2000

HSBC Holdings plc

Annual Report and Accounts

YOUR WORLD OF FINANCIAL SERVICES

HSBC

Financial Highlights

	2000	*1999*
For the year	**US$m**	US$m
Profit before tax	**9,775**	7,982
Profit attributable	**6,628**	5,408
Dividends	**4,010**	2,872
Cash basis *		
Profit before tax	**10,300**	8,018
Profit attributable	**7,153**	5,444
At year-end		
Shareholders' funds	**45,570**	33,408
Capital resources	**50,964**	44,270
Customer accounts and deposits by banks	**487,122**	398,075
Total assets	**673,814**	569,139
Risk-weighted assets	**383,687**	336,126

Per share	**US$**	US$
Cash earnings *	**0.81**	0.66
Basic earnings	**0.76**	0.65
Diluted earnings	**0.75**	0.65
Dividends	**0.435**	0.34
Net asset value	**4.92**	3.95

Share information		
US$0.50: ordinary shares in issue	**9,268m**	8,458m
Market price per share at year end	**£9.85**	£8.63
Market capitalisation	**US$136bn**	US$118bn

Ratios	**%**	%
Return on average shareholders' funds	**16.5**	17.5
Post-tax return on average tangible assets	**1.24**	1.20
Post-tax return on average risk-weighted assets	**2.11**	2.00
Ratios – cash basis *		
Return on net tangible equity**	**24.0**	17.6
Post-tax return on average tangible assets	**1.33**	1.20
Post-tax return on average risk-weighted assets	**2.26**	2.02
Capital ratios		
- tier 1 capital	**9.0**	8.5
- total capital	**13.3**	13.2
Cost:income ratio (excluding goodwill amortisation)	**55.3**	53.9

* *Cash based measurements exclude the impact of goodwill amortisation. Cash earnings are not a measurement of financial performance under US generally accepted accounting principles and should not be construed as a substitute for net profit as a measure of performance or cash flow from operations as a measure of liquidity. It is used in this annual report because it is a common and useful measure of performance of a financial institution.*

** *Cash basis attributable profit divided by average shareholders' funds after deducting average purchased goodwill.*

Five-Year Comparison

At year-end *(US$m)*	1996	1997	1998	1999	**2000**
Share capital	3,426	3,406	3,443	4,230	**4,634**
Shareholders' funds	25,833	27,080	27,402	33,408	**45,570**
Capital resources	39,950	41,562	41,092	44,270	**50,964**
Customer accounts	257,104	294,189	308,910	359,972	**427,069**
Undated subordinated loan capital	3,007	3,245	3,247	3,235	**3,546**
Dated subordinated loan capital	7,156	7,281	7,597	12,188	**12,676**
Loans and advances to customers*	194,514	240,421	235,295	253,567	**289,837**
Total assets	402,377	471,686	483,128	569,139	**673,814**

* *net of suspended interest and provisions for bad and doubtful debts.*

For the year *(US$m)*					
Net interest income	9,092	10,944	11,547	11,990	**13,723**
Other operating income	5,881	7,665	8,508	9,012	**10,850**
Operating profit before provisions	7,054	8,553	9,051	9,653	**10,486**
Provisions for bad and doubtful debts	(604)	(1,014)	(2,637)	(2,073)	**(932)**
Pre-tax profits	7,052	8,130	6,571	7,982	**9,775**
Profit attributable to shareholders	4,852	5,487	4,318	5,408	**6,628**
Dividends	(1,738)	(2,206)	(2,495)	(2,872)	**(4,010)**
Per ordinary share† *(US$)*					
Basic earnings	0.61	0.69	0.54	0.65	**0.76**
Cash earnings *	0.61	0.69	0.54	0.66	**0.81**
Diluted earnings	0.61	0.68	0.53	0.65	**0.75**
Dividends	0.220	0.277	0.308	0.340	**0.435**
Net asset value	3.24	3.37	3.38	3.95	**4.92**
Share Information†					
US$0.50 ordinary shares in issue	7,983m	8,028m	8,067m	8,458m	**9,268m**
Financial ratios *(%)*					
Dividend payout ratio	35.8	40.2	57.8	53.1	**60.5**
Post-tax return on average total assets	1.45	1.37	0.98	1.20	**1.33**
Return on average shareholders' funds	21.3	20.7	15.5	17.5	**16.5**
Average shareholders' funds to average total assets	6.14	5.98	5.71	6.24	**6.49**
Capital ratios *(%)*					
Tier 1 capital	9.9	9.3	9.7	8.5	**9.0**
Total capital	15.3	14.2	13.6	13.2	**13.3**

* *Cash based measurements are after excluding the impact of goodwill amortisation*

† *Per share amounts reported here and throughout the document reflect the share capital reorganisation on 2 July 1999.*

US GAAP Selected Financial Data

	1997	1998	1999	**2000**
Income statement data for the year ended 31 December *(US$m)*				
Net income available for ordinary shareholders	5,306	3,934	4,889	**6,236**
Dividends	2,007	2,328	2,617	**3,137**
Balance sheet data at 31 December *(US$m)*				
Total assets#	476,183	488,856	574,588	**680,076**
Shareholders' equity	28,240	30,351	35,930	**48,072**
Per ordinary share *(US$)*				
Basic earnings	0.66	0.49	0.59	**0.71**
Diluted earnings	0.66	0.48	0.58	**0.70**
Cash earnings *	0.70	0.53	0.63	**0.80**
Dividends	0.25	0.29	0.31	**0.34**
Net asset value	3.52	3.75	4.25	**5.19**

* *Cash based measurements are after excluding the impact of goodwill amortisation*

\# *Comparative figures for 1999 and 1998 have been restated to reflect changes in US GAAP. The impact of the changes was to reduce total assets at 31 December 1999 by US$8,118 million (1998 US$4,243 million).*

Contents

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC.

Statements that are not historical facts, including statements about HSBC's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible' and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and you should not assume that they have been revised or updated in the light of new information or future events.

Written and/or oral forward-looking statements may also be made in the periodic reports to the Securities and Exchange Commission on Forms 6-K, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials and in oral statements made by HSBC's Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include, among others:

- changes in general economic conditions in the markets where HSBC operates, such as:
  - — changes in foreign exchange rates, in both market exchange rates (e.g. between the US dollar and the pound sterling) and government-established exchange rates (e.g. between the Hong Kong dollar and the US dollar);
  - — volatility in interest rates, including in Asia and Latin America; and
  - — volatility in equity markets, including in the smaller and less liquid trading markets in Asia and Latin America.
- changes in governmental policy and regulation, including:
  - — the monetary, interest rate and other policies of central banks and bank regulatory authorities, including the UK Financial Services Authority, the Bank of England, the Hong Kong Monetary Authority, the Board of Governors of the US Federal Reserve System, the European Central Bank, the French Banking Commission and the central banks of other leading economies;
  - — increased competition resulting from legislation permitting new types of affiliations between banks and financial services companies, including securities firms, particularly in the United States;
  - — expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
  - — general changes in government policy that may significantly influence investor decisions in particular markets in which HSBC operates; and
  - — other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for HSBC's products and services.
- the effects of competition in the markets where HSBC operates. HSBC expects competition to intensify as a result of, among other things, technological advances and the introduction of the euro; and
- the success of HSBC in adequately identifying and managing the risks it faces (through hedging and other techniques), which depends on, among other things, its ability to anticipate events that cannot be captured by the statistical models it uses.

Trends and factors that are expected to affect HSBC's results of operations are described in the 'Financial Review'.

Presentation of Information

This document comprises the 2000 Annual Report and Accounts and the 2000 Annual Report on Form 20-F to the US Securities and Exchange Commission ('SEC') for HSBC Holdings plc and its subsidiary and associated undertakings. It contains the Directors' Report and Financial Statements, together with the Auditors' Report thereon, as required by the UK Companies Act 1985. The 2000 Annual Review of HSBC Holdings plc is published as a separate document.

HSBC's Financial Statements and Notes thereon, as set out on pages 127 to 231, are prepared in accordance with UK generally accepted accounting principles ('UK GAAP'), which differ in certain respects from US generally accepted accounting principles ('US GAAP'). For a discussion of significant differences between UK GAAP and US GAAP and a reconciliation to US GAAP of certain amounts see Note 49 of the Notes on the Financial Statements. UK GAAP, as applied to banks, encompasses the Statements of Recommended Accounting Practice ('SORPs') issued by the British Bankers' Association and the Irish Bankers' Federation. In order to comply with US reporting requirements, three years' profit and loss information is presented. Unless otherwise stated the numbers presented in this document have been prepared in accordance with UK GAAP.

Certain Defined Terms

Unless the context otherwise requires, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC' means HSBC Holdings together with its subsidiary undertakings.

Within this Annual Report, the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong' or 'Hong Kong SAR.'

Information about the enforceability of judgements made in the United States

HSBC Holdings is a public limited company incorporated in England and Wales. Most of HSBC Holdings' Directors and executive officers live outside the United States. Most of the assets of HSBC Holdings' Directors and executive officers and a substantial portion of HSBC Holdings' assets are located outside the United States. As a result, it may not be possible to serve process on such persons or HSBC Holdings in the United States or to enforce judgements obtained in US courts against them or HSBC Holdings based on civil liability provisions of the securities laws of the United States. There is doubt as to whether English courts would enforce:

- certain civil liabilities under US securities laws in original actions; or

- judgements of US courts based upon these civil liability provisions.

In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in the United Kingdom.

Exchange controls and other limitations affecting security holders

There are currently no UK laws, decrees or regulations which would prevent the transfer of capital or remittance of dividends and other payments to holders of HSBC Holdings' securities who are not residents of the United Kingdom. There are also no restrictions under the laws of the United Kingdom or the terms of the Memorandum and Articles of Association of HSBC Holdings concerning the right of non-resident or foreign owners to hold HSBC Holdings' securities or, when entitled to vote, to do so.

Description of Business

Introduction

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US$136 billion at 31 December 2000. At the end of 2000, HSBC had total assets of US$674 billion and shareholders' equity of US$46 billion. For the year ended 31 December 2000, HSBC's operating profit was US$9 billion on revenues of US$25 billion. HSBC is a strongly capitalised banking group with a total capital ratio of 13.3 per cent and a tier 1 capital ratio of 9.0 per cent as at 31 December 2000.

Headquartered in London, HSBC operates through long-established businesses in five regions: Europe; Hong Kong; rest of Asia-Pacific, including the Middle East and Africa; North America; and Latin America. Within each of these geographic regions, the businesses operate essentially as domestic banks and typically have a large retail deposit base, together with strong liquidity and capital ratios, and provide services to personal, commercial and large corporate and institutional customers. By using HSBC's highly efficient technological links, the local businesses are able to access HSBC's wide range of products and services and adapt them to local customer needs. In addition, in certain key locations such as London, Hong Kong, New York, Geneva, Paris and Düsseldorf, HSBC has significant investment banking operations which, together with its commercial banks, enable HSBC to service the requirements of its large corporate and institutional customers.

Through its global network of some 6,500 offices in 79 countries and territories, HSBC provides a comprehensive range of financial services to personal, commercial, corporate, institutional and investment and private banking clients. As part of its strategy, HSBC created a global brand in 1998, using HSBC and its hexagon symbol everywhere it operates.

HSBC's largest and best-known subsidiaries and their primary areas of operation are:

• The Hongkong and Shanghai Banking Corporation Limited	Hong Kong SAR, with an extensive network throughout Asia-Pacific.
• Hang Seng Bank Limited ('Hang Seng Bank')	Hong Kong SAR
• HSBC Bank plc	United Kingdom
• Crédit Commercial de France ('CCF')	France
• HSBC Bank USA	New York in the United States
• HSBC Bank Brasil S.A.-Banco Múltiplo	Brazil
• HSBC Private Banking Holdings (Suisse) S.A. ('HSBC Republic Suisse')	Switzerland, France, Luxembourg, Guernsey and Monaco (through various subsidiaries)

Management and resources

HSBC recognises that the substantial customer and asset base of its banking operations reflects years of trust and goodwill. Through its many years of operation, HSBC has developed a reputation for placing great value on long-term relationships with its clients, and of observing the principles of sound and conservative banking. HSBC organises and delivers its banking products and services in a way that aims to retain local authority while capitalising on the advantages that flow from being a global organisation.

HSBC believes that this combination of centralisation and local responsibility permits it to remain responsive to local needs while providing customers with access to the global services and strength of a worldwide financial institution.

HSBC allocates resources, including capital, management time, human resources and information technology, according to a range of factors, including size and complexity of the operation, growth prospects and the contribution made by each area. Economic profit is used by HSBC's management to decide where to allocate resources so that they will be most productive.

HSBC considers the quality of its management to be one of its principal strengths. HSBC's management is an international meritocracy which combines detailed knowledge of local markets with a global perspective. By long-standing tradition and continued policy, HSBC recruits most executives for long-term careers with the organisation. HSBC attaches great importance to cultivating its own talent and to promoting from within the organisation. It values team work and a collegiate management style. Senior management succession is seamless. Lines of communication are kept short and speed of decision-making is emphasised.

Strategy

HSBC aims to become the world's leading financial services organisation. HSBC's goal is to balance earnings between stable, mature economies and the faster-growing, but more volatile, emerging markets. To achieve this, HSBC has developed a strategy of 'Managing for Value' designed to build on its achievements. This strategy is evolutionary and has four key components:

- *To concentrate on delivering 'wealth management' to key markets around the world.* Wealth management means deepening relationships with personal customers beyond the provision of a simple cheque account. HSBC will offer these customers the full range of financial services and products, including savings, pensions, investments and insurance. In none of HSBC's primary markets is this business fully mature and there are strong growth prospects.

- *To grow its commercial business.* This market consists of a wide range of businesses, including major companies, trading enterprises, professional practices, charities, entrepreneurs and smaller businesses. HSBC has been very successful in this market and aims to build on its strengths, in particular by making sure its customers have access to a full range of products and services.

- *To integrate corporate and investment banking services for HSBC's largest customers.* A major effort has been to align more closely HSBC's traditional corporate banking and credit services with the skill base and professional expertise available from its investment bank. The alignment of these businesses will help HSBC meet the requirements of its clients – some of the world's largest and most successful companies.

- *To establish HSBC and the hexagon symbol as a global brand.* This major initiative, begun in 1998 and supported by a global advertising campaign through 2001, has been successful in making the name, HSBC, and the hexagon symbol a familiar sight around the world. HSBC has now embarked on the next phase – making the HSBC brand universally synonymous with integrity, trust and excellent customer service.

HSBC's strategy focuses principally on organic growth, but it also allows for opportunistic acquisitions where these meet certain stringent criteria. HSBC's approach to acquisitions is based on added value. When considering acquisition opportunities, HSBC applies strict criteria and takes full account of the fact that the price paid determines the rate of return to shareholders.

Over the years, HSBC has successfully acquired a number of businesses which have provided access to new markets or an opportunity to expand existing business lines. HSBC uses its strong capital base and depth of management resources to develop such businesses into long-term generators of wealth for its shareholders.

HSBC's strategy calls for a continuous focus on its customers, providing them with secure, transparent and competitive services in the forms most attractive to them. One of HSBC's primary initiatives in this area is its HSBC *Premier* service, launched simultaneously in 17 countries and territories in March 2000. The HSBC *Premier* service is a new global service for HSBC's most valuable personal customers. The 270,000 HSBC *Premier* customers worldwide have available to them a dedicated team of relationship managers, HSBC *Premier* centres in selected locations around the world and 24-hour call centre support. To further service its high net worth customers, HSBC has successfully integrated its major private banking operations into an international private banking arm which bears the name HSBC Republic. HSBC seeks to position itself as one of the world's top five private banks.

HSBC intends to remain at the forefront of its industry and recognises the growing importance of the internet as one of a number of exciting new media, which will become an integral part of its service. HSBC believes that e-commerce will change the fabric of the financial services sector and views it as an opportunity to attract new customers from all over the world and to serve its existing customers better. E-commerce will enable HSBC to reconfigure its business in ways which provide higher quality customer services in a more efficient manner. As an international group, HSBC will be able to link its customers to the full range of international services and manage their processing wherever it chooses, which HSBC views as a sustainable competitive advantage.

In accordance with HSBC's 'clicks and mortar' strategy, HSBC's customer internet offerings must meet three criteria: they must integrate with and complement HSBC's existing distribution channels; customer needs and preferences must be paramount; and what HSBC offers must be international in scope.

In recent years, HSBC has been reconfiguring its operations for the e-age and putting in place some major building blocks. In 2000, over US$2 billion was spent by HSBC on technology, including a significant proportion on dotcom initiatives. HSBC will be one of the first to provide customers with services via the internet on a multi-product, multi-geography basis.

HSBC believes that e-commerce will increasingly affect all the technology the customer owns. HSBC is working with IBM to develop the Interactive Financial Services ('IFS') system, which links existing capability with the full spectrum of the customers' technology: the internet, interactive TV, mobile phones and other wireless modes of data transmission. IFS gives HSBC's customers the freedom to access their finances as they wish. In 1999, HSBC launched the UK's first nationally available TV banking service via Sky digital satellite. By the end of 2000, over 126,000 customers had registered and were regularly using the TV banking service for their banking needs.

During 2000, HSBC has continued developing hsbc.com as a brand name and portal for its consumer services. By the end of 2000, internet banking was available to HSBC customers in eleven of its businesses, including Brazil, Canada, the Hong Kong SAR, the United Kingdom**,** Singapore and the United States. Through operations in the Channel Islands, HSBC now has internet customers in 150 countries and territories**.** In France and Brazil, HSBC launched in 2000 banking by mobile phone using wireless application protocol technology.

Merrill Lynch HSBC, a joint venture with Merrill Lynch, launched an online, investment-led, broking and banking service for the mass affluent. A full service is up and running in Canada and Australia, and a research capability is available in the UK. Merrill Lynch HSBC will begin to develop a service for the German, French, Hong Kong SAR and Japanese markets.

History and development

The founding member of HSBC, The Hongkong and Shanghai Banking Corporation, was established in Hong Kong and Shanghai in 1865. The Hongkong and Shanghai Banking Corporation expanded rapidly with an emphasis upon building up representation in China and the rest of the Asia-Pacific region and establishing a presence in the major financial and trading centres in Europe and America.

Changes in the post-Second World War period saw a scaling back of operations in China. In the mid-1950's The Hongkong and Shanghai Banking Corporation embarked on a strategy of pursuing profitable growth through both acquisition and organic development, a combination which has remained a key feature of HSBC's approach ever since.

The Hongkong and Shanghai Banking Corporation purchased The Mercantile Bank of India Limited and The British Bank of the Middle East (now HSBC Bank Middle East) in 1959, increasing HSBC's interests in the rest of Asia-Pacific and the Middle East. In 1965, The Hongkong and Shanghai Banking Corporation acquired a 51 per cent interest (subsequently increased to 62.14 per cent) in Hang Seng Bank, consolidating its position in Hong Kong. Hang Seng Bank, founded in 1933, is now the second-largest bank incorporated in Hong Kong. By the early 1980s, The Hongkong and Shanghai Banking Corporation had established itself as the pre-eminent international financial services provider across the Asia-Pacific region and began to pursue a policy of expansion elsewhere, particularly in Europe and the United States.

In the late 1970s and the 1980s, The Hongkong and Shanghai Banking Corporation began to focus its acquisition strategy on the United Kingdom, purchasing full ownership of the UK merchant bank Antony Gibbs in 1980, which brought with it an insurance business and an established broker in the Lloyd's of London insurance market. To enhance its capital markets capabilities, The Hongkong and Shanghai Banking Corporation acquired a controlling interest in the well-known London-based international securities company, James Capel & Co. Limited, in 1986.

The Hongkong and Shanghai Banking Corporation entered the US market in 1980 by acquiring a 51 per cent interest in Marine Midland (now HSBC USA Inc.) and the remaining interest in 1987. Carroll, McEntee & McGinley Inc. (renamed HSBC Securities (USA) Inc.), a primary government securities dealer in the United States, was acquired in 1983. Marine Midland acquired JP Morgan's US dollar clearing business at the end of 1996 and First Federal Savings and Loan Association of Rochester in 1997, both of which were integrated into existing operations.

In 1981, The Hongkong and Shanghai Banking Corporation incorporated its existing Canadian operations as Hongkong Bank of Canada, one of the first foreign-owned banks in Canada. HSBC Bank Canada, based in Vancouver, has since made numerous acquisitions, expanding rapidly to become the largest foreign-owned bank in Canada and the seventh-largest overall at 31 December 2000.

In 1987, The Hongkong and Shanghai Banking Corporation purchased a 14.9 per cent interest in Midland Bank plc (now HSBC Bank plc), established in 1836 and one of the United Kingdom's principal clearing banks. In 1991, HSBC Holdings plc was established as the parent company of HSBC and, in 1992, HSBC Holdings purchased the remaining interests in Midland in what was then one of the largest ever international banking acquisitions. In connection with this acquisition, HSBC's head office was transferred from Hong Kong to London in January 1993 and the Bank of England became HSBC's principal regulator.

HSBC continues to grow its business in Latin America. In 1997, HSBC assumed selected assets, liabilities, and subsidiaries of Banco Bamerindus do Brasil S.A. following the intervention of the Central Bank of Brazil. Headquartered in Curitiba, Banco Bamerindus do Brasil S.A. was the fifth-largest bank in Brazil (measured by assets), with the second-largest branch network in the country at the time of acquisition. HSBC acquired Grupo Roberts, based in Buenos Aires and one of the largest privately-owned financial services groups in Argentina, in two stages, completing the purchase in 1997. In 2000, HSBC Investment Bank Brasil, consisting of the former operations of Banco CCF Brasil S.A., was integrated under HSBC Bank Brasil management following the acquisition of CCF.

In December 1999, HSBC acquired Republic New York Corporation ('RNYC'), subsequently merged with HSBC USA Inc., and Safra Republic Holdings S.A. ('SRH'). Following these acquisitions, HSBC is now the third largest bank operating in New York State, with more than 430 branches serving over two million customers. Largely as a result of these acquisitions, HSBC more than doubled its private banking business with over US$30 billion of client funds under management. In addition, the mergers enhanced HSBC's global markets business in treasury and foreign exchange as well as adding world leading businesses in banknotes and bullion. As a result of the mergers, HSBC USA Inc. was ranked the eleventh largest bank holding company in the United States by assets at 30 September 2000.

In August 2000, HSBC completed the acquisition of Chase Manhattan Bank's branch operations in Panama. The acquisition of 11 branches added US$752 million of assets to HSBC. Following the acquisition, HSBC transferred ownership of its existing Panama business from HSBC Bank plc to HSBC Bank USA. The combined business makes HSBC the largest lender to corporations in Panama and the Colon Free Zone.

