)	—	(37)	(10)	(1)	(144)
Amounts written off fixed asset investments	(16)	(57)	(11)	—	(1)	(85)
Operating profit	2,698	2,390	(50)	946	201	6,185
Share of operating profit in associated undertakings	—	23	91	2	20	136
Gains/(losses) on disposal of investments and tangible fixed assets	186	14	(2)	39	13	250
Profit on ordinary activities before tax	2,884	2,427	39	987	234	6,571

Total interest receivable and total interest payable include intra-Group interest of US$1,154 million (1998: US$1,232 million). Fees and commissions receivable and fees and commissions payable include intra-Group items of US$131 million (1998: US$94 million). Other operating income and operating expenses include intra-Group items of US$198 million (1998: US$231 million).

45 Segmental analysis *(continued)*

b *By class of business*

	Commercial banking		*Investment banking*		*Total*	
	1999	1998*	**1999**	1998*	**1999**	1998
	US$m	US$m	**US$m**	US$m	**US$m**	US$m
Profit on ordinary activities before tax	**7,189**	6,093	**793**	478	**7,982**	6,571
Total assets	**497,288**	446,479	**71,851**	36,649	**569,139**	483,128
Net assets	**28,140**	25,274	**5,268**	2,128	**33,408**	27,402

* *Restated for HSBC Trinkaus & Burkhardt KGaA, which was transferred to investment banking on 1 January 1999.*

46 Related party transactions

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

Particulars of transactions, arrangements and agreements entered into by subsidiary undertakings of the 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:

	1999		1998	
	Number	**US$m**	Number	US$m
Directors and connected persons and companies controlled by them:				
Loans and credit card transactions (including US$337,000 in credit card transactions (1998: US$159,000) and US$77,530,000 in guarantees (1998: US$57,900,000))	**128**	**1,022**	82	871
Officers:				
Loans and credit card transactions (including US$115,000 in credit card transactions (1998: US$104,000) and US$ nil in guarantees (1998: US$ nil))	**18**	**9**	29	15

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

b *Transactions with other related parties of the Group*

Associated undertakings

Information relating to associated undertakings can be found in the 'Notes on the Accounts' where the following are disclosed:

— Notes 14 and 15: amounts due from associated undertakings
— Note 20: investments in associated undertakings; principal associated undertakings and interests in loan capital
— Notes 26 and 27: amounts due to associated undertakings.

Pension funds

At 31 December 1999, US$15.4 billion (1998: US$12.7 billion) of Group pension fund assets were under management by Group companies, of which US$1,240 million (1998: US$989 million) is included in the Group's balance sheet under 'Other assets' in 'Long-term assurance assets attributable to policyholders'. Fees to Group companies in connection with such management amounted to US$37 million (1998: US$23 million). The Group's pension funds had deposits of US$296 million (1998: US$343 million) with banking subsidiaries within the Group.

Notes on the Accounts (continued)

47 Foreign currency amounts

The Hong Kong dollar and sterling figures shown in the consolidated profit and loss account and the balance sheets are for information only. They are translated from US dollars at the average rate of exchange for the year ended 31 December 1999 and the closing rate at that date respectively. These were as follows:

	Average rate	*Closing rate*
US\$1.00 = HK\$	7.759	7.773
US\$1.00 = £	0.618	0.619

48 UK and Hong Kong accounting requirements

The financial statements have been prepared in accordance with UK accounting requirements; there would be no material differences had they been prepared in accordance with Hong Kong Accounting Standards, except as set out below.

The presentation of the cash flow statement is in accordance with Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements' rather than Hong Kong Statement of Standard Accounting Practice 15 'Cash Flow Statements'.

In accordance with Financial Reporting Standard 11 'Impairment of Fixed Assets and Goodwill', no charge has been made in the profit and loss account in respect of those decreases in the valuation of Group properties that do not represent impairments. If the Group had prepared its financial statements under Hong Kong Statement of Standard Accounting Practice 17 'Property, plant and equipment', US\$68 million (1998: US\$150 million) would have been charged to the profit and loss account in respect of valuations below depreciated historical cost (of which US\$1 million (1998: US\$15 million) relates to minority interests).