To expand its base in the euro zone, in October 2000, HSBC completed its acquisition of 99.98 per cent of the issued share capital of CCF, having acquired 24.26 per cent in June 2000, and subsequently increasing its stake to 98.59 per cent in July 2000. The total consideration of US$12,509 million consisted of cash of US$3,319 million, shares of US$8,629 million, deferred consideration amounting to US$498 million and contingent consideration amounting to US$63 million. In connection with the acquisition, HSBC Holdings listed the shares on the *Premier Marche* of the Paris Bourse (now Euronext Paris).

CCF is a major French banking group, with businesses in personal, corporate and investment banking. It has over 650 branches in France serving over 1 million customers in the middle and upper income bracket, and an important corporate and institutional business. CCF has funds under management of US$78 billion at 31 December 2000. Under French GAAP, CCF had consolidated total assets of US$67.1 billion and shareholders' funds of US$3.0 billion at 31 December 1999. CCF's profit before tax for the year ended 31 December 1999 was US$687 million and its attributable profit was US$435 million.

The acquisition of CCF represented a unique opportunity for HSBC to acquire a well-managed, fast growing French bank and to establish a significant base in continental Europe. The acquisition served HSBC's strategic objectives by significantly increasing its personal wealth management business and by enhancing its corporate and investment banking capabilities.

On 22 February 2001, the French Finance Ministry announced the sale of Banque Hervet to CCF for a consideration of FF3,471 million.

During 2000, HSBC increased its stake in Egyptian British Bank from 40 per cent to 90 per cent.

In December 2000, HSBC completed the acquisition of PCIB Savings Bank, which HSBC has renamed HSBC Savings Bank (Philippines) Inc. The bank complements HSBC's existing operations in the Philippines and will focus on providing financial services to personal and middle-market customers through its 16 branches in the metro Manila area.

As each acquisition has been made, HSBC has focused on integrating its newly acquired operations with its existing business with a view to maximising the synergy between the various components. International Managers, a group of approximately 400 mobile executives with wide international experience and committed to long-term careers overseas within HSBC, are key to this integration process.

Commercial Banking products and services

HSBC's principal banking products and services include deposits, lending and related services, banknotes, treasury and capital markets operations (such as foreign exchange, bullion, primary debt issuance and eurobond trading), trade services, leasing, finance (including instalment and invoice finance) and factoring, payments and cash management, insurance and custodial services.

Deposits, lending and related services. Through its extensive branch network, HSBC provides a wide range of banking and related financial services to both personal and corporate customers.

Principal services and products for personal customers include current (checking) and savings accounts, loans and home finance, cards, insurance and investments services. Services are also delivered via the telephone and internet. A comprehensive financial planning service, covering customers' investment, retirement, and personal and asset protection needs is offered through specialist financial planning managers.

Commercial customers are offered a wide range of services and products, including current and savings accounts, corporate and purchasing cards, and loans. Corporate banking covers major corporate customers and the accounts of banks and non-bank financial institutions. Relationship managers maintain prime contacts with clients and direct and co-ordinate access to HSBC's comprehensive range of services.

Through Merrill Lynch HSBC, a joint venture with Merrill Lynch, HSBC provides integrated on-line securities and banking services primarily to mass-affluent, self-directed customers. The service was launched in Canada and Australia along with an equity research service in the UK in December 2000. Merrill Lynch HSBC plans to roll out the full on-line service in other parts of the world, including Germany, France, Hong Kong and Japan.

HSBC services its most valuable personal customers through its HSBC *Premier* service, launched simultaneously in 17 countries and territories in March 2000. There are now some 270,000 HSBC *Premier* customers worldwide who have available to them a dedicated team of relationship managers, HSBC *Premier* centres in selected locations around the world and 24-hour call centre support.

As at 31 December 2000, HSBC had total customer deposits of US$427 billion and total loans and advances to customers, net of suspended interest and provisions for bad and doubtful debts, of US$290 billion.

Insurance. HSBC sells and distributes a range of insurance products, including life, loan protection and ill-health protection insurance, as well as pensions, investments and savings, principally through its locally based banking subsidiaries. HSBC is a broker for life and pensions insurance, general insurance and reinsurance and an underwriter for property, casualty, life, pensions and health insurance. HSBC is currently focused on increasing its personal insurance lines, and cross-selling these insurance products to its personal customer base utilising its branch network, local sales forces, direct telephone capabilities and internet delivery channels.

Treasury and capital markets. HSBC's treasury and capital markets business is one of the largest in the world, serving supranationals, central banks, international and local corporations, institutional and private investors, financial institutions and other market participants. By drawing on the local balance sheet strengths of HSBC Bank plc, The Hongkong and Shanghai Banking Corporation Limited and other HSBC group members, HSBC provides clients with high-quality, specially-tailored products and services.

HSBC's principal treasury and debt capital markets products and services are foreign exchange, currency options, swaps, interest rate, bond and other specialised derivatives, government and non-government fixed income and money-market instruments, primary debt issuance to corporate and government bodies, precious metals and exchange-traded futures, options broking, bank notes and clearing and capital markets operations. Following the acquisition of RNYC, HSBC now has one of the largest global banknote trading and transportation businesses, buying and selling banknotes denominated in various currencies and shipping US dollars to and from financial institutions in nearly 40 countries and territories.

HSBC's principal dealing rooms are located in London, New York, Paris and Hong Kong SAR, supported by key operations in Tokyo, Singapore, São Paulo and Düsseldorf, which together with smaller operations elsewhere form a network of 58 dealing rooms in 50 countries and territories with nearly 3,900 dealing and support staff. HSBC provides sophisticated 24-hour global coverage and has detailed knowledge of and support from local markets. London, New York, Paris and Hong Kong all offer computerised spot and forward foreign exchange order services which certain corporate clients can use directly.

Trade services. HSBC has more than 130 years of trade services experience and expertise. This core business is supported by HSBC's global branch network throughout the Asia-Pacific region, Europe, the Americas and the Middle East, making HSBC one of the world's largest trade finance and services organisations in the world.

Offering a complete range of traditional documentary credit, collections and financing products, as well as specialised services such as insured export finance, factoring and forfaiting, HSBC seeks to bring value to its customer partnerships – with solutions that are tailored to meet their requirements, supported by HSBC's highly automated systems.

Leasing, finance and factoring. HSBC provides leasing, finance (including instalment and invoice finance) and factoring services, primarily to business customers in the United Kingdom, Hong Kong, the United States and France. HSBC has established special divisions to finance commercial vehicles, plant and equipment, materials handling, machinery and large, complex leases. It also provides services for consumer finance and small businesses. A key component of HSBC's leasing activities involves the provision of passenger rolling stock under operating leases to privatised train operators in the United Kingdom.

Payments and cash management. HSBC is a leading provider of payments, collections, liquidity management and account services worldwide, enabling financial institutions and corporate customers to manage their cash efficiently on a global basis. HSBC's ability to provide high-quality cash management services is enhanced by its extensive network of offices and strong domestic capabilities in many countries, including direct access to local clearing systems. A key component of HSBC's market leadership in cash management is the continuing innovation and flexibility in electronic delivery using internet-enabled, file transfer or PC-based technology, to best suit the client's needs.

Securities services. HSBC provides custody and clearing services to domestic and cross-border investors in 18 centres in the Asia-Pacific region and 14 centres in Europe, the Middle East and the Americas. HSBC Bank plc is one of the leading global custodians, with a high-quality network covering over 60 world markets. HSBC Bank plc also provides investment administration, portfolio valuation and performance consulting support to institutional funds. The Hongkong and Shanghai Banking Corporation Limited and HSBC Bank Middle East are both leading providers of custody and clearing services in their local markets. In addition to traditional custodial services, HSBC also provides debt and equity issuer services, trustee and stock lending facilities.

Investment Banking and related services

HSBC provides a comprehensive range of investment banking and related financial services to customers on a global basis primarily through its principal centres of operations in London, Hong Kong, Paris, New York, Geneva and Düsseldorf. The primary services provided by HSBC are Global Investment Banking, Merchant Banking, Private Equity, Asset Management and Private Banking.

Global Investment Banking

HSBC provides advisory services in connection with mergers and acquisitions, asset disposals, equity capital raisings, stock exchange listings, privatisations and capital restructuring.

HSBC's equities business provides a wide variety of research, sales and trading services to its institutional, corporate and retail clients. Operating in all major financial markets, HSBC has a network of offices in the Asia-Pacific region, Europe, the Americas, the Middle East and Africa and currently trades in some 50,000 stocks on markets in 62 countries. The recent acquisition of CCF has significantly increased HSBC's investment banking presence in Europe.

The HSBC research team employs over 325 research analysts, economists and strategists globally, and is supported by over 500 sales staff. Through trading and derivatives teams, a wide variety of products and solutions is offered to cater to the increasingly complex needs of different clients. HSBC provides an integrated service in equity, derivative, convertible and portfolio trading in global markets as well as providing stock borrowing and lending facilities. This integrated approach to trading, together with the strength of the HSBC balance sheet, enables HSBC to structure large, complex transactions on behalf of its clients.

HSBC's substantial capital base provides it with significant underwriting capability. Clients of the division include both corporate and public sector entities, as well as institutional clients.

Merchant Banking

HSBC provides merchant banking services, including Project and Export Finance, Global Aircraft and Structured Finance, Loan Syndication, and Amanah Finance.

Project and Export Finance. HSBC is one of the largest providers of project and export finance services in the world. HSBC provides non-recourse financing to exporters, importers, and financial institutions, working closely with all major export credit agencies. HSBC has developed an expertise in creating the innovative financial structures required for the increasingly sophisticated needs of participants in the global trading arena and developers of complex infrastructure products.

Global Aircraft and Structured Finance. HSBC provides advice and financing for complex off-balance sheet and tax efficient investment facilities. Its global operations allow the delivery of complete cross-border financing solutions. HSBC is also an active player in arranging lease finance facilities and structuring capital for aircraft finance globally.

Loan Syndication. HSBC structures, processes and distributes syndicated debt facilities through its loan syndication operations in London, New York, Singapore and Tokyo. These businesses work alongside the origination units of HSBC, enabling it to facilitate corporate and government borrowing requirements around the world.

Amanah Finance. HSBC develops and structures products that are consistent with Islamic laws for its private client, institutional and corporate customers.

Private Equity

HSBC offers institutional investors in Europe, Asia and the Americas the opportunity to invest in unquoted equities. The opportunity to invest in unlisted companies arises in situations such as management buy-outs, management buy-ins, acquisitions as principal, corporate restructurings, acquisition finance and development capital. HSBC also manages long-term discretionary funds on behalf of both HSBC and institutional investors, enabling them to make direct investments in a range of growing companies.

Asset Management

HSBC provides global investment advisory and fund management services through its principal fund management operations in Europe, North America, Latin America, Australia and Asia. HSBC provides large institutional clients with a tailored approach to managing their assets, with active segregated and pooled portfolio management on a global, regional, asset class or country-specific basis. In order to support the sales activities within its own distribution networks, HSBC structures retail products to match customer investment preferences at terms and pricing which are transparent and competitive. As at 31 December 2000, HSBC had over US$137 billion funds under management in pooled investment vehicles for retail customers and for over 1,000 institutional clients. HSBC offers smaller institutions and private investors a range of over 310 mutual funds and other pooled investment vehicles, including unit trusts, mutual funds, offshore umbrella funds and Individual Savings Accounts ('ISAs'). HSBC is organised into three regional fund management teams: Asia-Pacific, Europe and the Americas. Asset allocation and reallocations and stock selection decisions are made by a global committee drawn from the regional teams, supported by client investment professionals, and then executed at the local level.

Private Banking

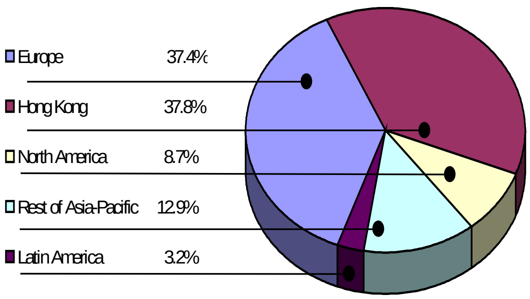
Through HSBC Guyerzeller, HSBC Trinkaus & Burkhardt and a number of specialist entities within CCF, HSBC provides onshore and offshore private banking services for high net worth individuals. HSBC is one of the world's leading private banking groups offering foreign exchange, money market, investment management, trustee and estate planning, securities and research capabilities, account facilities in all major currencies and lending against investment portfolios, guarantees and property. Services are provided through a combination of geographical support and specialised bankers with expertise in areas such as sports and the media, diamonds and jewellery, technology and entrepreneurial activity.

Following the acquisition of RNYC and SRH in December 1999, and CCF in July 2000, HSBC has international private banking operations in 45 locations including London, Geneva, Zürich, Luxembourg, Düsseldorf, Monaco, Channel Islands, Brussels, Dubai, Singapore, Hong Kong, New York, Miami, Nassau, São Paolo and Buenos Aires. Total assets under management at 31 December 2000 amounted to US$115 billion.

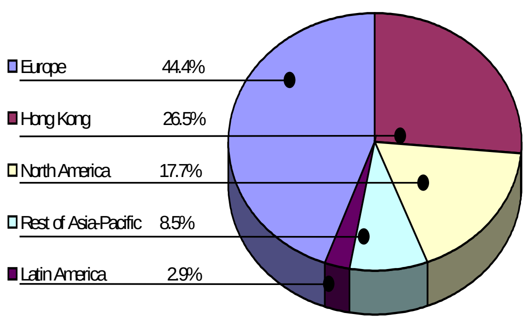
To service further its premium customers, HSBC has successfully integrated its various private banking operations under HSBC Republic Suisse, as HSBC seeks to position itself as one of the world's top five private banks.

Geographic Regions

Profit before tax by geographical region
Year ended 31 December 2000



Year ended 31 December 2000 Total assets* split by geographical region As at 31 December 2000



***excludes Hong Kong SAR Government certificates of iindebtedness**

Europe

Europe contributed US$3,658 million, or 37.4 per cent, to HSBC's profit on ordinary activities before tax in 2000 compared with US$3,322 million in 1999. The United Kingdom contributed US$3,127 million in 2000 compared with US$2,707 million in 1999.

HSBC's main subsidiaries in Europe are HSBC Bank plc, CCF and HSBC Republic Suisse.

United Kingdom

In the United Kingdom, HSBC Bank plc provides a comprehensive range of banking and related financial services to personal, commercial and corporate customers. Headquartered in London, HSBC Bank plc has over 6 million personal current accounts and a network of approximately 1,700 branches in the United Kingdom, including 42 outlets in supermarkets. HSBC Bank plc has approximately 16 per cent of the personal current account market in England and Wales. At 31 December 2000, on a consolidated basis, HSBC Bank plc's total assets were US$276 billion, total customer accounts were US$148 billion and total net customer loans were US$119 billion

HSBC Bank plc's strategy is to build long term relationships and reward customers through value for money products and a high quality service. HSBC Bank plc is committed to community banking and development of the network focuses on creating more time for branch staff to serve customers. Customers can choose to do their banking through branches, the telephone, the internet, interactive TV, mobile phones and ATMs. The bank aims to provide consistently high service across all channels. Telephone services were further enhanced and are becoming increasingly popular with customers, with a 23 per cent increase in calls in 2000. Internet banking, which was successfully launched in August, now has approximately 340,000 customers. The service allows customers to pay bills, make payments, transfer money and view direct debits and standing orders. In 1999, the bank launched the UK's first nationally available TV Banking service via Sky Digital Satellite and over 126,000 customers had registered by the end of 2000. Customers also have access to approximately 3,000 HSBC Bank plc ATM machines, 30,000 cash machines through the UK LINK network and over 400,000 ATM machines worldwide.

The bank's personal banking services include personal current and savings accounts, loans and mortgages, wealth management services including private clients, card services, and First Direct.

In 2000, the bank made several significant enhancements to its products for personal customers. A Charges Access Terms ('CAT') standard variable rate mortgage was introduced, demonstrating HSBC Bank plc's commitment to fair pricing and terms. A range of unit trusts were converted to Open Ended Investment Companies ('OEICs'). A new Basic Bank Account was launched reflecting HSBC Bank plc's commitment to make basic banking facilities widely available. Stakeholder pensions were introduced for new customers and pensions for existing customers have been re-priced to the same terms. Annual fee charging on the bank's credit card and gold Visa credit card were removed in 2000 and charges to customers for cash machine withdrawals on debit cards from UK machines within the LINK network were removed on 1 January 2001.

In 1989, HSBC Bank plc launched First Direct, the United Kingdom's first full banking service by telephone, 24 hours a day, 365 days a year. First Direct has continued to grow in 2000 in an increasingly competitive market and had only minimal numbers of account losses to new entrants. 2000 also saw the launch of firstdirect.com, which now has 270,000 customers. The bank has recently completed the launch of 'capital', which offers a telephone-based Independent Financial Advice service and online and telephone access to investment and protection products, selected using strict criteria including performance, financial strength and customer service. The service also offers HSBC's CAT standard mortgage.

HSBC Bank plc's commercial banking operations extend across the whole of the UK business market and offer a full range of services including, current accounts, deposits, lending, asset finance and leasing, trade services, equity finance, cross-border payments and cash management. The bank remains committed to serving its commercial customers through the branch network and this will be complemented by the introduction of a more flexible range of delivery channels. Over 67,000 customers use the bank's business telephone banking service, and an internet banking service will be launched during 2001. HSBC continues to experience strong demand for Hexagon, its world leading electronic banking service for business customers, with over 29,000 users, an increase of 29 per cent in the last 12 months.

The Forum of Private Business survey for 2000 again showed HSBC as having the highest satisfaction rating and in July, *Datamonitor* ranked HSBC as the best overall provider of current accounts to small and medium enterprises ('SMEs').

In 2000, several improvements were made to products for commercial customers. The bank launched a simple fixed-rate hire purchase product and internet Ledgerline, which provides a full range of credit management, credit protection and sales-linked finance services. Readers of Trade Finance magazine voted HSBC "Best Factor" in their 2000 awards.

HSBC Bank plc has a strong tradition as a trade services bank, and handled over 30 per cent of the import documentary credits opened in the United Kingdom during 2000. The bank sponsored the Government's Export Awards for Smaller Business scheme.

Linking to the bank's wealth management strategy for personal customers, a service has been developed for small business owners to manage their finances both as individuals and as businesses, whilst also focusing on the needs of their employees. The bank has been helping small businesses to meet new stakeholder pension requirements. An internet-based proposition will be introduced in April 2001.

Competition in the provision of banking services to SMEs is currently being considered by the Competition Commission, whose final report is due to be presented to the Secretary of State for Trade and Industry in June 2001.

HSBC Bank plc manages corporate and institutional clients through a number of specialist industry groups. Activities are co-ordinated across HSBC, making maximum use of its international network to win important cross border business.

The promotion of the HSBC brand, investment in European infrastructure and the acquisitions of CCF and SRH have opened new possibilities for core banking business and the provision of private banking and wealth management services to executives of institutional clients. A new product, Online Account Manager was launched in 2000, providing market leading real-time internet reporting of information to financial institutions and corporates. New products and internet-based offerings are also being developed to enhance the bank's service to customers. In 2001, a new service will be launched which reduces inter-bank settlement risk associated with foreign exchange.

Within institutional banking, the bank's global custody division continues to grow. As the leading UK custodian it has benefited from significant growth in fixed income and equity investments. Assets under custody grew by 12 per cent to US$1,150 billion at 31 December 2000.

Crédit Commercial de France

CCF, the seventh largest bank in France, is HSBC's flagship bank in continental Europe, with businesses in personal, corporate and investment banking, asset management and private banking. Headquartered in Paris, CCF serves over 1 million individual customers and important corporate and institutional business clients, and has a significant presence in other European markets. CCF has a network of 682 branches in France, with 32 new branches in 2000. Under French GAAP, at 31 December 2000, CCF's total assets were US$67.1 billion, total customer deposits were US$23.2 billion and total net customer loans were US$25.6 billion under French GAAP.

CCF's strategy is to focus on the most dynamic and profitable market segments. CCF is a leading bank in mass affluent personal retail banking in France, with more than 80 per cent of CCF's clients concentrated in middle and upper income brackets and 90 per cent of its branches in France concentrated in the four regions with the highest growth potential for banking activity: Paris, Rhône-Alpes, Provence-Alpes-Côte d'Azur and Languedoc Roussillon. In corporate banking, CCF concentrates in the most profitable high added-value segments of the market. In asset management and private banking, CCF has specific subsidiaries dedicated to serving the most profitable client categories in the highest added-value sectors.

CCF's retail and commercial banking operations comprise the parent company CCF, with 208 branches, and a network of nine regional banks, with a total of 476 branches. Each regional bank operates in a specific geographical area, under its own brandname, with very strong local positions.

CCF offers the full range of retail products and services through a number of complementary distribution channels, including on-line, telephone and mobile phone banking. CCF's online brokerage service was launched in 1999, providing CCF customers and non-customers alike trading opportunities on the Paris Bourse and financial information including stock quotes, French and international newswires and research. CCF's online credit company, Netvalor, offers credit for large household purchases directly to consumers through its dedicated consumer credit site, "123credit.com". CCF's WAP began operating in 2000.

CCF networks also offer a full range of high quality products and services to medium size French corporates and, in the regional subsidiaries, to entrepreneurs. CCF offers its customers a number of innovative on-line account management products and services, including trade account management, business intelligence, centralised corporate treasury management, electronic payments systems and the judicial recovery of unpaid receivables, all branded under its "Elys" product line. In addition, CCF provides secure payment facilities that permit merchants to manage order and inventory functions and conduct bank transactions simultaneously.

CCF provides equipment and finance leasing through Loxxia, which was merged with Slibail, the specialised subsidiary of Credit Lyonnais, in order to create the second-largest French leasing provider.

Through its Corporate Banking division, CCF offers account management, credit, cash management and stock custody services to the 50 largest French institutional and corporate groups and to international clients. The Corporate Banking Branch is very active in providing trade financing, export credit facilities and financing backed by public and private sector credit support.

CCF provides equity and corporate finance services, previously through two national bases, one in Paris and one in London. CCF advises on transactions involving French, British and international clients across a wide range of industries including retailing, chemicals, pharmaceuticals, utilities, steel, aerospace, automobiles, banking, finance and insurance, electronics and entertainment. CCF is one of the most active French banks advising on privatisations in France and in emerging markets in Africa and Eastern Europe, where it has built a strong reputation. CCF is actively involved in significant debt and equity offerings, including initial public offerings on the Paris Bourse. CCF is also active in providing asset financing, particularly in the marine and aviation sectors, as well as structured financing for well-known corporates. Through a specialised subsidiary, CCF provides investment advice and third-party fund management in connection with commercial and residential real estate investment. This subsidiary is involved in the UK government's Public Private Partnership programme, with specific mandates ranging from hospital to communications services.

CCF provides asset management services primarily through four full-service fund management firms which serve institutional clients as well as retail networks, with proprietary or non proprietary products. CCF is particularly strong in providing equity and diversified products and corporate savings plans (ranking third in the French market). CCF formed CCF SEI, a joint venture with the US fund manager SEI, in 2000 to develop a "manager of fund managers" approach. Another project, Be.Partner, will provide customers with a central purchasing cooperative offering an array of integrated services for in-house and third party distribution channels.

CCF offers a wide range of insurance products, including comprehensive health insurance, personal property casualty insurance and, through Erisa, its partnership with Swiss Life, homeowners' insurance.

CCF has grown its private banking business both organically and through the selective acquisition of a number of specialist institutions, including Banque du Louvre and Banque Eurofin in Paris and Banque Dewaay in Brussels.

At the end of 2000, CCF's funds under management were US$78 billion, and were greater than its total assets of US$67 billion.

HSBC Private Banking Holdings (Suisse) S.A.

To further service its premium customers, HSBC has successfully integrated its various private banking operations in Europe under HSBC Private Banking Holdings (Suisse) S.A., as HSBC seeks to position itself as one of the world's top five private banks.

Through HSBC Republic Suisse, HSBC operates banking subdiaries in Switzerland, France, Luxembourg, Guernsey and Monaco principally engaged in private banking and related services. These include deposits and funds transfer; asset and trust management; mutual funds; currency; metals and securities transactions; lendings; letters of credit and guarantees and other extensions of credit on a collateralised basis to existing depositors. HSBC Republic Suisse operated as Safra Republic Holdings S.A when it was acquired in December 1999.

Hong Kong

Hong Kong contributed US$3,691 million, or 37.8 per cent, of HSBC's profit on ordinary activities before tax in 2000 compared with US$3,054 million in 1999.

HSBC's principal banking subsidiaries in the Hong Kong SAR are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank, in which HSBC has a 62.14 per cent stake. The Hongkong and Shanghai Banking Corporation Limited is the largest bank incorporated in Hong Kong and HSBC's flagship bank in the Asia-Pacific region. It is also one of the Hong Kong SAR's three note–issuing banks, accounting for more than 65 per cent of the Hong Kong bank notes in circulation in 2000. In Hong Kong, it operates through 208 branches and has a substantial market share**.** Hang Seng Bank was founded in 1933 and is now the second-largest bank incorporated in Hong Kong. Hang Seng Bank has 154 branches and automated banking centres in Hong Kong.

Both banks offer their personal customers an extensive range of financial services with the aim of satisfying customers' needs to grow, manage and protect their wealth. In 2000, The Hongkong and Shanghai Banking Corporation Limited continued to extend the range of wealth management services to reinforce its position as an integrated financial services provider. HSBC *Premier*, the new global service, has been successfully launched and offers an all in one product which includes savings, investments (unit trusts, securities, bonds) and insurance services, the convenience of a single, consolidated statement, and preferential terms. Hang Seng Bank offers the Bank Smart Account and Bank-In-One Account that provide a combination of banking, investment and financial services in one package.

To meet the growing investment needs of customers, HSBC offers a wide range of unit trust funds and provides investment planning services. With the introduction of on-line securities trading services, retail securities services are being offered to an increased number of customers. Product diversification, increased staff training and accreditation have contributed to the growth in insurance business.

Sustained by aggressive marketing campaigns and the launch of new cards (i-Life and iCAN cards), HSBC has maintained a leading position in credit card issuing. HSBC remains the largest card issuer in Hong Kong when cards issued by Hang Seng Bank are included, with 2.58 million cards in circulation. HSBC provides a comprehensive range of banking products and services to meet the needs of large and small businesses in Hong Kong, including trade services, payments and cash management services, electronic banking, leasing and factoring, custody business and insurance. For companies with more sophisticated finance needs, investment banking and capital market services are available. At the same time, special products and servicing channels tailored for small business customers have been progressively introduced in 2000. This will continue in 2001. Such development demonstrates HSBC's commitment to business customers regardless of size. In December 2000, the Hong Kong Government implemented the Mandatory Provident Fund scheme, a compulsory retirement savings scheme. Both The Hong Kong and Shanghai Banking Corporation Limited and Hang Seng Bank worked together to market provident fund schemes to all business customers and some 580,000 individuals are now enrolled with HSBC.

HSBC has launched several e-commerce initiatives in the Hong Kong SAR. HSBC launched Online@hsbc, an internet banking service for personal customers in August 2000. The customer response has been positive with registrations in excess of 150,000 by the end of January 2001. Business Internet Banking along with Internet Trade Services is planned to be launched during 2001. In addition to investment in iBusinessCorporation, HSBC also took strategic stakes in e-commerce enabling ventures: HiTrust.com and Pacific Century Cyberworks' Securenet. Recognising the importance of alliances to progress e-commerce, HSBC is in discussion with providers of wireless services, payment gateways, online service providers and portals.

Hang Seng Bank launched a comprehensive range of internet banking services on 1 August 2000, marking an important milestone in its development as a major e-player. The Hang Seng Bank e-Banking services are offered to integrated account customers. The e-Banking services have been very well received and more than 100,000 customers had been registered at the end of 2000. Internet transactions have grown to account for more than 6 per cent of Hang Seng Bank's total transactions in a few months. Online securities trading now accounts for over one-third of Hang Seng Bank's total securities transactions. Hang Seng Bank continues to enhance its e-Banking services to satisfy customer expectations. Chinese e-Banking services were launched on 30 October 2000 and online investment funds and insurance services were launched on 10 December 2000.

Rest of Asia-Pacific (Including the Middle East)

The rest of Asia-Pacific region contributed US$1,265 million, or 12.9 per cent, to HSBC's profit on ordinary activities before tax in 2000 compared with US$329 million in 1999.

Asia-Pacific

HSBC conducts business elsewhere in the Asia-Pacific region, primarily through branches and subsidiaries of The Hongkong and Shanghai Banking Corporation Limited, with particularly strong coverage in mainland China, India, Indonesia, Korea, Singapore, Taiwan and Thailand; through HSBC Bank Australia Limited in Australia; and HSBC Bank Malaysia Berhad, which has the largest presence of any foreign-owned bank in Malaysia.

Both The Hongkong and Shanghai Banking Corporation and Hang Seng Bank operate in mainland China, offering personal banking services and numerous commercial services to non-PRC citizens and companies. The Hongkong and Shanghai Banking Corporation was one of the first foreign banks permitted to conduct business in renminbi (the sole currency in which domestic business transactions can be conducted in China and which is convertible only at authorised banks for current account transactions). Banking regulations do not permit foreign banks, including The Hongkong and Shanghai Banking Corporation and Hang Seng Bank to accept deposits from, or conduct business with, individual Chinese citizens. Certain types of business, for example, trade finance, may be carried out with mainland Chinese companies, although deposits may not be accepted. The Hongkong and Shanghai Banking Corporation's area management office for its China business was relocated from the Hong Kong SAR to Shanghai in 2000.

In the Asia-Pacific region, HSBC is seeking to augment its traditional strength in the corporate banking sector by actively expanding its personal banking operations. The Hongkong and Shanghai Banking Corporation has a comprehensive ATM network across the region, telephone banking in 18 countries and internet banking in Singapore. During 2001, internet banking is planned to be launched in a further six countries.

HSBC's strategy in the rest of Asia-Pacific is focused on providing products and services that meet the wealth management requirements of the mid and upper customer segments. Recognising its niche status in most countries and territories in the region, The Hongkong and Shanghai Banking Corporation's approach is to differentiate its products from those offered by the local competition by leveraging HSBC's worldwide experience and expertise. The foundation of its wealth management strategy is PowerVantage**,** which is now offered to entry level customers in most of The Hongkong and Shanghai Banking Corporation's personal banking markets, and the introduction of the HSBC *Premier* brand being rolled out in most of the region**.** With a focus on wealth creation and opportunities for cross-selling investment and insurance products, The Hongkong and Shanghai Banking Corporation has expanded its range of lending products, including home mortgages and personal loans. The Hongkong and Shanghai Banking Corporation is also an issuer of credit and debit cards in a large number of countries in the region. The Hongkong and Shanghai Banking Corporation is steadily expanding its insurance business in the Asia-Pacific region through alliances with major life and non-life insurance providers. In addition, The Hongkong and Shanghai Banking Corporation is conducting a major service and sales training programme across the Asia-Pacific region, targeted at providing staff with the skills necessary to provide a comprehensive wealth management service to clients.

HSBC continues to invest in regional processing for Asia-Pacific to enhance productivity through economies of scale and processing efficiencies. Back office sites are in place in mainland China and in India, which undertake routine processing from all parts of the world, allowing HSBC to benefit from cost efficiencies.

Middle East

HSBC's operations in the region are conducted primarily through HSBC Bank Middle East, Egyptian British Bank (90.6 per cent owned), Credit International D'Egypte, British Arab Commercial Bank (46.5 per cent owned) and Saudi British Bank (40 per cent owned). HSBC's branch network in the region consists of 141 branches and offices primarily in the United Arab Emirates and Saudi Arabia and also in Egypt, Bahrain, Jordan, Lebanon, Oman, Qatar, Iran, Azerbaijan and the Palestinian Autonomous Area. In addition to their core corporate banking services, HSBC's Middle East operations focus on personal banking, private banking for high net-worth individuals and utilising the expertise it has developed in the rapidly growing Islamic banking and finance sector.

North America

North America contributed US$850 million, or 8.7 per cent, of HSBC's profit on ordinary activities before tax in 2000 compared with US$959 million in 1999. HSBC's principal banking subsidiaries in North America are HSBC Bank USA and HSBC Bank Canada.

United States

At 30 September 2000, HSBC Bank USA had assets of US$83 billion and deposits of US$56 billion and was the eleventh largest bank holding company in the United States, ranked by total assets, and the third largest depositary institution in New York State, serving over two million customers.

As a result of the acquisition of RNYC in December 1999, the year 2000 was largely one of integration. RNYC's 80 branches located in the New York city region have been fully integrated both from a product and a branch platform perspective into HSBC's retail network. Twenty branches were consolidated with minimal customer disruption in 2000 and one additional branch is targeted for consolidation in the first quarter of 2001.

Through HSBC Bank USA, HSBC has the largest branch network in New York State, where it has over 430 branches throughout the state, as well as two branches in Pennsylvania, seven branches in Florida and three branches in California. At 31 December 2000, HSBC Bank USA's customer base included more than two million personal and 120,000 commercial and institutional customers.

HSBC Bank USA is engaged in general commercial banking business, offering a full range of banking products and services to individuals, including high-net-worth individuals, corporations, institutions and governments. As a result of the acquisition of RNYC in December 1999, HSBC is now a world leader in banknotes and bullion trading and provides the fifth-largest factoring service in the United States. Additionally, HSBC offers selected commercial and consumer banking products on a national basis, including mortgage servicing to over 3,000 brokers in 48 states. Through its participation in the joint venture Wells Fargo HSBC Trade Bank with Wells Fargo Bank, HSBC offers trade-related financing throughout the western United States. Through HSBC's international network, HSBC Bank USA offers its customers access to the global markets and services of the HSBC group.

The acquisition of RNYC and its integration into HSBC has greatly grown HSBC USA's business, approximately doubling HSBC USA's assets under administration and greatly enhancing HSBC's global treasury and foreign exchange businesses.

As part of the integration of the former RNYC into HSBC, various operations of non-US branches and subsidiaries of HSBC USA have been transferred to foreign operations of HSBC, such as the transfer of a branch in Tokyo to the Asia-Pacific operations of HSBC. The integration of the operations of the former RNYC into HSBC has now been largely completed, with the integration of the remaining systems expected to be completed early in 2001.

HSBC Bank USA launched its Internet banking service in April 2000. By year-end, over 80,000 accounts had been opened and the site was receiving more than 15,000 visits per day. In November 2000, HSBC Brokerage (USA) Inc. began a pilot programme of online trading for Discount Brokerage customers. HSBC expects the service will be available to all US discount brokerage customers in 2001.

HSBC Bank USA has a considerable presence and is the largest lender to corporations in Panama and the Colon Free Zone, with 17 branches. In August 2000 HSBC acquired the eleven branches and US$747 million of assets of Chase Manhattan Bank's branch operations in Panama, which was followed by the transfer on 1 January 2001 of HSBC plc's existing Panama business to HSBC Bank USA.

HSBC is developing its role as a partner in building local communities through its charitable foundation, HSBC in the Community (USA) Inc., established in September 2000. Through the foundation, HSBC intends to provide funding for a broad range of educational and environmental activities in the United States.

Canada

HSBC Bank Canada had over 160 branches and subsidiary offices in Canada and two in the United States as at 31 December 2000 and offers a wide range of products and services to targeted segments of the financial services market. The organisation and structure of HSBC Bank Canada's operations are customer driven and integrated both across service and product lines and internationally through HSBC's global network. HSBC Bank Canada operates through four major business segments: full service personal; commercial financial products and services; Corporate and Institutional Banking services for the domestic and cross-border financial requirements of HSBC's large domestic and cross-border clients; and Treasury and Markets which encompasses the Canadian operations of HSBC's global treasury and capital markets business, servicing the needs of domestic and international clients.

During 2000, HSBC Bank Canada launched internet banking and established an e-commerce team to expand on e-business initiatives. In addition, HSBC Bank Canada concentrated on certain re-engineering projects which are anticipated to improve operating efficiencies. During 2000, HSBC InvestDirect was transferred to Merrill Lynch HSBC (www.mlhsbc.ca) which launched in December 2000, providing a research and share trading service, online and by phone.

Customers have access through various networks to over 30,000 ATMs in Canada.

HSBC Bank USA and HSBC Bank Canada collaborate in joint marketing initiatives targeted at clients who conduct cross-border trade.

Latin America

Latin America contributed US$311 million, or 3.2 per cent, to HSBC's profit on ordinary activities before tax in 2000 compared with US$318 million in 1999. Despite economic volatility in the region with consequential high interest rates, HSBC views Latin America as a banking and insurance market that is still developing and, as such, offers a growth opportunity to a global financial services institution with extensive resources, such as HSBC.

Brazil

HSBC Bank Brasil S.A.- Banco Múltiplo ('HSBC Bank Brasil'), which is headquartered in Curitiba, has an extensive domestic network, with over 1,500 branches and offices, 2.9 million personal customers and over 200,000 business and institutional customers. HSBC's goal is to use this network, the third-largest of the private banks in Brazil, as a platform to expand personal banking services and cross-sell other products and services, particularly insurance, funds management and leasing services.

HSBC Bank Brasil operates the eighth-largest insurance business in Brazil, offering life, auto, property, casualty and health insurance. As part of HSBC's overall cross-selling strategy, the staff of HSBC Bank Brasil's insurance and banking offices are being located together and trained to sell each others' products.

HSBC Bank Brasil is also a major player in the asset management business in Brazil with around BRL 10 billion assets under management at 31 December 2000.

Following the acquisition of CCF in June 2000, HSBC Bank Brasil assumed management control of Banco CCF Brasil S.A. in October 2000 and changed the name of Banco CCF Brasil S.A. to HSBC Investment Bank Brasil S.A. – Banco Múltiplo. The business complements HSBC's existing capital market and insurance operations and brings significant additions to HSBC's private banking and asset management operations in Brazil. With around BRL11 billion in assets under management, the addition of CCF's former operations brings total assets under management to BRL21 billion at 31 December 2000 making HSBC the fourth largest fund manager in Brazil.

Argentina

HSBC Bank Argentina S.A. (formerly HSBC Banco Roberts S.A.) is the sixth-largest private bank in Argentina in terms of deposits and assets and the eighth in terms of loans. HSBC has a network of more than 160 offices in Argentina and an office in Uruguay and a total staff of over 6,000 employees. HSBC also owns one of the largest insurance businesses in Argentina, La Buenos Aires, and through its subsidiaries Máxima and HSBC New York Life offers pensions and life assurance. HSBC's Argentinian health care subsidiary**,** Docthos, provides pre-paid medical services and is the fourth-largest pre-paid health care company in Argentina (in terms of membership) and the leading one in the corporate market.

Since its founding in 1960, HSBC Bank Argentina S.A. has maintained its commercial focus on the upper and middle corporate market and has developed its retail base in an ever-increasing market, initially by targeting the management and employees of its corporate customers. The stabilisation of the Argentine economy in the 1990's enabled HSBC Bank Argentina to expand rapidly its personal banking business by offering products and services that were relatively undeveloped in the previous hyperinflationary environment, such as retail deposit and lending facilities, long-term mortgages and credit cards. HSBC has continued to expand its personal banking business through the introduction of automated telephone banking and PC banking, the expansion of its ATM network and the new home page (www.hsbc.com.ar).

HSBC Bank Argentina has a network of 66 branches throughout the country and offers a wide range of financial products and services, specifically corporate banking, middle market banking, trade financing, leasing, custody services, treasury and investment banking and personal banking.

Competitive environment

HSBC Holdings and its subsidiaries face intense competition in all the markets they serve. HSBC competes with other major financial institutions, including commercial banks, savings and loan associations, credit unions, consumer finance companies, major retailers, brokerage firms and investment companies providing commercial banking products and services, and with investment banks and the investment banking operations of commercial banks providing investment banking products and services.

Global factors

Consolidation in the banking industry

The trend towards bank consolidations, at both the national and international levels, is creating global banks capable of competing directly with HSBC in an increasing number of markets worldwide in which previously only HSBC and a few other global banks dominated.

Limited market growth

In HSBC's key markets, the United Kingdom, France, the United States and Hong Kong, there is limited market growth in the provision of basic financial and banking services. There is, however, growth potential in the provision of a full range of financial services.

Advances in technology

Technological innovations, including new and expanding information and communication technologies, are altering radically HSBC's range of competitors, as low-cost providers, such as online stockbrokers and banks, begin to offer their services without the need of a traditional physical branch network. Such innovations increase the pressure on traditional banks to maintain and enhance service quality and also to make the investments required to offer similar services. HSBC is actively reconfiguring its business to allow customers to access its full range of services in the manner they wish: through the internet, interactive TV, mobile phones, WAP, telephone banking or the branch system.

Regional factors

Europe

Despite limited market growth, an increasing number of new entrants continue to enter the market in the United Kingdom, including a number of telephone banking and internet banking service providers. Life assurers and de-mutualised building societies that have become banks are now direct competitors of HSBC Bank plc. Several established UK banks have also decided to launch separately branded internet banks in addition to their existing services.

The UK Government commissioned an independent and wide ranging review of competition within the banking industry in the United Kingdom, the results of which were published at the end of March 2000. Following the review, the provision of banking services by clearing banks to small and medium sized firms in the UK has been referred to the Competition Commission under Section 51 of the

Fair Trading Act 1973. A report upon this reference is due by June 2001.

Favourable economic conditions in France and CCF's competitive position allowed it to increase transaction volumes without modifying its selective risk criteria. The lending market remains highly competitive and margins continue to be squeezed although there are signs that the market is stabilising.

Hong Kong

As at 31 December 2000, there were 154 fully licensed banks in the Hong Kong SAR. Competition from both locally incorporated and foreign banks is intense, particularly for quality personal and corporate customers. The final phase of interest rate deregulation relating to interest on demand deposits is scheduled for mid-2001 and compulsory deposit insurance protection is being considered by the regulatory authorities. The number of banks offering internet banking services is increasing and keen competition for online investment services continues. The industry may face further consolidation during 2001. As market leaders in Hong Kong, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank are well placed to meet these challenges.

Rest of Asia-Pacific (including Middle East)

The competitive environment continues to vary greatly across the region, depending on the level of regulation, number of entrants and the maturity of the relevant markets. While there has been a sharp revival of many Gulf markets on the back of higher oil prices, the competitive environment remains intense throughout the Middle East. Against this background and uneven economic growth in Asia, many financial markets are undergoing rapid change and management believes HSBC is well placed to benefit from the diverse opportunities that these changes will bring.

In most markets in the region, local banks dominate while foreign-owned banks have a small market share that has typically been focused on trade finance and the support of international companies doing business locally. Nevertheless, the foreign banks can attract a higher share of high net-worth and professional customers due to their range of services, international connections, advanced technology and financial strength. In many countries in the region, the relatively young population and low penetration of financial services are expected to provide growth opportunities for HSBC.

In the corporate banking market, while many foreign competitors reduced their involvement in the region due to economic turmoil, HSBC continues to command respect by maintaining its commitment to the region and supporting its long-term business relationships.

North America

In the United States, mergers and acquisitions in the banking, insurance and securities industries have brought consolidation, conglomeration and a blending of services. HSBC Bank USA also faces vigorous competition from a large number of non-bank suppliers of financial services who have found new and effective ways to meet the financial demands of consumers. Many of these institutions are not subject to the same laws and regulations imposed on HSBC Bank USA.

The Gramm-Leach-Bliley Act ('the Act') of 1999 took effect on 11 March 2000. The Act enables banks, securities firms and insurance companies to enter into combinations that permit a single financial service organisation to offer a more complete line of financial products and services. There have been several combinations of securities firms and banks since the Act took effect.

The Federal Reserve Board under the terms of the Act has confirmed HSBC and certain other HSBC holding companies with US interests as financial holding companies. This will enable HSBC to engage in certain prescribed activities by filing an after-the-fact notice with the Federal Reserve Board.

The Act also requires banks, securities firms and insurance companies to adopt written privacy policies, which are designed to safeguard consumers' privacy , and to provide copies of those policies to their customers on or before 1 July 2001. These institutions will be devoting significant resources in 2001 to this endeavour.

The Canadian financial services industry is highly competitive. HSBC Bank Canada competes directly with other Canadian chartered banks, which, as a group, are the largest financial intermediaries in Canada, as well as with other financial institutions including investment dealers, insurance companies, trust companies, credit unions, mutual fund dealers and pension funds. HSBC Bank Canada competes primarily on the basis of customer service, breadth of products and services offered, price, accessibility through delivery channels and technological innovation and expertise.

Latin America

There are over 180 banks in Brazil operating through a network of over 33,000 branches and offices. Consolidation in the local banking industry is underway, increasingly involving foreign banks (as at 31 December 2000 there were 60 banks in Brazil with foreign ownership interests). With a population of 165 million and an estimated 60 per cent of the active population ‘unbanked’, growth opportunities in the retail sector, in particular, appear favourable in the medium/long term. In comparison with more developed markets, insurance penetration in Brazil is fairly low and is heavily concentrated in the non-life sector. HSBC’s ability to cross-sell both life assurance and general insurance products through its extensive branch network means that it is well-placed to take advantage of this economic and competitive environment.

In Argentina, international competitors are providing the greatest competition in core banking services and insurance with most of the major banks having substantial foreign ownership interests. The deregulated nature of the market and the relatively low penetration of financial services make the market attractive and increasingly competitive. HSBC, with its large branch network and sales force, is one of only two or three groups in Argentina capable of providing a full financial service to its clients and is well placed both as a provider of personal financial services and in capital markets.