If the Group had prepared its financial statements under Hong Kong Statement of Standard Accounting Practice 24, 'Accounting for Investments in Securities', US\$718 million (1998: US\$471 million) would have been credited to reserves in respect of changes in the fair value of its long-term equity investments.

49 Approval of accounts

These accounts were approved by the Board of Directors on 28 February 2000.

Taxation of Shares and Dividends

1. Cash Dividends

No tax is currently withheld from dividends paid by HSBC Holdings. However, dividends are paid with an associated tax credit which is available for set-off against any liability a shareholder may have to UK income tax. The associated tax credit is equivalent to 10 per cent of the combined cash dividend and tax credit.

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 UK income tax liability arises on the receipt of a dividend from the Company. Individual shareholders who are liable to UK income tax at the higher rate on UK dividend income (currently 32.5 per cent) are taxed on the combined amount of the dividend and the tax credit (currently 10 per cent). The tax credit is available for set-off against the higher rate liability, leaving net higher rate tax equal to 25 per cent of the cash dividend to pay. From 6 April 1999, individual UK-resident shareholders are not entitled to any tax credit repayment, unless the dividend income arises in a Personal Equity Plan (PEP) or Individual Savings Account (ISA), and then only for a five-year period to 5 April 2004.

Although non-UK-resident shareholders are generally not entitled to any repayment of the tax credit in respect of any UK dividend received, some such shareholders may be so entitled under the provisions of a double taxation agreement between the country of residence and the United Kingdom. However, in most cases no amount of the tax credit is in practice repayable.

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 1998 second interim dividend and the 1999 first interim dividend was set out in the Secretary's letters to shareholders of 19 March and 27 August 1999. For the 1998 second interim dividend, the market value of the scrip dividend shares on the first day of dealing was substantially different from the cash dividend forgone. Accordingly, the price of the Company's ordinary shares for income and capital gains tax for the 1998 second interim is £22.855 and £22.82 for the 75p and HK$10 shares, respectively. However, for the 1999 first interim dividend, the market value of the scrip dividend was not substantially different and, accordingly, the price of the Company's US$0.50 ordinary shares for tax purposes for this dividend is £7.485, i.e. the cash dividend forgone.

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, now HSBC 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 apply where an individual shareholder has chosen to receive shares instead of cash dividends, subject to scrip issues made since 6 April 1998 being treated for tax as a separate holding. Any capital gain arising on a disposal will also be adjusted to take account of indexation allowance and, in the case of individuals, tapering relief.

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

Shareholder Information

Financial Calendar 2000

Publication of *Annual Report and Accounts*	19 April
Second interim dividend payable	27 April
Annual General Meeting	26 May
Announcement of interim results	31 July

Annual General Meeting

The 2000 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 26 May 2000 at 11.00 a.m.

Dividends

The Directors have declared a second interim dividend of US$0.207 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US$0.133 already paid, will make a total distribution for the year of US$0.34 per share, an increase of 10.3 per cent on 1998. Information on the HSBC scrip dividend scheme and currencies in which the cash dividend may be paid is contained in the form and circular sent to shareholders on 23 March 2000.

Postal Share-Dealing Service

For shareholders on the UK register, a low-cost postal share-dealing service for buying and selling the Company's shares is available from HSBC Bank plc stockbrokers. Details are available from:

HSBC Bank plc Stockbrokers
Mariner House, Pepys Street
London EC3N 4DA
Telephone: 020 7260 0906
Facsimile: 020 7260 7556

Shareholder Enquiries

Any matters relating to your shareholding, e.g. transfer of shares, change of name or address, lost share certificates and dividend cheques, should be sent in writing to the registrars:

UK Computershare Services PLC
PO Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

or

Hong Kong Central Registration Hong Kong Limited
Rooms 1901-1905, Hopewell Centre
183 Queen's Road East

Investor Relations

Enquiries may be directed to:

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Annual Report and Accounts 1999

Further copies may be obtained by writing to either of the following departments.