Employees

As at 31 December 2000, HSBC had approximately 172,000 employees (including part-time employees) worldwide (of whom approximately 56,600 work in the United Kingdom, 12,450 in France, 25,100 in Hong Kong, 14,200 in the United States and 20,200 in Brazil), compared with approximately 154,000 at 31 December 1999 and 145,000 at 31 December 1998. HSBC estimates that approximately one-half of its labour force worldwide is unionised. Most significant concentrations of union membership occur in the United Kingdom, Brazil (where union membership is a requirement under national employment legislation) and France. Management believes that the current relationship between HSBC and its employees is harmonious, as it has been in the past. HSBC has not experienced any material strikes or work stoppages within the prior 5 years.

Regulation and supervision

HSBC’s operations throughout the world are regulated and supervised by the relevant central banks and regulatory authorities in each of the jurisdictions in which HSBC has offices, branches and subsidiaries. These authorities impose certain reserve and reporting requirements and controls (e.g., capital adequacy, depositor protection, and prudential supervision) on banks. In addition, a number of countries in which HSBC operates impose additional limitations on (or that affect) foreign or foreign-owned or controlled banks and financial institutions, including: restrictions on the opening of local offices, branches or subsidiaries and the types of banking and non-banking activities that may be conducted by those local offices, branches or subsidiaries; restrictions on the acquisition of local banks or requiring a specified percentage of local ownership; and restrictions on investment and other financial flows entering or leaving the country. Changes in the supervisory and regulatory regimes of the countries where HSBC operates, particularly in Asia, will determine to some degree HSBC’s ability to expand into new markets, the services and products that HSBC will be able to offer in those markets and how HSBC structures specific operations.

The most important jurisdictions that regulate and supervise HSBC’s activities are the United Kingdom, Hong Kong, the United States and France.

The UK Financial Services Authority (‘FSA’) is the principal supervisor for HSBC on a consolidated basis. Additionally, each operating bank within HSBC is regulated by local supervisors. Thus, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited are supervised by the Hong Kong Monetary Authority (the ‘Monetary Authority’), HSBC Bank plc and HSBC Investment Bank plc by the FSA, Crédit Commercial de France S.A. by the French Banking Commission and HSBC Bank USA by the Board of Governors of the Federal Reserve Board (the ‘Federal Reserve Board’), the Federal Deposit Insurance Corporation (the ‘FDIC’) and the State of New York Banking Department.

United Kingdom regulation and supervision

UK banking institutions are subject to multiple regulations. The primary UK statutes are the UK Banking Act 1987 (‘UK Banking Act’), and the Financial Services Act 1986 (the ‘FS Act’). Government and industry organisations supplement the statutory structure. In addition, the European Union (‘EU’) periodically issues directives or regulations relating to banking, securities, investment and sales of personal financial services. EU regulations are directly enforceable and, therefore, are automatically implemented into UK Law.

The FSA has been responsible for authorising and supervising UK banking institutions since 1 June 1998, when the Bank of England Act 1998 transferred responsibility for, among other things, banking supervision from the Bank of England to the FSA. The UK Banking Act establishes minimum criteria for authorisation for banks and sets out reporting (and, as applicable, consent) requirements for banks with regard to large individual exposures and large exposures to related borrowers. The FSA may obtain independent reports, usually from the auditors of the authorised institution, as to the adequacy of systems governing internal control as well as systems governing records and accounting. The FSA may also object, on prudential grounds, to persons who hold, or intend to hold, 10 per cent or more of the voting power of a financial institution.

The regulatory framework of the UK banking system has traditionally been based on co-operation between the FSA and authorised institutions. The FSA monitors authorised institutions through interviews and the review of periodically required reports relating to financial and prudential matters. The FSA meets regularly with HSBC's senior executives to confirm that HSBC adheres to the FSA's prudential guidelines. The FSA and senior executives in the United Kingdom regularly discuss fundamental matters relating to HSBC's business in the United Kingdom and internationally, such as strategic and operating plans, risk control, loan portfolio composition and organisational changes.

The FSA is the supervisor of HSBC on a consolidated basis and in this capacity receives information on the capital adequacy of, and sets requirements for, HSBC as a whole. Further details on capital measurement are included in 'Capital Management' on pages 97 to 98.

HSBC Bank plc and HSBC Investment Bank plc are HSBC's principal authorised institutions in the United Kingdom.

While the FSA has already taken on the responsibility for banking supervision from the Bank of England, other organisations retain separate duties that the FSA will absorb under pending legislation. Entities conducting investment business in the United Kingdom must join one or more self-regulating organisations ('SROs') to which the FSA provides staff under contract, or be directly authorised by the FSA. Pending legislation provides that certain SROs currently vested with duties under the FS Act will be merged into the FSA. The FSA acts as the 'lead regulator' in monitoring compliance with the capital requirements for banks' securities and investment businesses. The most important SROs for HSBC Bank plc are: the Personal Investment Authority, which regulates the retail life, pensions and investments business; the Securities and Futures Authority, which regulates the custody business, branch share dealing and treasury and capital markets services and activities; and the Investment Management Regulatory Organisation, which regulates HSBC Bank plc's collective investment scheme trusteeship activities.

The Deposit Protection Board administers the Deposit Protection Fund that applies to deposits with authorised institutions in the United Kingdom. Institutions authorised to accept deposits are required to contribute a percentage of their deposit base to fund the scheme. In the event of the insolvency of an authorised institution, depositors are entitled to receive 90 per cent of their protected deposits, subject to a maximum payment to any one depositor of £18,000 (or €20,000 if greater).

In October 1994, the former Securities and Investments Board (which later became the FSA) issued guidance following its review of the pension industry's past business conduct in relation to pension transfers and opt-outs and non-joiners of occupational pension schemes. HSBC Bank plc made provision for its estimate of the cost of redress in its 1994 Accounts and by 31 December 1999 had completed its review of virtually all cases categorised as priority in phase one of the review by the FSA. The second phase continues, with a targeted completion date of June 2002 (applicable to the whole UK pensions industry). HSBC Bank plc's total potential liability is uncertain. In 2000, HSBC subsidiaries made further provisions in the amount of US$25 million for possible liability to customers who were disadvantaged by inappropriate pensions advice. This additional provision was necessitated by changes to the FSA's financial and mortality rate assumptions and new guidance in respect of subsequent periods of employment affecting phase two of the review.

Hong Kong regulation and supervision

Banking in Hong Kong is subject to the provisions of the Banking Ordinance of Hong Kong (Chapter 155) (the 'Banking Ordinance'), and to the powers, functions and duties ascribed by the Banking Ordinance to the Monetary Authority. The principal function of the Monetary Authority is to promote the general stability and effective working of the banking system in Hong Kong. The Monetary Authority is responsible for supervising compliance with the provisions of the Banking Ordinance. Other committees, appointed by and serving under terms defined by the Chief Executive of Hong Kong ('the Chief Executive'), advise the Chief Executive. They include the Banking Advisory Committee, chaired by the Financial Secretary of Hong Kong (the 'Financial Secretary'), which advises the Chief Executive regarding fully-licensed banks and acts as a general advisory committee, and the Deposit-taking Companies Advisory Committee, which advises the Chief Executive regarding deposit-taking companies and restricted-licence banks. The Chief Executive has the power to give directions to the Monetary Authority, which the Banking Ordinance requires the Monetary Authority and the Financial Secretary to follow.

The Monetary Authority has responsibility for authorising banks, and has discretion to attach conditions to its authorisation. The Monetary Authority's approach to banking supervision involves an understanding of a bank's business and financial position and of its management systems for assessing, monitoring and controlling its exposure to various forms of risk. The Monetary Authority requires that banks or their holding companies file regular prudential returns and holds regular discussions with the management of the banks to review their operations. The Monetary Authority may also conduct 'on site' examinations of banks, and in the case of banks incorporated in Hong Kong, of any local and overseas branches and subsidiaries. The Monetary Authority may conduct the examination without prior notice, on its own initiative or at the initiative of the holders of either one-third of the issued shares or of the holders of one-tenth of the gross total deposit liabilities of that institution in Hong Kong or a sum equal to the aggregate of the paid-up share capital of the institution and its published reserves, whichever is greater, subject to the submission of evidence to justify the examination. The Monetary Authority requires all authorised institutions to have adequate systems of internal control and requires the institutions' external auditors, upon request, to report on those systems and other matters such as the accuracy of information provided to the Monetary Authority. In addition, the Monetary Authority may from time to time conduct tripartite discussions with banks and their external auditors. The Monetary Authority may on its own initiative suspend authorisation of an institution for up to fourteen days and, after consultation with the Financial Secretary, for up to six months, which may be renewed for an additional six months if it considers it necessary. The Monetary Authority may revoke authorisation in the event of an institution's non-compliance with the provisions of the Banking Ordinance. These provisions require, among other things, the furnishing of accurate, non-misleading reports.

The Banking Ordinance requires that banks submit to the Monetary Authority certain returns and other information and establishes certain minimum standards and ratios relating to capital adequacy (see below), liquidity, capitalisation, limitations on shareholdings, exposure to any one customer, unsecured advances to persons affiliated with the bank and holdings of interests in land, with which banks must comply. The Monetary Authority is also empowered to monitor the activities of overseas branches or representative offices of Hong Kong-incorporated banks, and must approve the establishment or acquisition of overseas subsidiaries. The Monetary Authority may also examine the books, accounts and transactions of overseas subsidiaries.

Hong Kong fully implemented the capital adequacy standards established by the Basel Convergence Agreement in 1989. The Banking Ordinance currently provides that banks incorporated in Hong Kong maintain a capital adequacy ratio (calculated as the ratio (expressed as a percentage) of its capital base to its risk-weighted exposure) of at least 8 per cent. For banks with subsidiaries, the Monetary Authority is empowered to require that the ratio be calculated on a consolidated basis, or on both consolidated and unconsolidated bases. If circumstances require, the Monetary Authority is empowered to increase the minimum capital adequacy ratio (up to 12 per cent for fully-licensed banks and 16 per cent for deposit-taking companies and restricted-licence banks), after consultation with the bank. The Banking Ordinance contains detailed provisions regarding calculation of the capital base of the bank and the risk factors which are applied to various categories of assets and off-balance sheet exposures in order to determine risk-weighted exposure. As in the United Kingdom, the total regulatory capital of a bank, and limits on the extent to which different types of capital may be included in the calculation of total regulatory capital, is determined based on 'tiers' of capital. In the event of a bank's insolvency or likely difficulty in meeting its obligations, the Monetary Authority has the power to appoint a manager, who is empowered to do all things necessary to manage the affairs of the institution.

The Monetary Authority, which may deny the acquisition of voting share capital of over 10 per cent in a bank, and may attach conditions to its approval thereof, can effectively control changes in the ownership and control of Hong Kong-incorporated financial institutions. In addition, the Monetary Authority has the power to divest controlling interests in a bank from a person if they are no longer deemed to be fit and proper, or if they may otherwise threaten the interests of depositors or potential depositors. The Monetary Authority may also object to a person becoming or remaining an 'indirect controller' (a person in accordance with whose directions the directors of the relevant bank are accustomed to act) of a bank incorporated in Hong Kong.

To facilitate more effective co-operation with other financial supervisory authorities, the Banking Ordinance enables the Monetary Authority to assist and co-operate with other financial supervisory authorities in Hong Kong and abroad. The Banking Ordinance's secrecy provisions permit the exchange of information with such other authorities, and also permit the Monetary Authority to disclose information to the Chief Executive, the Financial Secretary, the Secretary for Financial Services, and other financial officials, where the Monetary Authority thinks such disclosure would benefit depositors or where the disclosure would aid the other officials in the performance of their duties and is not contrary to the interests of the depositors or the public.

US regulation and supervision

HSBC is subject to extensive federal and state supervision and regulation in the United States. Banking laws and regulations of the Federal Reserve Board, the FDIC and the State of New York Banking Department govern many aspects of HSBC's US business.

HSBC and its US operations are subject to supervision, regulation and examination by the Federal Reserve Board because HSBC is a bank holding company under the US Bank Holding Company Act of 1956 (the 'BHCA') as a result of its ownership of HSBC Bank USA. HSBC Bank USA, as a New York state-chartered bank, is a member of the Federal Reserve System and subject to regulation, supervision and examination by both the Federal Reserve Board and the State of New York Banking Department. The deposits of HSBC Bank USA are insured by the FDIC and are subject to relevant FDIC regulation.

The BHCA and the International Banking Act of 1978 ('IBA') impose certain limits and requirements on the US activities and investments of HSBC and certain companies in which it holds direct or indirect investments. HSBC is generally prohibited from acquiring, directly or indirectly, ownership or control of more than 5 per cent of the voting shares of any company engaged in the United States in activities other than banking and certain activities closely related to banking. Following the enactment of the Gramm-Leach-Bliley Act, effective 11 March 2000, and HSBC's election to be treated as a financial holding company thereunder, HSBC's permitted activities in the United States have been expanded, enabling it to offer a more complete line of financial products and services. HSBC is also generally prohibited from acquiring, directly or indirectly, ownership or control of more than 5 per cent of the voting shares of, or substantially all the assets of, or exercising control over, any US bank or bank holding company without the prior approval of the Federal Reserve Board. However, as a qualified foreign banking organisation under Federal Reserve Board regulations, HSBC may engage in the United States in certain limited non-banking activities and hold certain investments that would otherwise not be permissible under US law.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the 'Riegle-Neal Act') permits a bank holding company or foreign banking organisation, with Federal Reserve Board approval, to acquire a bank located in a state other than the organisation's US 'home' state, subject to certain restrictions, and a national or state-chartered bank to merge across state lines or to establish or acquire branches in other states, subject to various state law requirements or restrictions. In general, the Riegle-Neal Act provides a non-US bank interstate branching and expansion rights similar to those of a national or state-chartered bank located in its 'home' state.

The United States is a party to the Basel Convergence Agreement and US banking regulatory authorities have adopted risk-based capital requirements for US banks and bank holding companies that are generally consistent with the agreement. In addition, US bank regulatory authorities have adopted 'leverage' capital requirements that require US banks and bank holding companies to maintain a minimum amount of capital in relation to their balance sheet assets (measured on a non-risk-weighted basis).

HSBC Bank USA, like other FDIC-insured banks, is required to pay assessments to the FDIC for deposit insurance under the FDIC's Bank Insurance Fund (calculated using a risk-based assessment system) and to fund the Financing Corporation (a governmental entity established to fund past financial assistance provided to insured savings associations). These assessments are based on deposit levels and other factors.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (‘FDICIA’) provides for extensive regulation of depository institutions (such as HSBC Bank USA and its parent holding companies), including requiring federal banking regulators to take ‘prompt corrective action’ in respect of FDIC-insured banks that do not meet minimum capital requirements. For this purpose, FDICIA establishes five tiers of institutions: ‘well capitalised’; ‘adequately capitalised’; ‘undercapitalised’; ‘significantly undercapitalised’; and ‘critically undercapitalised’. As an insured bank’s capital level declines and the bank falls into lower categories (or if it is placed in a lower category by the discretionary action of its supervisor), greater limits are placed on its activities and federal banking regulators are authorised (and, in many cases, required) to take increasingly more stringent supervisory actions, which could ultimately include the appointment of a conservator or receiver for the bank (even if it is solvent). In addition, FDICIA generally prohibits an FDIC-insured bank from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the bank would thereafter be ‘undercapitalised’. If an insured bank becomes ‘undercapitalised’, it is required to submit to federal regulators a capital restoration plan guaranteed by the bank’s holding company. The guarantee is limited to 5 per cent of the bank’s assets at the time it becomes ‘undercapitalised’ or, should the ‘undercapitalised’ bank fail to comply with the plan, the amount of the capital deficiency at the time of failure, whichever is less. If an ‘undercapitalised’ bank fails to submit an acceptable plan, it is treated as if it were ‘significantly undercapitalised’. ‘Significantly undercapitalised’ banks may be subject to a number of requirements and restrictions, including requirements to sell sufficient voting stock to become ‘adequately capitalised’, requirements to reduce total assets and restrictions on accepting deposits from correspondent banks. ‘Critically undercapitalised’ depository institutions are subject to appointment of a receiver or conservator.

As at 31 December 2000, HSBC Bank USA was categorised as ‘well capitalised’ under Federal Reserve Board regulations.

French regulation and supervision

The French banking law (the ‘Banking Law’) sets forth the conditions under which credit institutions, including banks, may operate in France and vests related supervisory and regulatory powers in certain administrative authorities.

The National Credit and Securities Council, which is chaired by the Minister of the Economy and Finance and has the Governor of the Bank of France, the French central bank, as its vice-chairman, is made up of 53 members, consisting of representatives of the French Government, credit institutions and investment firms, representatives of regions and overseas territories, representatives of unions and qualified personnel and representatives of various economic sectors. The Council is a consultative organisation that studies the operation of the banking and financial services industries and participates in the formulation of national credit and monetary policy.

The Banking and Finance Regulatory Committee, which is chaired by the Minister of the Economy and Finance, establishes general rules for the conditions under which credit institutions and investment firms operate, including management standards, financial ratios and credit policy and determination of capital requirements. In addition, the Banking and Finance Regulatory Committee advises the Accounting Regulatory Committee, which is charged with establishing accounting principles, on proposed changes to accounting principles.

The Credit Institutions and Investment Firms Committee, which is chaired by the Governor of the Bank of France, grants banking and investment firms licences and makes other specific decisions and grants specific exemptions as provided in applicable banking regulations.

The Banking Commission, which is chaired by the Governor of the Bank of France, is responsible for the supervision of credit institutions and certain investment firms and the enforcement of laws and regulations applicable to them. Banks are required to submit periodic (either monthly or quarterly) accounting reports to the Banking Commission concerning the principal areas of their activity. The Banking Commission may also request additional information which it deems necessary and may carry out on-site inspections. The reports permit close monitoring of the condition of each bank and also facilitate computation of the total deposits of all banks and their use. Where regulations have been violated, the Banking Commission may act as an administrative court and impose sanctions which may include deregistration of a bank, resulting in closure. The Banking Commission also has the power to appoint a temporary administrator to manage provisionally a bank which it deems to be mismanaged. In addition, in its administrative capacity the Banking Commission may impose disciplinary sanctions, or appoint a liquidator.

Decisions of the Banking Commission may be appealed to the French Supreme Administrative Court. Insolvency proceedings may be initiated against banks or other credit institutions, or investment firms only after formal consultation with the Banking Commission.

The principal regulations applicable to deposit banks such as CCF are minimum capital ratio requirements, equity and permanent resources (certain long-term assets denominated in French francs) ratios, risk diversification and liquidity, as well as monetary policy, restrictions on equity investments and reporting requirements.

CCF's commercial banking operations in France are also significantly affected by monetary policies established from time to time by the European Central Bank in coordination with the Bank of France. French credit institutions are required to maintain on deposit with the Bank of France a percentage, fixed by the European Central Bank and calculated monthly, of various categories of demand and short-term deposits and are prohibited from paying interest on certain demand deposits and on deposits with a maturity of less than one month.

French credit institutions are subject to restrictions on equity investments. An equity investment by a French institution that represents more than 10 per cent of the share capital or votes available to the shareholdings of the company in which an investment is made or provides, or is acquired with a view to providing, a 'significant influence' in such company must comply with requirements applicable to 'qualifying shareholdings.' Subject to certain specified exemptions for short-term investments and investments in financial institutions and insurance companies, no qualifying shareholding may exceed 15 per cent of regulatory capital of the credit institution making the investment and aggregate qualifying shareholdings held by that credit institution may not exceed 60 per cent of its regulatory capital.

French regulations permit only licensed credit institutions to engage in banking activities on a regular basis. Institutions licensed as banks are not permitted to engage, on a regular basis, in activities other than banking, bank-related activities and a limited number of non-banking activities determined pursuant to the regulations issued by the Banking and Finance Regulatory Committee. Total revenues from non-banking activities are limited in the aggregate to a maximum of 10 per cent of total net banking revenues.

Credit institutions must also report monthly (and, with respect to lease financings, quarterly) to the Bank of France the names and related amounts of certain customers (only for companies and individuals engaged in commercial activities) having loan utilisation exceeding €76,000. The Bank of France then returns to each credit institution a list stating, as to that credit institution's customers, total loan utilisations from all reporting credit institutions.

Credit institutions must make periodic reports to the Banking Commission summarising their activities during the relevant period with detailed breakdowns by category, including an income statement, and certain additional data relating to operations such as the number of employees, client accounts and branches.

All credit institutions operating in France are required by law to operate a deposit guarantee mechanism for customers of commercial banks, except branches of European Economic Area banks which are covered by their home country's guarantee system. The contribution of each credit institution is calculated on the basis of the aggregate deposits and one-third of the gross customer loans held by such credit institution and of the risk exposure of such credit institution.

French credit institutions are required to establish appropriate internal control systems, including with respect to risk management and the creation of appropriate audit trails. The institution must prepare an annual report for review by the institution's board of directors and the Banking Commission regarding the institution's internal procedures and the measurement and monitoring of the institution's exposure.

Description of Property

At 31 December 2000, HSBC had some 6,500 branch, representative and similar offices worldwide, of which approximately 2,700 were located in Europe, 430 in Hong Kong, 700 in North America, 1,500 in Brazil and 200 in the rest of Latin America. Additionally, properties with a net book value of US$559 million were held for investment purposes. Of the total net book value of HSBC properties, more than 70 per cent were owned or held under long-term leases. Further details are included in Note 24 of the 'Notes on the Financial Statements'.

HSBC values its properties on an annual basis and updates their balance sheet values accordingly.

On 19 October 1998, HSBC Bank plc, a subsidiary of HSBC Holdings, entered into an agreement to lease a building being developed by Canary Wharf Limited. The building is scheduled for practical completion by February 2002. It is intended that this building, located at Canary Wharf, London, will bring together under one roof approximately 8,500 staff from various HSBC businesses and HSBC headquarters operations located in London. The 999 year leasehold interest will have a cost of around US$800 million including funding costs. Further fit-out to be completed by HSBC Bank plc will have a substantially fixed cost of around US$420 million. Upon completion and occupation of the new building, HSBC will manage its leased and owned surplus city properties through assignment, leasing or sale into the market, as appropriate.

HSBC, 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').

Regulatory and law enforcement agencies, including the US Attorney for the Southern District of New York, the Securities and Exchange Commission and the Commodity Futures Trading Commission, are continuing to investigate the Princeton Note Matter, including the activities of RNYC and RNYSC with respect to the Princeton Note Matter. HSBC understands that RNYSC is a target of the federal grand jury investigation being conducted by the US Attorney for the Southern District of New York.

At the core of both the investigations described above and the civil actions described below 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.

Eighteen separate civil actions have been brought to date against RNYSC by Japanese entities in connection with the Princeton Note Matter. All eighteen actions 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 eighteen complaints allege that employees of RNYSC issued letters concerning the Princeton accounts that contained material misstatements. All but one of these 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').

The eighteen civil proceedings against one or more of the Republic Parties are *Amada Co. v Republic New York Securities Corporation*, filed 29 November 1999, *Gun-ei Chemical Industry Co., Ltd. v Princeton Economics International Ltd., et al*, filed 22 December 1999, *Chudenko Corp., v Republic New York Securities Corporation, et al*, filed 20 January 2000, *Alps Electric Co., Ltd. v Republic New York Securities Corporation, et al*, filed 7 February 2000, *Itoki Crebio Corp. v HSBC USA Inc., et al*, *Kissei Pharmaceutical Co., Ltd. v HSBC USA Inc., et al*, *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 14 February 2000, *Starzen Co., Ltd. v Republic New York Securities Corporation, et al*, filed 23 February 2000, *Yakult Honsha Co., Ltd. v Republic New York Securities Corporation*, filed 25 February 2000, *Nichimen Europe, PLC v Republic New York Securities Corporation, et al*, filed 10 April 2000, *Kita-Hyogo Shinyo-Kumiai v Republic New York Securities Corporation, et al*, filed 1 June 2000, *Ozawa Denki Koji Co., et al, v Republic New York Securities Corporation, et al*, filed 16 June 2000, *Kofuku Bank Ltd. and Namihaya Bank Ltd. v Republic New York Securities Corporation, et al*, filed 28 April 2000, *Eichi Takagi and Koei Shoji, Ltd v HSBC USA Inc., et al*, filed 30 August 2000, *Akio Maruyama v HSBC USA Inc., et. al.*, filed 12 January 2001, *and Kunio Kanzawa v HSBC USA Inc., et al*, filed 12 January 2001.

The Amada action alleges unpaid notes in the amount of ¥12.5 billion (approximately US$109.8 million), the Gun-ei action alleges unpaid notes in the amount of ¥11.8 billion (approximately US$102.7 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, the Yakult 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, the Nichimen action alleges unpaid notes of US$15 million, the Kita-Hyogo action alleges unpaid notes of US$21.4 million, the Ozawa action alleges unpaid notes of US$29.6 million, the Kofuku action alleges unpaid notes of US$39.5 million, the Takagi action alleges unpaid notes of approximately US$2.1 million and US$1.21 million on behalf of an individual and corporation, the Maruyama action alleges an unpaid note of ¥200 million (approximately US$ 1.7 million), and the Kanzawa action alleges unpaid notes of US$1.6 million and ¥250 million (approximately US$ 2.2 million). All of the actions assert common law claims and claims under the federal securities laws and/or the federal commodities laws. All but the Amada and Gun-ei actions seek treble damages under the Racketeer Influenced and Corrupt Organization Act. Discovery proceedings are under way in all of these civil actions.

In addition to the eighteen actions arising out of the Princeton Note Matter described above, 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. On 16 October 2000, an amended complaint in the Ravens action was filed, alleging 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 amended complaint seeks unspecified damages on behalf of the class. On 16 January 2001, defendants filed a motion to dismiss the Ravens action.

At the present time it is not possible to assess the outcome of the civil proceedings described above relating to the Princeton Note Matter. The matter will be defended vigorously. In addition, in the light of a probable law enforcement proceeding against RNYSC in connection with the Princeton Note Matter, a matter that came to light before the acquisition of RNYC, a provision of $79 million, the amount of shareholders' equity of RNYSC, has been taken as part of the goodwill cost of the acquisition. At the present time it is not possible to estimate what additional cost may be incurred by HSBC as a result of the Princeton Note Matter.

Financial Review

The following discussion is based on, and should be read in conjunction with the Financial Statements and the notes thereto included elsewhere in this Annual Report. The Financial Statements are prepared in accordance with UK GAAP, which varies in certain significant respects from US GAAP. For a discussion of the differences and a reconciliation of certain UK GAAP amounts to US GAAP, see Note 49 of the 'Notes on the Financial Statements'.

Introduction

HSBC operates through its long-established businesses in five regions: Europe; Hong Kong; Rest of Asia-Pacific, including the Middle East and Africa; North America; and Latin America. Each of these businesses operates as a domestic bank in its region providing services to personal, commercial and corporate customers. In key locations including London, New York and Hong Kong and Paris, HSBC has investment banking operations to service its base of large commercial and institutional clients.

HSBC has witnessed growth in its asset base and operating profits over the past several years, fuelled by an expansion of services and an added-value acquisition strategy.

On 31 December 1999, HSBC completed the acquisitions of RNYC and SRH. These acquisitions strengthened HSBC's presence in New York and significantly improved HSBC's private banking capability. As the acquisitions were only completed at the year-end, RNYC and SRH's profits for 1999 were not included in HSBC's 1999 results.

In July 2000, HSBC completed the acquisition of CCF, a major French banking group, with businesses in personal, corporate and investment banking. Goodwill estimated at US$9 billion arose on the acquisition of CCF and will be amortised over 20 years commencing July 2000. Before goodwill amortisation, CCF contributed US$197 million to HSBC's pre-tax profits in 2000.

HSBC's attributable profit of US$6,628 million in 2000 was 23 per cent higher than 1999 despite absorbing a US$489 million increase in goodwill amortisation due to the recent acquisitions. Operating profit before provisions and goodwill amortisation increased by 13 per cent over 1999 to US$11 billion in 2000. Organic growth, particularly in Hong Kong and Europe, together with the benefit of recent acquisitions more than offset the significant increase in investment expenditure to support future business growth. Credit costs at US$932 million in 2000, were 55 per cent lower than in 1999 reflecting improved economic conditions, lower interest rates in Asia and strong liquidity in all markets.

HSBC's financial performance and business operations are affected at the local, regional and global level by general economic conditions, technological innovations, changes in the legal and regulatory regime and increasing competition within the financial services industry.

Adverse changes in economic conditions can reduce demand for HSBC's products and services, impair the credit quality of its borrowers and counterparties and increase the level of HSBC's bad debt charge.

HSBC's financial performance can also be affected by both actual changes in, and speculation about, market exchange rates, such as the US dollar-pound sterling exchange rate, and government-established exchange rates, particularly the managed exchange rates between the Hong Kong dollar and the US dollar, and the Argentinian peso and the US dollar. In 1998, interest rates were volatile in both Hong Kong and Argentina as those governments maintained their fixed linkages to the US dollar throughout the year. In Brazil, market turmoil followed the Brazilian Government's attempts to maintain a managed devaluation of the Brazilian real in the latter part of 1998 and the Brazilian real moved to a floating exchange rate on 13 January 1999. High interest rates and exchange rate volatility subsequently prevailed in the first half of 1999.

HSBC's operations are also affected by other changes in the laws, regulations and policies of governmental authorities, particularly central banks and bank regulatory authorities in its most important markets: the FSA, the Bank of England, the Hong Kong Monetary Authority, the US Federal Reserve Board, the European Central Bank and the French Banking Commission. Such authorities may impose increased reserve or capital levels, restrictions on investment and other financial flows and restrictions on certain banking activities, as well as make more general changes in governmental policy, which may significantly impact HSBC by reducing available business opportunities, increasing HSBC's cost of compliance and, in some markets where HSBC operates, eroding investor confidence.

HSBC has economic, financial market, credit, legal, political and other specialists who monitor economic and market conditions and government policies and actions. However, because of the difficulty involved in predicting with accuracy changes in economic or market conditions or in governmental policies and actions, HSBC cannot fully anticipate the effects that such changes might have on its financial performance and business operations. HSBC believes that the most important external factors affecting its business in 2001 will be the slower anticipated rate of growth of the US economy and the effect this will have on other economies, particularly those which depend on exports to the United States. In addition, intense competition in the United Kingdom and structural changes there and in Hong Kong, where interest rate deregulation will probably be completed in July 2001, may also affect the business.

Summary

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Net interest income	**13,723**	11,990	11,547
Other operating income	**10,850**	9,012	8,508
Operating income	**24,573**	21,002	20,055
Operating expenses (excluding goodwill amortisation)	**(13,577)**	(11,313)	(10,994)
Goodwill amortisation	**(510)**	(36)	(10)
Operating profit before provisions	**10,486**	9,653	9,051
Provisions for bad and doubtful debts	**(932)**	(2,073)	(2,637)
Provisions for contingent liabilities and commitments	**(71)**	(143)	(144)
Amounts written off fixed asset investments	**(36)**	(28)	(85)
Operating profit	**9,447**	7,409	6,185
Share of operating loss in joint ventures	**(51)**	—	—
Share of operating profit in associated undertakings	**75**	123	136
Gains on disposal of:			
— investments	**302**	450	222
— tangible fixed assets	**2**	—	28
Profit on ordinary activities before tax	**9,775**	7,982	6,571
Tax on profit on ordinary activities	**(2,238)**	(2,038)	(1,789)
Profit on ordinary activities after tax	**7,537**	5,944	4,782
Minority interests	**(909)**	(536)	(464)
Profit attributable to shareholders	**6,628**	5,408	4,318
Cash basis profit before tax #	**10,300**	8,018	6,581
Cash basis profit attributable to shareholders #	**7,153**	5,444	4,328

\# *Cash based measurements are after excluding the impact of goodwill amortisation*

Year ended 31 December 2000 compared with year ended 31 December 1999

HSBC made a profit on ordinary activities before tax of US$9,775 million in 2000, an increase of US$1,793 million, or 22 per cent, compared with 1999. On a cash basis, profit before tax increased by US$2,282 million, or 28 per cent, compared with 1999.

Net interest income of US$13,723 million in 2000 was US$1,733 million higher than 1999, with a large part of this increase due to the acquisitions of RNYC, SRH and CCF. Net interest income in Hong Kong in 2000 was US$262 million, or 7 per cent, higher than 1999 mainly reflecting the placement of increased customer deposits.

Other operating income rose by US$1,838 million, or 20 per cent, to US$10,850 million compared with 1999. This increase was driven by the acquisitions of RNYC, SRH and CCF, together with underlying growth in fee income, particularly in Hong Kong and, at constant exchange rates, in the UK bank.

Operating expenses, excluding goodwill amortisation, were US$2,264 million, or 20 per cent, higher than 1999. Excluding the impact of the recent acquisitions, there were increases in Hong Kong, mainly related to the launch of the Mandatory Provident Fund and e-banking initiatives, and in the rest of Asia-Pacific and Latin America, to support business growth. In addition, at constant exchange rates, there were underlying increases in Europe, mainly reflecting growth in the wealth management business, IT and IT related costs directed at improved customer service. In addition, profit-related pay increased in investment banking in line with the improved performance.

HSBC's cost:income ratio, excluding goodwill amortisation, increased to 55.3 per cent compared with 53.9 per cent in 1999, reflecting the cost structures of new acquisitions and of the expanding wealth management business.

The charge for bad and doubtful debts was US$932 million in 2000, which was US$1,141 million lower than in 1999, reflecting improved economic conditions, lower interest rates in Asia and strong liquidity in all markets.

The US$51million share of operating losses in joint ventures principally reflects start-up costs of the new joint venture with Merrill Lynch to establish an online, investment led, broking and banking service for the mass affluent.

Year ended 31 December 1999 compared with year ended 31 December 1998

HSBC 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.

Net interest income of US$11,990 million was US$443 million, or 4 per cent, higher than 1998. Average interest-earning assets grew by US$13 billion, or 3 per cent, in 1999, mainly due to the re-investment of higher customer deposit flows in Asia. Net interest spread was 7 basis points higher in 1999 reflecting wider spreads in Hong Kong and the United Kingdom. Net interest margin at 2.86 per cent in 1999 was in line with 1998 as the improvement in spread was offset by a lower contribution from net free funds as interest rates declined.

Other operating income rose by US$504 million, or 6 per cent, to US$9,012 million in 1999. Improved economic conditions in Asia led to higher fee income in Hong Kong and the rest of Asia-Pacific and there was strong revenue growth from personal financial services products in the United Kingdom. Investment banking commissions were stronger in buoyant equities markets. Dealing profits also benefited from the strong equities markets during the year.

Operating expenses increased by US$345 million, or 3 per cent, to US$11,349 million in 1999. The acquisitions in 1999 of Mid-Med Bank (now HSBC Bank Malta) in Malta and a controlling interest in associated undertakings in Argentina added US$124 million to HSBC's cost base when compared with 1998. Stronger investment banking results led to higher profit-related remuneration in both Asia and Europe. In addition, higher business volumes in Europe and new business initiatives in Asia and Europe also contributed to the increase. The impact of a US$164 million dollar restructuring charge relating to the RNYC and SRH acquisitions was offset by the non-recurrence of US$180 million UK property costs in 1998 related to the prospective move to Canary Wharf.

HSBC's cost:income ratio improved to 54.0 per cent in 1999 from 54.9 per cent in 1998.

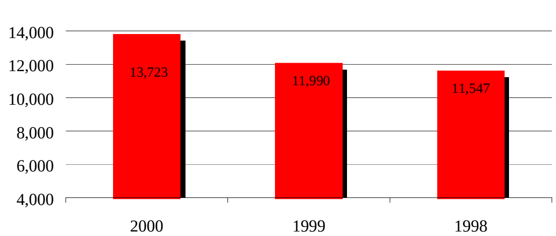
The charge for bad and doubtful debts was US$2,073 million in 1999, which was US$564 million lower than in 1998 and reflected a more stable economic environment in Asia. Given the time lag generally experienced between improvement in economic conditions and the bottom of the credit cycle, the special general provision of US$290 million in respect of Asian risk raised in 1997 continued intact.

Gains on disposal of investments of US$450 million were US$228 million higher than in 1998 and included a US$205 million profit on the partial disposal of an investment by the investment bank in Asia.

Net interest income

	Year ended 31 December 2000		Year ended 31 December 1999		Year ended 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	**4,988**	**36.3**	4,231	35.3	4,007	34.7
Hong Kong	**3,997**	**29.1**	3,735	31.2	3,472	30.1
Rest of Asia- Pacific	**1,367**	**10.0**	1,240	10.3	1,255	10.9
North America	**2,152**	**15.7**	1,687	14.1	1,618	14.0
Latin America	**1,219**	**8.9**	1,097	9.1	1,195	10.3
Net interest income	**13,723**	**100.0**	11,990	100.0	11,547	100.0

Net interest income (US$m)



	Year ended 31 December		
Figures in US$ million	**2000**	1999	1998
Net interest income	**13,723**	11,990	11,547
Average interest-earning assets	**516,185**	419,225	405,948
Gross interest yield (per cent)[1]	**7.31**	6.97	8.28
Net interest spread (per cent)[2]	**2.10**	2.31	2.24
Net interest margin (per cent)[3]	**2.66**	2.86	2.84

1. *Gross interest yield is the average interest rate earned on average interest-earning assets.*
2. *Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing funds.*
3. *Net interest margin is net interest income expressed as a percentage of average interest-earning assets.*

Year ended 31 December 2000 compared with year ended 31 December 1999

Net interest income was US$1,733 million, or 14 per cent, higher in 2000 than 1999 primarily due to the acquisitions of RNYC, SRH and CCF. There was growth across all geographical regions. In Hong Kong, net interest income was US$262 million, or 7 per cent, higher which mainly reflected the placement of increased customer deposits and an improved mix of lower costing liabilities. The increase was achieved despite muted loan demand and intense competition in the residential mortgage market which reduced interest earned on mortgages by some US$170 million. In the United Kingdom, there was underlying growth of US$173 million, or 6 per cent, generated by balance sheet growth, again with strong growth in savings balances. At constant exchange rates, net interest income would have been US$2,060 million, or 18 per cent, higher than 1999.

Average interest-earning assets increased by US$97 billion, or 23 per cent, largely as a result of acquisitions. Excluding acquisitions, there was organic growth in Hong Kong driven principally by the placement of customer deposits, together with personal lending growth in the United Kingdom, Brazil, Korea, India and Taiwan.

At 2.66 per cent, HSBC's net interest margin was 20 basis points lower than for 1999. The major impact on HSBC's net interest margin was mix, driven by the very liquid balance sheets in the recent acquisitions, and the related funding costs of these acquisitions. The impact of mix was compounded by a reduction of spread on savings products in the United Kingdom and on residential mortgages in the United Kingdom and Hong Kong. The effect of these downward pressures was partly offset by an increase in recoveries of previously suspended interest, together with an increased contribution from net free funds.

Year ended 31 December 1999 compared with year ended 31 December 1998

Net interest income improved by 4 per cent in 1999 compared with 1998. In Europe, net interest income benefited from increased customer balances in the United Kingdom, to which a revision to the UK 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. In 1999 net interest income in North America benefited from the interest generated on the equity funds raised to acquire RNYC. 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 billion, or 3 per cent, in 1999 compared with 1998. The growth arose mainly from the re-investment of higher customer deposit flows in Hong Kong and the rest of Asia-Pacific where credit demand was particularly subdued. In the United Kingdom, an increase in personal customer lending largely offset a reduction in lower yielding treasury assets.

HSBC's net interest margin in 1999 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.

Other operating income

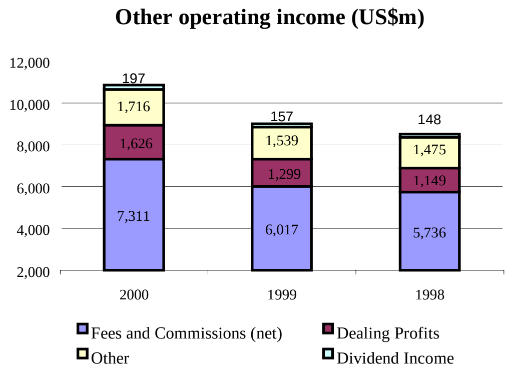
	Year ended 31 December 2000		Year ended 31 December 1999		Year ended 31 December 1998	
	US$m	**%**	US$m	%	US$m	%
Europe	**5,922**	**53.5**	4,936	53.5	4,369	50.0
Hong Kong	**1,790**	**16.2**	1,552	16.9	1,573	18.0
Rest of Asia-Pacific	**1,085**	**9.8**	983	10.7	1,014	11.6
North America	**1,317**	**11.9**	949	10.3	871	10.0
Latin America	**953**	**8.6**	790	8.6	912	10.4
	11,067	**100.0**	9,210	100.0	8,739	100.0
Intra-HSBC elimination	**(217)**		(198)		(231)	
Other operating income	**10,850**		9,012		8,508	

Figures in US$ millions	**2000**	1999	1998
	Year ended 31 December		
Dividend income	**197**	157	148
Fees and commissions (net)	**7,311**	6,017	5,736
Dealing profits/(losses)			
— foreign exchange	**965**	797	953
— interest rate derivatives	**57**	67	67
— debt securities	**281**	197	116
— equities and other trading	**323**	238	13
	1,626	1,299	1,149
Other			
— operating leased assets rental income	**481**	511	500
— general insurance underwriting (net)	**360**	353	378
— increase in value of long-term insurance business	**195**	181	154
— other	**680**	494	443
	1,716	1,539	1,475
Total other operating income	**10,850**	9,012	8,508

Fees and commissions receivable and payable

Figures in US$ millions	**2000**	1999
	Year ended 31 December	
Account services	**1,470**	1,319
Credit facilities	**603**	522
Remittances	**215**	214
Cards	**1,045**	935
Imports/Exports	**538**	480
Underwriting	**190**	180
Insurance	**552**	525
Mortgage servicing rights	**69**	45
Trust income	**185**	145
Broking income	**1,156**	948
Global custody	**276**	235
Maintenance income on operating leases	**176**	208
Other	**1,667**	1,393
Total fees and commissions receivable (excluding CCF)	**8,142**	7,149
CCF	**435**	—
Total fees and commissions receivable	**8,577**	7,149
Less: fees payable (excluding CCF)	**(1,205)**	(1,132)
CCF	**(61)**	—
Net fees and commissions	**7,311**	6,017

The data required to provide an analysis of fees and commissions receivable and payable is not available prior to 1999.



Year ended 31 December 2000 compared with year ended 31 December 1999

Net fees and commissions at US$7,311 million in 2000 represented 30 per cent of total operating income against 29 per cent in 1999 and were US$1,294 million, or 22 per cent, higher than 1999. This increase was driven by the recent acquisitions, together with the benefit of buoyant equity markets in the first half of the year which led to a 22 per cent increase in broking income and a 17 per cent increase in global custody income compared with 1999. In Hong Kong, fees from credit facilities were 40 per cent higher in 2000 and there was further growth due to wealth management initiatives. In Europe, at constant exchange rates, there was underlying growth in the UK bank reflecting wealth management initiatives and higher fee income from cards, corporate banking and global safe custody. At constant exchange rates, HSBC's net fees and commissions in 2000 would have been 27 per cent higher than in 1999.

Dealing profits at US$1,626 million were US$327 million higher than in 1999, over half of which was attributable to the recent acquisitions. Increased foreign exchange profits reflected higher volumes in customer-driven business in both the United Kingdom and Hong Kong. Dealing profits also benefited from a recovery of 69 per cent of the provisions made in 1999 against a Korean corporate's bonds upon liquidation of the position.

Other income was US$177 million higher at US$1,716 million mainly due to the recent acquisitions, together with the impact of the transfer of Argentina's pension and life businesses from associated undertakings to subsidiaries in 1999.

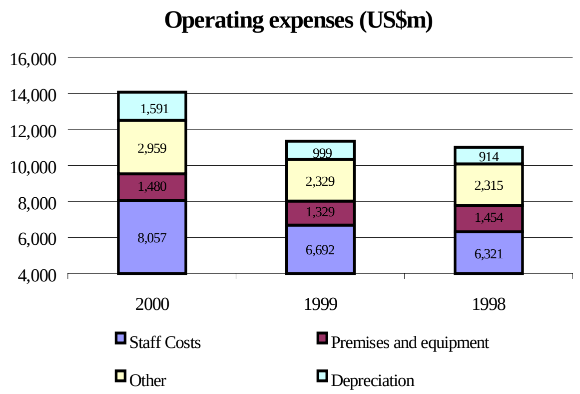
Year ended 31 December 1999 compared with year ended 31 December 1998

HSBC's non-funds income remained resilient and benefited from further expanding customer relationships. Net fees and commissions were US$281 million, or 5 per cent, higher than 1998. In Europe, there was particularly strong growth in 1999 in wealth management and personal banking products. 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 per cent and 14 per cent respectively in 1999. Increased fee income was earned by HSBC Investment Banking in 1999 primarily resulting from success in enhancing relationships with large corporate customers of HSBC's major banking operations. Investment banking commissions were stronger in buoyant equities markets. Together, investment banking fees and commissions grew by 17 per cent to US$1,565 million in 1999. In Latin America, net fee and commission income declined due to the devaluation of the Brazilian real. In local currency terms, there was an underlying increase of 25 per cent reflecting growth in wealth management products in both Brazil and Argentina and Argentina's former associated undertakings, which offer pension management and life assurance services, becoming subsidiaries.