For those in Europe, the Americas, Middle East and Africa:
Group Corporate Affairs
HSBC Holdings plc
10 Lower Thames Street
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For those in Asia-Pacific:
Group Public Affairs
The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Chinese translation

A Chinese translation of this *Annual Report and Accounts* is available on request from:
Central Registration Hong Kong Limited
Rooms 1901-1905, Hopewell Centre
183 Queen's Road East
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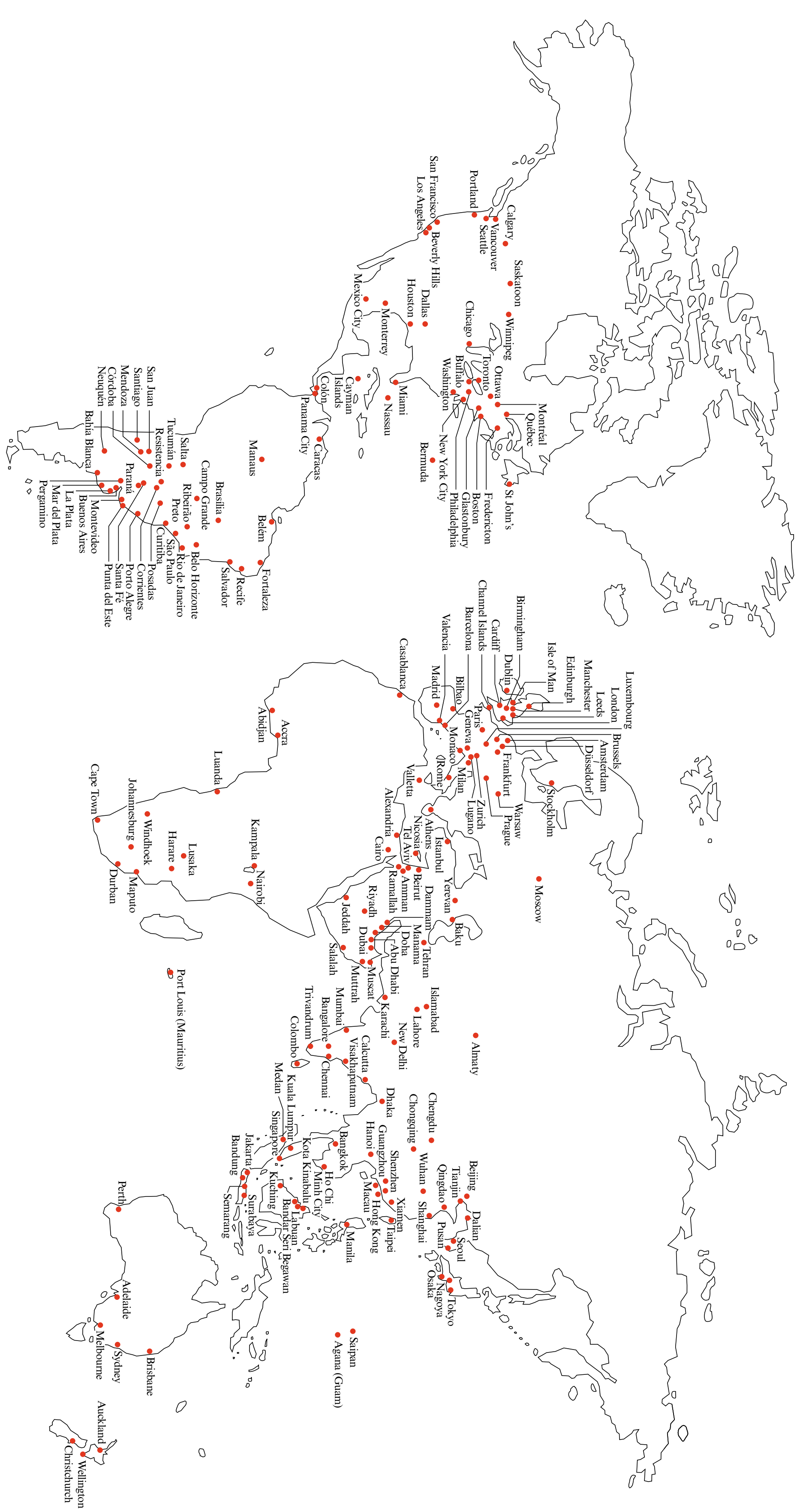
本年報備有中譯本，如欲查閱可向下列公司索取：
香港皇后大道東一八三號合和中心1901-1905室
香港中央證券登記有限公司

Web Site

This *Annual Report and Accounts*, and other information on the HSBC Group, may be viewed on our web site: www.hsbc.com

HSBC International Network



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HSBC Securities (Asia) Limited
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* *Associated company*

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