Dealing profits were US$150 million higher than in 1998. HSBC's securities and capital markets operations had a good year in 1999 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. Foreign exchange profits were lower, particularly in Asia, as the exceptional market volatility and spreads seen in 1998 at the height of the Asian crisis were not repeated as Asia's economic conditions stabilised and improved.

Other operating income was US$64 million higher mainly due to HSBC's former associated undertakings in Argentina becoming subsidiaries.

Operating expenses



	Year ended 31 December 2000		Year ended 31 December 1999		Year ended 31 December 1998	
	US$m	**%**	US$m	%	US$m	%
Europe	**6,518**	**47.3**	5,445	47.3	5,194	46.2
Hong Kong	**1,986**	**14.4**	1,896	16.5	1,849	16.5
Rest of Asia-Pacific	**1,292**	**9.4**	1,148	10.0	1,052	9.4
North America	**2,363**	**17.1**	1,582	13.7	1,423	12.7
Latin America	**1,635**	**11.8**	1,440	12.5	1,707	15.2
Operating expenses (excluding goodwill amortisation)	**13,794**	**100.0**	11,511	100.0	11,225	100.0
Europe	**348**		9		3	
Hong Kong	**1**		—		2	
Rest of Asia –Pacific	**5**		14		—	
North America	**143**		3		1	
Latin America	**13**		10		4	
Goodwill Amortisation	**510**		36		10	
	14,304		11,547		11,235	
Intra-HSBC Elimination	**(217)**		(198)		(231)	
Operating expenses	**14,087**		11,349		11,004	

Figures in US$ millions	Year ended 31 December **2000**	1999	1998
Staff costs	**8,057**	6,692	6,321
Premises and equipment (excluding depreciation)	**1,480**	1,329	1,454
Other administrative expenses	**2,959**	2,329	2,315
Administrative expenses*	**12,496**	10,350	10,090
Depreciation and amortisation			
— tangible fixed assets	**1,081**	963	904
— goodwill	**510**	36	10
Total operating expenses	**14,087**	11,349	11,004
Cost:income ratio (excluding goodwill amortisation) (per cent)	**55.3**	53.9	54.8

* *Included in administrative expenses in 2000 were US$47 million of restructuring costs relating to CCF and US$74 million relating to RNYC and SRH (1999 costs included US$164 million of restructuring costs relating to RNYC and SRH; 1998 costs included US$180 million of Canary Wharf vacant space provisions).*

Staff numbers (full-time equivalent)

	As at 31 December **2000**	1999	1998
Europe	**69,629**	53,861	49,798
Hong Kong	**24,204**	23,932	24,447
Rest of Asia-Pacific	**22,919**	21,375	21,116
North America	**18,965**	19,498	14,500
Latin America	**25,907**	27,181	26,572
Total staff numbers	**161,624**	145,847	136,433

Year ended 31 December 2000 compared with year ended 31 December 1999

Operating expenses were US$2,738 million higher than in 1999. This increase was mainly driven by the recent acquisitions together with a related US$474 million increase in goodwill amortisation.

Costs in the United States, excluding goodwill amortisation, were US$781 million higher, principally as a result of the acquisition of RNYC. During 2000, acquisition related cost savings were realised in most support and administrative functions and, to a lesser extent, in some front line businesses. Compensation and benefit packages were harmonised.

In Europe, costs, excluding goodwill amortisation, increased by US$1,073 million compared with 1999. At constant exchange rates, costs in 2000, excluding goodwill amortisation, would have been US$1,454 million, or 29 per cent, higher than 1999, of which acquisitions accounted for US$947 million. There were underlying increases in HSBC Bank plc and in investment banking. In HSBC Bank plc, there was increased spending reflecting growth in wealth management business and IT and IT related costs to support development projects directed at improved customer service, particularly new distribution channels. In investment banking, profit-related pay increased in line with improved business performance.

In Hong Kong, costs in 2000, excluding goodwill amortisation, were US$90 million higher than in 1999 with the increase mainly related to the launch of the Mandatory Provident Fund, expanded marketing programmes and e-banking initiatives. In the rest of Asia-Pacific, cost growth was to support business expansion. In addition, marketing spend increased as the economies recovered. Increased costs in Latin America reflected business growth, restructuring to achieve operating efficiencies and the transfer to subsidiary status of the Argentinian pensions and life business in 1999.

Global processing is now operational in China and India with some 1,000 staff employed at two global processing centres. A global e-procurement project has also been established. These initiatives will enhance HSBC's productivity through economies of scale and processing efficiencies.

HSBC's cost:income ratio, excluding goodwill amortisation, was 55.3 per cent, reflecting the cost structures of the new acquisitions and of the expanding wealth management businesses.

Year ended 31 December 1999 compared with year ended 31 December 1998

Operating expenses increased by US$345 million in 1999 compared with 1998. US$251 million of this increase arose in Europe with higher business volumes and new business contributing to an increase in costs in UK Banking and stronger investment banking results leading to higher performance-related remuneration. Operating costs continued to be tightly controlled in Hong Kong and the rest of Asia-Pacific although higher performance-related remuneration reflecting improved investment banking results in 1999 caused an overall increase in staff costs in Hong Kong. Operating costs in the rest of Asia-Pacific increased to support business expansion. US$164 million of restructuring charges in respect of the RNYC and SRH acquisitions were charged to expenses in 1999. In Latin America, operating expenses were US$267 million lower than 1998 reflecting the impact of the devaluation of the Brazilian real.

Provisions for bad and doubtful debts

	Year ended 31 December 2000		Year ended 31 December 1999		Year ended 31 December 1998	
	US$m	**%**	US$m	%	US$m	%
Europe	**348**	**37.3**	438	21.1	369	14.0
Hong Kong	**248**	**26.6**	585	28.2	747	28.3
Rest of Asia-Pacific						
- normal	**159**	**17.1**	809	39.1	1,219	46.3
- release of special general provision	**(174)**	**(18.7)**	—	—	—	—
North America	**147**	**15.8**	108	5.2	109	4.1
Latin America	**204**	**21.9**	133	6.4	193	7.3
HSBC total	**932**	**100.0**	2,073	100.0	2,637	100.0

Figures in US$ millions	**2000**	1999	1998
	Year ended 31 December		
Loans and advances to customers specific charge:			
— new provisions	**2,293**	2,993	3,273
— releases and recoveries	**(1,083)**	(869)	(655)
	1,210	2,124	2,618
net general (release)/charge:			
— special provision reflecting Asian risk raised in 1997	**(174)**	—	—
— other	**(106)**	(47)	10
	(280)	(47)	10
Customers bad and doubtful debt charge	**930**	2,077	2,628
Loans and advances to banks			
— net specific charge/(releases)	**2**	(4)	9
Total bad and doubtful debt charge	**932**	2,073	2,637
Customer bad debt charge as a percentage of closing gross loans and advances	**0.31%**	0.85%	1.08%

Year ended 31 December 2000 compared with year ended 31 December 1999

The bad and doubtful debt charge at US$932 million in 2000 was US$1,141 million lower than in 1999. The decrease was driven by a sharp fall in new specific provisions against customer advances, together with increased releases and recoveries, including a US$174 million release of the special general provision raised in 1997 against Asian risk.

New specific provisions against customer advances declined by 23 per cent to US$2,293 million compared with 1999. This reflected improved economic conditions and lower interest rates in Asia and strong liquidity in all major markets. There was continuing progress in loan workouts to achieve releases and recoveries.

In the United Kingdom, underlying credit quality remained stable with the lower net charge reflecting a higher level of recoveries, and no individually significant provisions in 2000. The charge for credit losses in France was minimal, consistent with prior periods and reflective of the quality of CCF's business.

Asset quality in Hong Kong reflected the improved economic conditions, with increased provisions for residential mortgage loans more than offset by lower provisions for other personal lending and corporate accounts. Delinquency rates for residential mortgages remained low.

Non-performing customer advances decreased in the rest of Asia-Pacific due to a combination of write-offs, credit upgrades and recoveries. The net charge for bad and doubtful debts for exposures to mainland China related companies was only US$3 million compared with a charge in 1999 of US$306 million. There were net releases of provisions against exposures to customers booked in Indonesia, Thailand and Singapore. In Malaysia, the bad debt charge rose slightly in the second half of the year due to lower than expected recoveries caused by delays in debt restructuring stemming from a weak stock market; as compared to 1999 the provisions charge in Malaysia was US$256 million lower. In 2000, 60 per cent of the special general provision of US$290 million made in 1997 in respect of Asia was released. In view of the slowdown in the US economy and its possible implications for the Asian economies as a whole, the balance of the special general provision has been transferred to augment the general bad debt provision.

In North America, although the overall quality of the portfolio remains sound, non-performing loans rose slightly due to some deterioration in the quality of leveraged credits: these constitute a small portion of outstanding advances.

In Latin America, non-performing loans rose due to weak economic conditions in Argentina, the inclusion of new business acquired in Panama and as a result of the expansion of profitable consumer lending in Brazil.

At 31 December 2000, non-performing customer advances represented 3.5 per cent of gross customer advances compared with 4 per cent at 31 December 1999.

Year ended 31 December 1999 compared with year ended 31 December 1998

The bad and doubtful debt charge fell by 21 per cent to US$2,073 million, which, although still high, was significantly lower than 1998 as credit quality in Asia stabilised in the second half of 1999. 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 in the United Kingdom.

In the rest of Asia-Pacific 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. In Malaysia, the deterioration in credit quality experienced since the second half of 1998 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. The other major deterioration in credit quality in 1999 arose from certain exposures related to mainland China. However, there are signs that asset quality related to mainland China exposures is stabilising.

In Hong Kong, asset quality has stabilised and economic conditions improved, with the result that the 1999 charge for bad and doubtful debts was significantly lower than in 1998. In 1999, new specific provisions were made in respect of lending to mainland China related companies as well as the major Korean relationship.

In the United Kingdom, 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 made in 1997 remained intact.

Provisions for bad and doubtful debts as a percentage of average gross loans and advances to customers

Average gross loans and advances to customers are allocated to geographic segment by the location of the principal operations of the lending subsidiary or, in the case of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, CCF, HSBC Bank Middle East and HSBC Bank USA operations, by location of the lending branch.

In each of the years, the provisions for bad and doubtful debts on loans and advances to banks expressed as a percentage of average gross loans and advances to banks is nil.

Provisions for bad and doubtful debts as a percentage of average gross loans and advances to customers

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	%	%	%	%	%	%
Year ended 31 December 2000						
Net charge for specific provisions	**0.25**	**0.37**	**0.54**	**0.48**	**3.16**	**0.42**
Total provisions charged	**0.28**	**0.37**	**(0.05)**	**0.25**	**3.19**	**0.32**
Amounts written off net of recoveries	**0.35**	**0.64**	**1.39**	**0.45**	**1.28**	**0.58**
Year ended 31 December 1999						
Net charge for specific provisions	0.43	0.94	2.65	0.31	2.52	0.88
Total provisions charged	0.45	0.88	2.61	0.25	2.64	0.86
Amounts written off net of recoveries	0.30	0.37	0.95	0.28	1.33	0.42
Year ended 31 December 1998						
Net charge for specific provisions	0.33	1.08	3.78	0.32	3.19	1.05
Total provisions charged	0.38	1.05	3.75	0.24	3.64	1.05
Amounts written off net of recoveries	0.54	0.19	1.16	0.30	0.58	0.48

Gains on disposal of investments

Figures in US$ millions	**2000**	1999	1998
	Year ended 31 December		
Gains/(losses) on disposal of:			
— investment securities	**324**	439	210
— part of a business	**(11)**	10	—
— associated undertakings	—	3	3
— subsidiaries	—	(2)	9
—other participating interests	**(11)**	—	—
	302	450	222

Year ended 31 December 2000 compared with year ended 31 December 1999

HSBC Private Equity disposed of a number of equity investments from its portfolio in 2000, realising profits of US$61 million compared with US$114 million in 1999. The investment bank in Asia recorded profits on disposal of investments of US$95 million in 2000 compared with US$205 million in 1999.

Year ended 31 December 1999 compared with year ended 31 December 1998

HSBC Private Equity Europe recorded a US$114 million profit in 1999 from venture capital investment disposals compared with US$95 million in 1998. The investment bank in Asia also recorded profits of US$205 million on the partial disposal of an investment.

Taxation

Figures in US$ millions	**2000**	1999	1998
	Year ended 31 December		
UK corporation tax charge	**856**	596	732
Overseas taxation	**1,468**	1,313	1,118
Deferred taxation	**(78)**	129	(71)
Joint venture	**(7)**	—	—
Associated undertakings	**(1)**	—	10
Total charge for taxation	**2,238**	2,038	1,789
Effective tax rate (per cent)	**22.9**	25.5	27.2
Standard UK corporation tax rate (per cent)	**30.0**	30.25	31.0

Analysis of overall tax charge: *Figures in US$ millions*	**2000**	1999	1998
	Year ended 31 December		
Taxation at UK corporate tax rate of 30.0% (1999: 30.25% 1998:31.0%)	**2,932**	2,415	2,037
Impact of differently taxed overseas profits in principal locations	**(498)**	(418)	(339)
(Utilised)/unrecognised tax benefits	**(137)**	35	71
Other items	**(59)**	6	20
	2,238	2,038	1,789

Year ended 31 December 2000 compared with year ended 31 December 1999

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporation tax at 30 per cent, the rate for the calendar year 2000, compared with 30.25 per cent in 1999. Overseas tax included Hong Kong profits tax of US$478 million, compared with US$367 million in 1999, provided at a rate of 16.0 per cent for both years on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates of taxation.

At 31 December 2000, there were potential future tax benefits of approximately US$350 million compared with US$520 million at 31 December 1999, 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.

Year ended 31 December 1999 compared with year ended 31 December 1998

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporation tax at 30.25 per cent, the rate for the calendar year 1999, compared with 31.0 per cent in 1998. Overseas tax included Hong Kong profits tax of US$367 million, compared with US$293 million in 1998, provided at a rate of 16.0 per cent for both years on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates of taxation.

At 31 December 1999 there were potential future tax benefits of approximately US$520 million, compared with US$380 million at 31 December 1998, 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. The effective tax rate was below the standard rate of UK corporation tax of 30.25 per cent, mainly because of lower rates of tax in major subsidiaries overseas. The effective tax rate was adversely affected by unrelieved losses and provisions in 1998. 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.

Assets

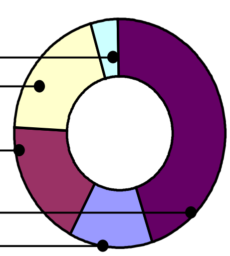
Figures in US$ millions

Total assets	At 31 December 2000	%	At 31 December 1999	%
Europe	**295,274**	**44.4**	211,222	37.7
Hong Kong	**176,545**	**26.5**	165,420	29.6
Rest of Asia-Pacific	**56,676**	**8.5**	55,291	9.9
North America	**118,053**	**17.7**	110,120	19.7
Latin America	**19,073**	**2.9**	17,181	3.1
HSBC total	**665,621**	**100.0**	559,234	100.0

	At 31 December 2000	Other movements	CCF	At 31 December 1999
Loans and advances to customers	**289,837**	12,084	24,186	253,567
Loans and advances to banks	**126,032**	9,323	16,632	100,077
Debt securities	**132,818**	8,507	14,243	110,068
Treasury bills and other eligible bills	**23,131**	(1,905)	1,823	23,213
Equity shares	**8,104**	405	3,221	4,478
Intangible fixed assets	**15,089**	(536)	9,084	6,541
Other	**70,610**	(2,180)	11,500	61,290
	665,621	25,698	80,689	559,234
HK SAR Government certificates of indebtedness	**8,193**			9,905
Total assets	**673,814**			569,139
Loans and advances to customers include:				
— reverse repos	**14,386**			8,411
— settlement accounts	**6,954**			3,769
Loans and advances to banks include:				
— reverse repos	**13,596**			10,172
— settlement accounts	**6,745**			1,579

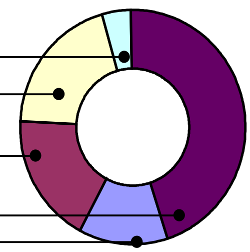
Assets 2000 (excluding Hong Kong Government certificates of indebtedness)

	%	*US$bn*
Treasury and other eligible bills	3.5	23.1
Debt Securities	20.0	132.8
Loans and advances to banks	18.9	126.0
Loans and advances to customers	43.5	289.8
Other	14.1	93.9
Total	100	665.6



Assets 1999 (excluding Hong Kong Government certificates of indebtedness)

	%	*US$bn*
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	559.2



31 December 2000 compared with 31 December 1999

At 31 December 2000, HSBC's balance sheet was highly liquid, reflecting strong deposit growth and muted credit demand. Some 43 per cent of the balance sheet was deployed in loans and advances to customers: one per cent lower than at 31 December 1999.

Excluding CCF, at constant exchange rates, loans and advances to customers at 31 December 2000, excluding the finance sector and settlement accounts, were 7 per cent higher than at 31 December 1999. Personal lending grew by 9 per cent and constituted 39 per cent of lending at 31 December 2000 compared with 40 per cent at 31 December 1999. Double digit mortgage growth was achieved in the United States of America, Korea, Brazil, Hong Kong, Taiwan and Malaysia; strong growth in other personal lending was achieved in India. Loans and advances to the commercial and corporate customer base grew by 5 per cent. In Hong Kong, corporate loans and advances increased by 6 per cent despite muted loan demand.

Debt securities held in the accruals book at 31 December 2000 showed an unrecognised gain, net of off-balance sheet hedges, of US$711 million, compared with unrecognised losses of US$110 million at 31 December 1999. Equity shares at 31 December 2000 included US$4,638 million held on investment account, compared with US$1,521 million at 31 December 1999, on which there was an unrecognised gain of US$1,135 million compared with US$911 million at 31 December 1999.

At 31 December 2000, assets held by the Group as custodian amounted to US$1,400 billion. Custody is the safe-keeping and administration of securities and financial instruments on behalf of others. Funds under management amounted to US$295 billion at 31 December 2000.

Economic profit

In 1999, HSBC enhanced its internal performance measures with economic profit, which takes into account the cost of the capital invested in HSBC 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 internally emphasises the trend in economic profit within business units rather than the absolute amounts in order to concentrate focus on external factors rather than measurement bases. As a result of this, HSBC has consistently used a benchmark cost of capital of 12.5 per cent. Given the recent changes in interest rates, in the composition of HSBC and evidence of the improved economic conditions in Asia, HSBC believes that its true cost of capital is now 10.5 per cent.

HSBC plans to use the figure of 12.5 per cent to ensure consistency and to help comparability.

	2000		1999	
	US$m	**%**	US$m	%
Average invested capital	**43,744**		34,684	
Return on invested capital*	**7,174**	**16.4**	5,469	15.8
Benchmark cost of capital	**(5,468)**	**(12.5)**	(4,336)	(12.5)
Economic profit	**1,706**	**3.9**	1,133	3.3

* *Return on invested capital based on cash-based earnings adjusted for depreciation attributable to revaluation surpluses. This measure broadly reflects cash invested capital. Average invested capital is measured as shareholders' funds after adding back goodwill amortised and goodwill previously written-off directly to reserves and deducting property revaluation reserves.*

Analysis by operating segment

Profit on ordinary activities before tax by segment

	Year ended 31 December					
	2000		1999		1998	
	US$m	**%**	US$m	%	US$m	%
Europe	**3,658**	**37.4**	3,322	41.6	2,884	43.9
Hong Kong	**3,691**	**37.8**	3,054	38.3	2,427	36.9
Rest of Asia-Pacific	**1,265**	**12.9**	329	4.1	39	0.6
North America	**850**	**8.7**	959	12.0	987	15.0
Latin America	**311**	**3.2**	318	4.0	234	3.6
Total	**9,775**	**100.0**	7,982	100.0	6,571	100.0

The results of investment banking operations are included in the above table and following segmental disclosures in the appropriate geographical segment.

A separate commentary is provided on the aggregate results of the investment banking operations on pages 56 to 58.

In the analysis of profit by segment which follows, the total of operating income and operating expenses includes intra-HSBC items of US$217 million in 2000,US$198 million in 1999 and US$231 million in 1998.

Europe

	Year ended 31 December		
Figures in US$ millions	**2000**	1999	1998
Net interest income	**4,988**	4,231	4,007
Dividend income	**84**	93	79
Net fees and commissions	**4,100**	3,424	3,095
Dealing profits	**787**	543	342
Other income	**951**	876	853
Other operating income	**5,922**	4,936	4,369
Operating income	**10,910**	9,167	8,376
Staff costs	**(3,862)**	(3,220)	(2,910)
Premises and equipment	**(651)**	(545)	(711)
Other	**(1,374)**	(1,122)	(1,063)
Depreciation	**(631)**	(558)	(510)
Goodwill amortisation	**(348)**	(9)	(3)
Operating expenses	**(6,866)**	(5,454)	(5,197)
Operating profit before provisions	**4,044**	3,713	3,179
Provisions for bad and doubtful debts	**(348)**	(438)	(369)
Provisions for contingent liabilities and commitments	**(67)**	(114)	(96)
Amounts written off fixed asset investments	**(23)**	(20)	(16)
Operating profit	**3,606**	3,141	2,698
Share of operating loss in joint ventures	**(51)**	—	—
Share of operating (loss) in associated undertakings	**(45)**	(1)	—
Gains on disposal of investments and tangible fixed assets	**148**	182	186
Profit on ordinary activities before tax*	**3,658**	3,322	2,884
Share of HSBC's pre-tax profits (per cent)	**37.4**	41.6	43.9
Cost:income ratio (excluding goodwill amortisation) (per cent)	**59.7**	59.4	62.0
* *of which United Kingdom*	**3,127**	*2,707*	*2,542*
Cash basis profit before tax (excluding goodwill amortisation)	**4,021**	3,331	2,887
Share of HSBC's pre-tax profits - cash basis (per cent)	**39.0**	41.5	43.9

Bad and doubtful debts

Figures in US$ millions	Year ended 31 December **2000**	1999	1998
Loans and advances to customers			
– specific charge:			
new provisions	**607**	764	623
releases and recoveries	**(304)**	(343)	(306)
	303	421	317
– general charge	**43**	19	48
Customer bad and doubtful debt charge	**346**	440	365
Loans and advances to banks			
– net specific charge/(release)	**2**	(2)	4
Total bad and doubtful debt charge	**348**	438	369
Customer bad debt charge as a Percentage of closing gross loans and advances	**0.3%**	0.4%	0.4%

Figures in US$ millions	**At 31 December 2000**	At 31 December 1999
Assets		
Loans and advances to customers (net)	**129,143**	103,824
Loans and advances to banks (net)	**45,040**	29,370
Debt securities, treasury bills and other eligible bills	**63,280**	44,781
Liabilities		
Deposits by banks	**43,888**	23,442
Customer accounts	**159,505**	129,237

Year ended 31 December 2000 compared with year ended 31 December 1999

European operations contributed US$3,658 million to HSBC's profit before tax in 2000 and represented 37 per cent of pre-tax profits. Cash earnings were US$4,021 million in 2000, US$690 million, or 21 per cent, higher than in 1999. At constant exchange rates, cash earnings were US$925 million higher than 1999, of which CCF contributed US$169 million, HSBC Republic Suisse, US$290 million and RNYC and SRH, US$197 million. The following commentary on Europe's results is based on constant exchange rates.

Net interest income was US$1,040 million, or 26 per cent, higher at US$4,998 million of which some US$800 million was attributable to the recent acquisitions. The underlying increase was principally attributable to growth in UK Banking and income earned on funds raised in anticipation of the CCF acquisition, together with smaller increases in Offshore Banking and Turkey, the latter due to increased spreads reflecting local market conditions. These increases were partly offset by a US$147 million, or 40 per cent, decrease in Treasury and Capital Markets' money market business caused by a flattening of the yield curve and higher short-term funding costs, together with the maturing of high yielding assets.

In UK Banking, net interest income at US$3,222 million was 6 per cent higher than 1999 reflecting balance growth in personal and commercial current accounts, personal savings and personal and commercial lending. HSBC Bank plc's repricing of variable rate mortgages contributed to mortgage growth of US$1.7 billion, with a decline in mortgage spread. Spread was also reduced on savings products reflecting competitive pricing. The effect on UK Banking's margin of the reduction in spread was partly mitigated by a greater benefit from free funds.

Other operating income was US$1,335 million, or 29 per cent, higher than in 1999 of which recent acquisitions accounted for some US$750 million. The underlying increase reflected growth in UK Banking, Treasury and Capital Markets and Investment Banking, together with smaller increases in Offshore Banking, due to the successful launches of funds products, and HSBC Trinkaus & Burkhardt KGaA largely due to increased commission income on equity transactions.

In UK Banking, other operating income at US$3,001 million was 8 per cent higher than 1999, primarily reflecting growth in wealth management income and higher fee income from cards, corporate banking and global safe custody fees. Wealth management income showed a significant increase compared with 1999, up 14 per cent, from US$673 million to US$764 million. Within this, general insurance income increased by 7 per cent and private client income by 18 per cent. Life, pension and investment income increased by US$56 million, or 16 per cent, of which US$15 million was the benefit of a reduction in the discount rate, used to calculate the net present value of future earnings inherent in policies in force, from 12.5 per cent to 11.5 per cent. Global safe custody fee income increased by 36 per cent compared with 1999, benefiting from high transaction volumes in 2000, the acquisition of new customers and growth in assets under custody. Higher fee and other income was also generated by growth in personal current account and overdraft fees, increased card income and higher corporate banking fee income, mainly due to HSBC Bank plc's involvement in a buoyant mergers and acquisitions market.

In Treasury and Capital Markets, other operating income was US$386 million, 61 per cent higher than 1999. Foreign exchange income increased by 45 per cent reflecting higher volumes, particularly in respect of customer activities. Much of this was realised from an increase in business in the regional treasury centres, where income increased by 40 per cent. Fixed income results also improved notably in gilts and derivatives activity, linking with an increase in debt origination. The currency options business also expanded during 2000 with an increased presence in the euro zone following the absorption of RNYC's trading activities.

In Investment Banking, there were higher equity commissions reflecting increased global equity volumes. Fee income also rose, reflecting growth in Corporate Finance where business transacted with HSBC's corporate client base increased significantly.

Operating expenses, excluding goodwill amortisation, were US$1,073 million, or 20 per cent, higher than in 1999 of which some US$947 million was due to the recent acquisitions.

In UK Banking, operating expenses increased by US$258 million, or 8 per cent, to US$3,510 million and the cost:income ratio remained at 56.4 per cent. Staff costs increased by US$127 million, or 7 per cent, to US$1,935 million, reflecting growth in staff numbers to support growth in the wealth management business and increased business volumes, in addition to the effect of annual pay increases and incentive costs. Additional IT staff have supported development projects integral to the continued improvement in customer service, particularly in relation to new delivery channels. As a result of business growth, HSBC Bank plc employed 3 per cent more staff on average during 2000. Non-staff costs increased by US$130 million, or 9 per cent. They were incurred primarily to support business development, including internet banking initiatives and continued branch services improvement. Increased business volumes also contributed to higher expenditure, including IT processing capacity. Increased marketing costs included higher card loyalty scheme costs.

Operating expenses also increased in Investment Banking, where profit-related remuneration reflected the improved performance, and in Offshore Banking, which reflected increased staff numbers in support of expansion. These increases were partly offset by a US$255 million, or 5 per cent, reduction in Treasury and Capital Markets due to improved operating efficiencies in the front and back offices.

The charge for bad and doubtful debts was US$62 million lower than 1999 at US$348 million. In UK Banking, the charge for bad and doubtful debts was US$397 million, US$73 million, or 16 per cent, lower than in 1999. There was a reduction of US$129 million in new provisions, with lower provisioning against corporate lending, mainly due to a small number of large provisions in 1999. Provisions were also lower against card balances and in First Direct. General provisions increased by US$42 million due to balance sheet growth. The credit environment remains satisfactory, but a small number of business and personal customers continue to face difficulties from market pressures and unforeseen changes in financial circumstances.

Provisions for contingent liabilities were US$38 million lower at US$67 million partly due to a lower charge in UK Banking for the amount of redress potentially payable to customers who may have been disadvantaged when transferring from or opting out of occupational pensions schemes.

The US$47 million share of operating losses in joint ventures principally reflects start-up costs of the new joint venture with Merrill Lynch to establish an online, investment led, broking and banking service for the mass affluent.

The net US$49 million share of operating losses in associated undertakings include losses of US$76 million reflecting HSBC Bank plc's 20 per cent shareholding in British Interactive Broadcasting ("BiB") and the associated investment in building its digital interactive television services, 'Open….'. In July 2000, HSBC Bank plc agreed to sell its investment in BiB to BSkyB, subject to regulatory approval from the Office of Fair Trading, which is under review currently.

Year ended 31 December 1999 compared with year ended 31 December 1998

The United Kingdom's GDP growth rate was 1.8 per cent in 1999, with an increase in consumer spending towards the end of the year. Underlying inflation averaged 2.3 per cent for 1999, compared with 2.6 per cent in 1998. In the latter part of the year, the increase in consumer spending and a booming housing market led to the Bank of England raising base rates to help curb the threat of inflation.

In 1999, the countries in continental Europe that participate in the euro achieved a GDP growth rate of 2.2 per cent and inflation of 1.1 per cent.

European operations contributed US$3,322 million to HSBC's profit before tax for 1999, an increase of 15 per cent over 1998, and represented 42 per cent of HSBC's profit before tax. At constant exchange rates, Europe's profit before tax increased by 19 per cent over 1998. The proportion of HSBC's assets in Europe fell from 40 per cent to 38 per cent. The following commentary on Europe's results is based on constant exchange rates.

Net interest income was US$326 million, or 8 per cent, higher in 1999. Of this increase, US$38 million was due to the acquisition of HSBC Bank Malta. Net interest income from HSBC's core UK Banking business was US$138 million higher at US$3,257 million in 1999 principally due to growth in personal and business current account and savings balances, supported by a simplification of the UK product range and pricing in 1998. In addition, exceptional margins were achieved in Turkey as a result of high interest rates during a period of economic instability.

Other operating income grew by US$685 million, or 16 per cent, in 1999 reflecting a strong performance by UK Banking and increased dealing profits.

UK Banking's other operating income was US$319 million, or 12 per cent, higher than 1998. During 1999 HSBC Bank plc gained an increased share of the life, pensions and investments market with income increasing by US$79 million, or 27 per cent, compared with 1998. Income from sales of HSBC unit trusts and life investment bonds, boosted by a strong performance in sales of ISAs and offshore products, was 51 per cent higher in 1999 than in 1998. Commission income on general insurance sales increased by US$26 million or 13 per cent. Higher mortgage sales led to increased cross sales of insurance and healthcare products. Card fee income rose by US$32 million. Private client income increased by US$18 million, or 22 per cent, with a strong performance in portfolio management and independent financial advice services. Growth in overdrafts contributed an additional US$52 million of fee income. In First Direct, a larger customer base contributed to increased fee income of US$23 million. Global Investor Services, the specialist global custody division, benefited from a number of competitors leaving the market or changing control and increased its operating income by US$20 million, or 35 per cent. Assets held under custody rose to over US$1,108 billion, an increase of 19 per cent compared with 1998. Operating lease income was US$23 million higher than in 1998.

Dealing profits were US$218 million, or 67 per cent, higher in 1999 with sharp increases in both investment banking and HSBC Bank plc's treasury and capital market operations. Equities and other trading activities delivered strong profits reflecting a high volume of business in buoyant equity markets. Interest rate derivative and bond trading income also improved despite significant provisioning in respect of exposure to a major Korean corporate.

Operating expenses were US$387 million, or 8 per cent, higher than 1998. In UK Banking, productivity improvements were reflected in operating expenses rising less than the growth in operating income. Operating expenses increased by US$212 million, or 6 per cent, to US$3,474 million in 1999. UK Banking's cost:income ratio continued to improve from 56.4 per cent in 1998 to 55.7 per cent in 1999. Staff costs increased by US$108 million compared with 1998. This reflects annual pay awards and recruitment of employees, principally to support increased wealth management activities and business volumes and as a result of replacement of temporary IT staff with permanent IT staff. In investment banking, stronger operating results led to higher performance-related remuneration.

The charge for bad and doubtful debts was US$79 million, or 22 per cent, higher than 1998. In UK Banking, the charge for bad and doubtful debts was US$502 million, representing 1 per cent of average advances to customers, and was US$188 million higher than 1998. The increased bad debt charge reflected the return to a more normal credit environment, specific provisions against a Korean corporate and mix of factors reflecting a higher proportion of personal unsecured lending.

The increased bad debt charge in UK Banking was partly offset by provision releases in Germany. In addition, increased recoveries were achieved from HSBC Bank plc's historic Latin American debt portfolio in 1999. The majority of HSBC Bank plc's Latin American exposure is booked in London and, accordingly, changes in provisions in respect of this exposure affect Europe's results of operation. At 31 December 1999, HSBC Bank plc's Latin American exposure represented less than 1 per cent of Europe's gross customer loans and advances.

Provisions for contingent liabilities and commitments in 1999 included further charges of US$90 million made for the amount of redress potentially payable to customers who may have been disadvantaged when transferring from, or opting out, of occupational pension schemes. The charge of US$43 million in the first half of 1999 was necessitated by changes to the FSA's financial assumptions and new guidance in respect of subsequent periods of employment. This was augmented by a further charge of US$47 million in the second half to reflect changes in the FSA's assumptions (particularly with regard to mortality rates) and new FSA requirements.

Hong Kong

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Net interest income	**3,997**	3,735	3,472
Dividend income	**34**	39	44
Net fees and commissions	**1,168**	964	836
Dealing profits	**229**	211	310
Other income	**359**	338	383
Other operating income	**1,790**	1,552	1,573
Operating income	**5,787**	5,287	5,045
Staff costs	**(1,166)**	(1,145)	(1,120)
Premises and equipment	**(218)**	(262)	(256)
Other	**(412)**	(299)	(297)
Depreciation	**(190)**	(190)	(176)
Goodwill amortisation	**(1)**	—	(2)
Operating expenses	**(1,987)**	(1,896)	(1,851)
Operating profit before Provisions	**3,800**	3,391	3,194
Provisions for bad and doubtful debts	**(248)**	(585)	(747)
Provisions for contingent liabilities and commitments	**(10)**	2	—
Amounts written off fixed asset Investments	**(9)**	(5)	(57)
Operating profit	**3,533**	2,803	2,390
Share of operating profit in associated undertakings	**21**	15	23
Gains on disposal of investments and tangible fixed assets	**137**	236	14
Profit on ordinary activities before tax	**3,691**	3,054	2,427
Share of HSBC's pre-tax profits (per cent)	**37.8**	38.3	36.9
Cost:income ratio (excluding goodwill amortisation) (per cent)	**34.3**	35.9	36.7
Cash basis profit before tax (excluding goodwill amortisation)	**3,692**	3,054	2,431
Share of HSBC's pre-tax profits - cash basis (per cent)	**35.9**	**38.1**	**36.9**

Bad and doubtful debts

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Loans and advances to customers – specific charge:			
new provisions	**454**	720	836
releases and recoveries	**(207)**	(101)	(71)
	247	619	765
—net general charge/(releases)	**1**	(34)	(18)
Total bad and doubtful debt charge	**248**	585	747
Customer bad debt charge as a percentage of closing gross loans and advances	0.4%	0.9%	1.1%

Figures in US$ millions	**At 31 December 2000**	At 31 December 1999
Assets		
Loans and advances to customers (net)	**64,369**	62,565
Loans and advances to banks (net)	**57,154**	53,778
Debt securities, treasury bills and other eligible bills	**38,913**	27,233
Liabilities		
Deposits by banks	**2,220**	3,846
Customer accounts	**146,394**	131,084

Year ended 31 December 2000 compared with year ended 31 December 1999

Hong Kong's economy registered double-digit growth in the first three quarters of 2000. High real interest rates depressed domestic activity and the local property market and, with loan demand remaining sluggish, there was intense competition in the residential mortgage sector leading to exceptional levels of remortgaging.

Hong Kong operations contributed US$3,691 million to HSBC's profit before tax. On a cash basis, Hong Kong operations contributed US$3,692 million to HSBC's cash basis profit before tax, an increase of 21 per cent compared with 1999, and represented 36 per cent of HSBC's cash basis profit before tax.

Net interest income increased by US$262 million, or 7 per cent, to US$3,997 million, which primarily reflected the placement of increased customer deposits.

Driven by continued growth in customer deposits, there were increases in most categories of average interest-earning assets particularly debt securities and other liquid assets. For the bank in Hong Kong, average advances to customers fell by 4 per cent due to a reduction in residential mortgages as a result of intense price competition and also due to muted demand for corporate loans. Hang Seng Bank achieved growth of 7 per cent in average customer advances, reflecting the success of its efforts to increase corporate and personal lending. The success of focused marketing initiatives by both banks was reflected in strong growth in average card balances which grew by 27 per cent in the bank in Hong Kong and 14 per cent in Hang Seng Bank. Average customer deposits in Hong Kong grew by 9 per cent in the bank in Hong Kong and 10 per cent in Hang Seng Bank in 2000.

For the bank in Hong Kong, net interest margin for 2000 remained unchanged at 2.47 per cent. Spread narrowed by five basis points largely due to the adverse effect of reduced mortgage spreads and the increased commercial surplus which was placed in lower yielding debt securities and money market loans. These factors were partly offset by the positive effect of a reduction in suspended interest, net of releases and recoveries, which accounted for an improvement of five basis points in spread, and wider Hong Kong dollar time deposit spreads. Cash incentive payments on new mortgage loans, which amounted to US$14 million in 2000, an increase of US$8 million compared to 1999, have been written off as deductions from net interest income. The contribution from net free funds increased by five basis points as a result of both increased net free funds and higher average interest rates.

In Hang Seng Bank, the net interest margin reduced by 19 basis points compared with 1999 to 2.68 per cent. Spread narrowed by 17 basis points as pressure on mortgage spreads and a fall in the average advances-to-deposits ratio more than outweighed the benefits of growth in lower cost savings accounts, an improvement in the spreads earned on time deposits, and the widening of the gap between the Hong Kong best lending rate ('BLR') and interbank rates.

Continued price competition in the residential mortgage market throughout the year resulted in a reduction in the average yield of the residential mortgage portfolio, excluding Government Home Ownership Scheme loans and staff loans, in the bank in Hong Kong to 27 basis points below BLR in 2000, compared with 58 basis points above BLR in 1999 (before accounting for the effect of cash incentive payments). Similarly the average yield on the residential mortgage portfolio in Hang Seng Bank was 26 basis points below BLR in 2000, compared with 49 basis points above BLR in 1999. In aggregate, US$171 million of income on the mortgage product in 2000 was foregone as a result of this repricing.

Other operating income increased by US$238 million, or 15 per cent. Within other operating income, the success of initiatives to expand fee generating services led to an increase in net fees and commissions of US$204 million, or 21 per cent, over 1999. This included a marked increase in income from wealth management initiatives. Total operating income from the insurance businesses and commissions on sale of retail investment funds and on securities transactions executed for personal customers increased by 32 per cent compared with 1999. Fees from credit facilities increased by US$43 million, or 40 per cent, to US$151 million with good growth in both the bank in Hong Kong and in Hang Seng Bank. Fee income from securities and stockbroking increased by US$46 million, or 28 per cent, to US$213 million largely as a result of the buoyant Hong Kong stock market in the first part of 2000. Additionally, there was an increase of US$26 million, or 15 per cent, in fee income from cards as a result of successful marketing initiatives which led to a net increase in the card base in Hong Kong of 32 per cent during 2000. Dealing profits were US$18 million, or 9 per cent, higher than 1999, principally attributable to the release of provisions against Korean bonds which had been provided for in the investment bank in 1999 and higher foreign exchange profits as a result of increased corporate business volumes, partly offset by mark-to-market losses on bonds in the Investment Bank and the bank in Hong Kong.

Operating expenses increased by US$91 million, or 5 per cent, and included US$87 million in costs, mainly attributable to staff costs and advertising and promotion expenses relating to the launch of the Mandatory Provident Fund in Hong Kong. This represented an increase of US$65 million compared with 1999.

Staff costs were held broadly at the same level as last year. Increases in staff costs in the investment bank, due to higher profit-related remuneration, and in HBSC Insurance, due to the launch of the Mandatory Provident Fund, were offset by a reduction in Hang Seng Bank as a result of lower headcount and reductions in pension costs in the bank. Operating expenses, other than staff costs, increased by US$70 million, or 9 per cent, mainly in advertising and marketing expenses and development costs relating to HSBC's e-banking initiatives. Premises and equipment expenses were reduced compared with 1999, reflecting lower rental expenses.

Provisions for bad and doubtful debts decreased significantly by US$337 million, or 58 per cent. The charge for new specific provisions decreased by US$266 million to US$454 million whilst releases and recoveries increased by US$106 million to US$207 million, the latter mainly in respect of corporate customers. The net bad debt charge for the year fell from 90 basis points of advances in 1999 to 37 basis points in 2000.

There was a small net release of provisions for bad and doubtful debts in respect of lending to mainland China related companies booked in Hong Kong in 2000 compared with a charge of US$142 million in 1999. The net charge for specific provisions for personal lending in Hong Kong decreased reflecting the improved economic conditions: increased provisions for residential mortgages were more than offset by decreased provisions for other personal lending. Delinquency rates for residential mortgages in 2000 remained low.

Non-performing advances as a percentage of total advances decreased from 4.8 per cent at 31 December 1999 to 3.8 per cent at 31 December 2000 as a result of a reduction in non-performing advances, due to a combination of write-offs, upgrades and recoveries, and an increase in total advances to customers.

Year ended 31 December 1999 compared with year ended 31 December 1998

An upturn in Hong Kong's economy that began in the second quarter of 1999 led to full year growth in GDP of 2.9 per cent, compared with a reduction of 5.1 per cent in 1998. The improvement was largely driven by export growth and a recovery in domestic consumption. The relatively subdued economic conditions were reflected in reduced demand for corporate lending and severe price competition for residential mortgages.

Operations in Hong Kong comprised 38 per cent, or US$3,054 million, of HSBC's profit before tax for 1999, compared with 37 per cent in 1998.

Net interest income in 1999 increased by US$263 million, or 8 per cent, compared with 1998 primarily due to an increase in the level of average interest-earning assets and an improved spread. The increase in average interest-earning assets was primarily in lower yielding short-term assets in an environment of limited lending opportunities. Spreads improved due to a more favourable funding mix achieved through growth in savings accounts and an increased spread on time deposits, and the widening of the gap between Hong Kong BLR and interbank rates. The contribution from net free funds fell due to lower average interest rates in 1999.

Other operating income decreased by US$21 million in 1999 compared with 1998. Fees and commissions increased by 15 per cent, with increased income earned in securities, credit facilities and cards, as well as from structured finance and corporate finance in the investment bank. In a shrinking and increasingly competitive market for credit, increased focus was put on generating fee income and there was an encouraging improvement in income from wealth management initiatives which include the sale of investment and insurance products. Considerable investment was made during 1999 in preparing people, systems and marketing for the 2000 Mandatory Provident Fund launch. Dealing profits were lower in 1999 compared with 1998, with reductions in profits on foreign exchange and interest rate derivatives. Additionally, there was a sharp reduction in profit on debt securities in 1999 as a result of provisions made in respect of Korean bonds.

Operating expenses increased by US$45 million in 1999, or 2 per cent, compared with 1998. Staff costs increased by 2 per cent, with stronger profits leading to a higher provision for profit-related remuneration in the investment bank. In addition, salaries and other staff costs increased, reflecting grade and performance uplifts against a background of a pay and headcount freeze together with a reduction in retirement benefit costs. Premises and equipment expenses increased by 2 per cent mainly due to office relocations.

The net charge for bad and doubtful debts decreased by US$162 million, or 22 per cent, in 1999 to US$585 million. During the year, new specific provisions were made in respect of lending to mainland China related companies and a Korean borrower in Hong Kong. In addition, the provisions charge for home mortgage loans increased to 35 basis points of residential mortgage lending but the delinquency rate still remained low. These costs were partly offset by a higher level of releases and recoveries of specific provisions.

Gains of disposal of investments and tangible fixed assets were US$222 million higher in 1999 than in 1998 principally due to a profit on the partial disposal of an investment held by the investment bank.

Rest of Asia-Pacific (including the Middle East)

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Net interest income	**1,367**	1,240	1,255
Dividend income	**3**	2	2
Net fees and commissions	**710**	645	566
Dealing profits	**324**	300	413
Other income	**48**	36	33
Other operating income	**1,085**	983	1,014
Operating income	**2,452**	2,223	2,269
Staff costs	**(733)**	(642)	(562)
Premises and equipment	**(137)**	(127)	(116)
Other	**(343)**	(309)	(299)
Depreciation	**(79)**	(70)	(75)
Goodwill amortisation	**(5)**	(14)	—
Operating expenses	**(1,297)**	(1,162)	(1,052)
Operating profit before provisions	**1,155**	1,061	1,217
Provisions for bad and doubtful debts	**15**	(809)	(1,219)
Provisions for contingent liabilities and commitments	**5**	(30)	(37)
Amounts written off fixed asset investments	**(3)**	(1)	(11)
Operating profit/(loss)	**1,172**	221	(50)
Share of operating profit in associated undertakings	**100**	94	91
Gains/(losses) on disposal of investments and tangible fixed assets	**(7)**	14	(2)
Profit on ordinary activities before tax	**1,265**	329	39
Share of HSBC's pre-tax profits (per cent)	**12.9**	4.1	0.6
Cost:income ratio (excluding goodwill amortisation) (per cent)	**52.7**	51.6	46.4
Cash basis profit before tax (excluding goodwill amortisation)	**1,270**	343	39
Share of HSBC's pre-tax profits - cash basis (per cent)	**12.3**	4.3	0.6

Bad and doubtful debts

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Loans and advances to customers			
– specific charge:			
new provisions	**543**	1,084	1,361
releases and recoveries	**(370)**	(259)	(139)
	173	825	1,222
– net general (releases)	**(188)**	(14)	(8)
Customers bad and doubtful debt (release)/charge	**(15)**	811	1,214
Loans and advances to banks			
– net specific (releases)	**—**	(2)	5
Total bad and doubtful debt (release)/charge	**(15)**	809	1,219
Customer bad debt charge as a percentage of closing gross loans and advances	—	2.5%	3.7%

Figures in US$ millions	**At 31 December 2000**	At 31 December 1999
Assets		
Loans and advances to customers (net)	**28,641**	28,866
Loans and advances to banks (net)	**11,197**	10,024
Debt securities, treasury bills and other eligible bills	**11,705**	13,216
Liabilities		
Deposits by banks	**4,080**	3,017
Customer accounts	**42,516**	37,002

Year ended 31 December 2000 compared with year ended 31 December 1999

Some countries in the region experienced economic or political uncertainties, while other Asian economies such as South Korea and Singapore continued to rebound on strong overseas demand. China also performed strongly, especially on the trade front.

Our operations in the rest of Asia-Pacific contributed US$1,270 million, or 12 per cent, of HSBC's cash basis profit before tax.

The marked improvement in profitability was largely as a result of lower bad debt charges. Evidence of continuing improvement in economic conditions in the region in both halves of 2000 led to the release US$174 million, or 60 per cent, of the special general provision made in 1997 against Asian risk. In view of the slowdown in the US economy and its implications for the Asian economies as a whole, the balance remaining has now been transferred to augment the general provision for bad and doubtful debts.

Net interest income was US$127 million higher than in 1999. This increase reflected contributions from the former RNYC operations in Singapore and Australia, lower levels of suspended interest and growth in higher yielding personal lending. There was solid growth in average interest-earning assets in several countries, most notably Korea, India and Taiwan due to the expansion of our personal banking business.

Other operating income was US$102 million, or 10 per cent, higher than 1999. Improved economic conditions and expanded personal business in several countries, notably Korea, India and Taiwan, led to an increase of 10 per cent in fee income, with fees from cards and account services 22 per cent and 30 per cent higher than 1999, respectively. Fee income from securities was US$22 million, or 13 per cent, lower than 1999 mainly in the bank in Indonesia, the Philippines and Thailand, reflecting subdued stock market activity.

Operating expenses increased by US$135 million, or 12 per cent, over 1999 reflecting higher headcount and continued investment to support business expansion. Staff costs per employee increased by 11 per cent to US$34,000 mainly due to higher variable bonus provisions and pay rises in a number of countries around the region.

There was a net release of US$15 million of provisions for bad and doubtful debts in 2000 compared with a net charge of US$809 million in 1999, due to both a significantly lower charge for new specific provisions and the release of 60 per cent of the special general provision which had been made at the end of 1997. Our operations in Thailand and Indonesia, the two countries which suffered the largest bad debt losses in 1998, both had net releases of provisions in 2000, as did Singapore.

The pre-tax profits of our operations in Singapore at US$219 million, were US$90 million, or 70 per cent, better than 1999. There was a net release of bad debt provisions of US$11 million in 2000 compared with a charge of US$48 million in 1999. The improvement in the regional economy has resulted in a substantial reduction in the level of new specific provisions and increased releases of bad and doubtful debt provisions. Loan demand remained subdued, although there was encouraging growth in corporate deposits.

In India, our operations benefited from the expansion of the personal banking business. Pre-tax profits at US$87 million were US$38 million, or 76 per cent, higher than 1999. Net interest income increased by US$27 million, or 38 per cent, from 1999 largely as a result of a sharp increase in higher yielding personal lending. Total personal lending grew by 94 per cent since the end of 1999 with residential mortgages increasing by 166 per cent following an intensive marketing campaign. Additionally, net interest income benefited from higher net free funds as a result of increased interest-free balances from corporate customers in the securities custody and clearing business. Dealing profits improved by US$12 million, or 44 per cent, with higher profits on interest rate derivatives trading and foreign exchange. Operating expenses rose by US$17 million, or 24 per cent, as a result of continued investment required to support the growth in business.

In mainland China, the pre-tax loss of US$26 million was US$101 million lower than last year. Provisions for bad and doubtful debts and the costs of opening new branches continued to be the main factors affecting results during the year. The net charge for bad and doubtful debts in 2000 against mainland China related companies booked in branches in Hong Kong, China and Macau was only 1 per cent of the charge made in 1999.

In Malaysia, HSBC Bank Malaysia reported profits before tax of US$116 million compared to a pre-tax loss of US$125 million in 1999. The charge for bad and doubtful debts and contingent liability provisions was US$243 million, or 91 per cent, lower than in 1999.

Net interest income was slightly lower as intense competition for the limited quality lending opportunities restricted growth in average interest-earning assets and reduced lending margins. The net interest margin was slightly worse than in 1999 as a 5 basis point fall in interest spread was almost completely offset by an increased contribution from higher levels of net free funds. The narrowing in the interest spread was caused by a combination of pressure on lending margins and a change in asset mix as surplus funds were placed at lower yields with the Central Bank and invested through the money market.

Other operating income was 5 per cent higher than in 1999. An improving economic environment, together with a focus on expanding our personal banking operations, resulted in a 29 per cent increase in card fee income. In addition, higher dealing profits from the sale of debt securities as bond prices rose also contributed to the increase.

Operating expenses were in line with those in 1999.

The Middle Eastern operations of HSBC Bank Middle East reported an increase in pre-tax profits of US$19 million, 12 per cent higher than in 1999. Growth in personal lending, credit card advances and commercial overdrafts contributed to an overall increase in net interest income of 6 per cent during the year. However, strong growth in customer deposits, combined with a marginal increase in personal lending opportunities, contributed to an overall fall in interest margin to 3.95 per cent as surplus funds were deployed in the interbank market and funding costs increased.

Growth in personal banking and trade related fee income contributed to an 8 per cent growth in net fees. Dealing profits were slightly lower as foreign trade flows in the region reduced opportunities in both retail and commercial foreign exchange dealings. Other income was sharply higher than in 1999 following the receipt of income from Saudi British Bank.

Operating expenses, particularly staff costs, were 8 per cent higher than in 1999. The increase in staff costs reflected increased headcount resulting from the expansion of personal banking direct sales teams around the region and the introduction of qualified personal financial planning staff in the UAE as part of HSBC's wealth management strategy.

The charge for bad and doubtful debts during the year was sharply lower than in 1999 reflecting a smaller number of significant individual provisions, and an improvement in vehicle finance delinquencies in the UAE.

Elsewhere, operations in Indonesia, Korea and Thailand each contributed in excess of US$50 million pre-tax profits. In addition, operations in Taiwan, the Philippines and Australia, each contributed in excess of US$25 million to pre-tax profits.

Year ended 31 December 1999 compared with year ended 31 December 1998

Most countries in the region are now recovering from the 1997-98 Asian economic crisis, although the speed and extent of recovery has varied. Economic restructuring continues but is expected to be gradual with the greatest risks related to potential rises in US inflation, interest rates and currency.

HSBC's operations in the rest of Asia-Pacific significantly improved profitability in 1999 contributing US$329 million, or 4 per cent, of HSBC's profit before tax. Profit before tax increased by US$290 million in 1999 compared with 1998, reflecting the impact of reduced bad debt charges. The proportion of HSBC's total assets in the rest of Asia-Pacific region in 1999 decreased to 10 per cent compared with 12 per cent in 1998.

Net interest income in 1999 remained broadly at the same level as in 1998 as the positive impact of an increase in average interest-earning assets was offset by lower spreads due to increased suspended interest on non performing advances.

In 1999, other operating income decreased by US$31 million, or 3 per cent, compared with 1998. Dealing profits in 1999 decreased by US$113 million, or 27 per cent, compared with 1998 mainly in foreign exchange as the exceptionally wide spreads earned on Asian currencies in 1998 were not repeated. Fees and commissions grew steadily through 1999 in particular in Taiwan and Australia in credit cards, securities and trade services. Investment banking operations also performed well, with higher fees from equities operations in Japan and Korea, together with increased fees from private client business in Singapore.

Operating expenses increased by US$110 million, or 10 per cent, in 1999 compared with 1998. As the Asian economic downturn stabilised, HSBC resumed building its infrastructure in the region. Staff costs increased by US$80 million in 1999 compared with 1998 reflecting increased staff numbers in Taiwan, India, Australia and elsewhere to support business expansion. Premises and equipment expenses increased by 9 per cent mainly because of branch openings and office relocations.

Provisions for bad and doubtful debts decreased significantly by US$410 million in 1999 compared with 1998. New specific provisions for bad and doubtful debts decreased by US$277 million; significant reductions in provisions against Indonesia and Thailand exposures were partly offset by increased provisions made in respect of lending to China related companies and a Korean corporate borrower.

North America

	Year ended 31 December		
Figures in US$ millions	**2000***	1999	1998#
Net interest income	**2,152**	1,687	1,618
Dividend income	**68**	12	14
Net fees and commissions	**853**	593	596
Dealing profits	**218**	181	76
Other income	**178**	163	185
Other operating income	**1,317**	949	871
Operating income	**3,469**	2,636	2,489
Staff costs	**(1,390)**	(884)	(781)
Premises and equipment	**(307)**	(247)	(180)
Other	**(552)**	(382)	(397)
Depreciation	**(114)**	(69)	(65)
Goodwill amortisation	**(143)**	(3)	(1)
Operating expenses	**(2,506)**	(1,585)	(1,424)
Operating profit before Provisions	**963**	1,051	1,065
Provisions for bad and doubtful debts	**(147)**	(108)	(109)
Provisions for contingent liabilities and commitments	**1**	(1)	(10)
Operating profit	**817**	942	946
Share of operating profit in associated undertakings	**(2)**	4	2
Gains on disposal of investments and tangible fixed assets	**35**	13	39
Profit on ordinary activities before tax	**850**	959	987
Share on HSBC's pre-tax profits (per cent)	**8.7**	12.0	15.0
Cost:income ratio (excluding goodwill amortisation) (per cent)	**68.1**	60.0	57.2
Cash basis profit before tax (excluding goodwill amortisation)	**993**	962	988
Share of HSBC's pre-tax profits - Cash basis (per cent)	**9.6**	12.0	15.0

* *As the acquisition of RNYC was only completed on 31 December 1999, 2000 is the first year to include profits from the former Republic operations.*

\# *Includes fourteen months in respect of HSBC Bank Canada: the impact of the additional two months was to add US$18 million to profit on ordinary activities before taxation.*

Bad and doubtful debts

Figures in US$ millions	Year ended 31 December 2000	1999	1998
Loans and advances to customers			
– specific charge:			
new provisions	**387**	231	256
releases and recoveries	**(102)**	(100)	(111)
	285	131	145
– net general (releases)	**(138)**	(23)	(36)
Total bad and doubtful debt charge	**147**	108	109
Customer bad debt charge as a percentage of closing gross loans and advances	**0.2%**	0.2%	0.3%

Figures in US$ millions	**At 31 December 2000**	At 31 December 1999
Assets		
Loans and advances to customers (net)	**60,835**	52,851
Loans and advances to banks (net)	**9,279**	4,503
Debt securities, treasury bills and other eligible bills	**36,770**	42,706
Liabilities		
Deposits by banks	**7,221**	6,459
Customer accounts	**68,389**	55,000

Year ended 31 December 2000 compared with year ended 31 December 1999

Economic growth in the United States in 2000 was strong at 5 per cent with inflation at 3.4 per cent. In New York State, where the majority of HSBC's business is done, personal incomes grew 4.8 per cent in the first three quarters of 2000, compared to 6.7 per cent for the national economy.

The Canadian economy remained strong in 2000 as GDP increased 5.0 per cent in real terms. The unemployment rate was 6.8 per cent (nearly a 25 year low) and inflation rose slightly to 2.7 per cent. The Canadian dollar was slightly higher relative to the US dollar at year end 2000.

HSBC's operations in North America contributed US$850 million, or 9 per cent, to HSBC's profit before tax compared with US$959 million in 1999. The decrease is mainly due to the funding cost of debt injected into the United States as part of the financing of the RNYC acquisition and the related goodwill amortisation charge. In addition, US$271 million profits of RNYC are reported in other geographical segments. Cash earnings were US$993 million in 2000 compared with US$962 million in 1999.

In the United States, following the acquisition of RNYC on 31 December 1999, the year 2000 was largely one of efficiently integrating RNYC within HSBC's existing operations. During 2000, HSBC Bank USA emphasised customer retention and the growth of its wealth management business. Customer deposits in HSBC Bank USA were up 5 per cent compared with 31 December 1999 and funds under management were up US$3.6 billion, or 14 per cent, to US$30.3 billion at 31 December 2000. Total customer holdings, both on and off balance sheet, for International Private Banking increased by more than 18 per cent compared with 31 December 1999.

Canadian operations reported cash basis pre-tax profits 43 per cent higher in 2000 than in 1999.

Net interest income increased by US$465 million, or 28 per cent, compared with 1999. In the United States, interest-earning assets more than doubled following the RNYC acquisition. The benefit of this increase was partly offset by a reduced margin due to the dilutive impact of RNYC's lower margin but high quality balance sheet and the funding costs of the acquisition. In Canada, net interest income was US$85 million, or 23 per cent, higher compared with 1999. This was achieved through continued loan growth, especially in commercial advances, and an improved net interest margin together with the benefit of the acquisition of the former RNYC operations in Canada. The improvement in net interest margin in Canada resulted from the continued focus on loan pricing, asset repricing ahead of deposits as prime base rates increased in the first half, and the benefit of lower funding costs as less reliance was placed on wholesale deposits.

Other operating income at US$1,317 million in 2000 was US$368 million, or 39 per cent, higher than 1999. In the United States, revenues from domestic wealth management exceeded US$200 million during 2000, up 18 per cent compared with the combined results of the two organisations in 1999. Life insurance revenues in 2000 more than doubled compared with 1999. Aside from wealth management, other fees and commissions were stable. In Canada, other operating income increased by US$37 million, or 15 per cent, compared with 1999. This increase was mainly driven by higher securities commissions generated by retail client transactions, particularly in the strong equity markets in the first half of the year. Mutual fund fee income also increased due to higher net sales volumes and increases in market values. Corporate finance fees also benefited from the favourable market conditions in 2000. A lower contribution from structured equity transactions led to lower dealing profits in Canada compared with 1999.

Operating expenses increased by US$921 million in 2000 compared with 1999. In the United States, operating costs were US$871 million higher than in 1999 principally due to the acquisition of RNYC.

Acquisition related cost savings were realised in most support and administrative areas and to a lesser extent in certain front line businesses. Approximately 75 per cent of the targeted domestic savings as a result of the merger were realised and another 15 per cent identified. In conjunction with the rationalisation efforts of both front and back office operations, investments were made in employee compensation and benefit programmes and in operations and technology. Year-end 2000 results included US$74 million of restructuring costs. Consolidation of most premises and a majority of systems took place throughout 2000, but it is anticipated that some further restructuring costs will be incurred in 2001 and additional related cost savings will be realised. Operating expenses in Canada were US$55 million, or 12 per cent, higher in 2000 compared with 1999. The increase was primarily attributable to RNYC operations and performance-related compensation and volume driven expenses reflecting the increased securities commission income. The cost:income ratio, excluding amortisation of goodwill and intangible assets, fell to 65.6 per cent, an improvement of 4.4 per cent over 1999.

Provisions for bad and doubtful debts were US$39 million higher than in 1999. In the United States, provisions were made in 2000 of US$138 million, compared with US$90 million in 1999, partly attributable to some deterioration in the quality of leveraged credits which constitute a small portion of outstanding advances. The allowance for credit losses of over US$500 million represents coverage against non-accrual loans of 124 per cent. In Canada, due to the continuing strong economy and good credit quality, provisions for credit losses remained low.

Year ended 31 December 1999 compared with year ended 31 December 1998

Economic growth in the United States in 1999 was strong at 4.5 per cent with inflation at 2.6 per cent. However, the New York State economy continued to underperform the national economy, with the New York City metropolitan area being the only significant growth area.

The Canadian economy continued to exhibit strong growth as GDP increased 4.2 per cent in real terms. Unemployment fell to 6.8 per cent, the lowest level in over a decade, and inflation rose slightly to 1.7 per cent. The Canadian dollar gained some strength relative to the US dollar due in large part to rising commodity prices and a slower growth rate of imports relative to exports.

North America contributed US$959 million to HSBC's profit before tax, after charging US$164 million of restructuring costs for the integration of RNYC's operations with HSBC's existing operations, a slight decrease from the level achieved in 1998. The proportion of HSBC's total assets in North America at 31 December 1999 increased to 20 per cent compared with 13 per cent in 1998, mostly as a result of the acquisition of RNYC.

The acquisition of RNYC was completed on 31 December 1999 and strengthened HSBC's US operations with significant private banking, treasury and capital markets, and factoring businesses, and additional New York City retail branches. HSBC Bank USA now has the largest branch network in New York State and the third largest branch network in New York City. HSBC's banking operations now reach 2.4 million households in the state. The rating agencies improved the ratings of HSBC Bank USA to the AA level.

Net interest income was US$69 million higher than in 1998 and included a one-off benefit from the investment of capital raised earlier in the year to fund the RNYC acquisition completed at the year end. On an annualised basis, Canada's net interest income increased by 4 per cent despite market pressure on interest spreads during 1999. The increase reflected steady growth in both of Canada's retail and commercial loan portfolios.

Other operating income was US$78 million higher than 1998. 1999 included a US$15 million gain on the sale of a student loan business and the benefit of a US$13 million settlement with the US Internal Revenue Service relating to Brazilian tax credits disallowed in the 1980s. The results for 1998 included a US$33 million settlement on Brazilian tax credits together with US$28 million arising from the sale of credit card portfolios. Adjusting for these one-off items and the impact of the inclusion of fourteen months' income for Canada in 1998, there was an underlying increase of US$147 million compared with 1998.

In Canada, other operating income was 36 per cent higher on an annualised basis. Securities commissions increased significantly year on year following the acquisition of Gordon Capital Corporation in January 1999. Strong contributions were recorded by equity structured trading and, assisted by NetTrader, the first internet trading web site in Canada, discount brokerage business volumes doubled and revenues increased by 80 per cent.

Increased revenues from foreign exchange trading and a higher volume of bankers' acceptance and guarantee business were partially offset by lower fee income from mutual funds.

In the US commercial banking operation there was a greater contribution from wealth management products, including insurance, and from deposit service charges and commercial loan fees. Insurance revenues were US$10 million higher than 1998. Over 1,100 bank employees were licensed to sell insurance products with this number planned to almost double over the next year. Other operating income in the US investment bank was US$41 million higher reflecting increased dealing profits due to the buoyant equity markets and the curtailment of loss-making operations in 1998.

Operating expenses were US$161 million, or 11 per cent, higher than 1998. In the United States, commercial bank costs continued to be carefully controlled and increased by less than 3 per cent, excluding the US$164 million restructuring costs in respect of RNYC. In Canada, operating expenses increased by US$90 million on an annualised basis. The Gordon Capital Corporation and Moss Lawson acquisitions resulted in higher staff, services and other acquisition-related costs. Growth of HSBC Bank Canada's core retail operations and investment in new delivery channels also added to total employee, premises and equipment costs. A focus on improving the efficiency of operational processes and other customer service initiatives began in 1999 and will continue during 2000.

The bad and doubtful debt charge at US$108 million was in line with 1998. In Canada, provisions for credit losses were US$17 million lower on an annualised basis. There was no repeat step change in the level of general provisions charged in 1998 which reflected the economic decline in certain provinces, in particular British Columbia. This reduction was offset by a US$29 million increase in bad debt provisions in the US commercial bank.

Latin America

	Year ended 31 December		
Figures in US$ millions	**2000**	1999	1998
Net interest income	**1,219**	1,097	1,195
Dividend income	**8**	11	9
Net fees and commissions	**480**	391	643
Dealing profits	**68**	64	8
Other income	**397**	324	252
Other operating income	**953**	790	912
Operating income	**2,172**	1,887	2,107
Staff costs	**(906)**	(801)	(948)
Premises and equipment	**(167)**	(148)	(191)
Other	**(495)**	(415)	(490)
Depreciation	**(67)**	(76)	(78)
Goodwill amortisation	**(13)**	(10)	(4)
Operating expenses	**(1,648)**	(1,450)	(1,711)
Operating profit before provisions	**524**	437	396
Provisions for bad and doubtful debts	**(204)**	(133)	(193)
Provisions for contingent liabilities and commitments	**—**	—	(1)
Amounts written off fixed asset investments	**(1)**	(2)	(1)
Operating profit	**319**	302	201
Share of operating profit in associated undertakings	**1**	11	20
(Losses)/gains on disposal of investments and tangible fixed assets	**(9)**	5	13
Profit on ordinary activities before tax	**311**	318	234
Share of HSBC's pre-tax profits (per cent)	**3.2**	4.0	3.6
Cost:income ratio (excluding goodwill amortisation) (per Cent)	**75.3**	76.3	81.0
Cash basis profit before tax (excluding goodwill amortisation)	**324**	328	238
Share of HSBC's pre-tax profits - cash basis (per cent)	**3.2**	4.1	3.6

Bad and doubtful debts

	Year ended 31 December		
Figures in US$ millions	**2000**	1999	1998
Loans and advances to customers			
- specific charge:			
new provisions	**302**	194	197
Releases and recoveries	**(100)**	(66)	(28)
	202	128	169
- general (releases)/charge	**2**	5	24
Total bad and doubtful debt charge	**204**	133	193
Customer bad debt charge as a percentage of closing gross loans and advances	**2.7%**	2.2%	3.5%

Figures in US$ millions	**At 31 December 2000**	At 31 December 1999
Assets		
Loans and advances to customers (net)	**6,849**	5,461
Loans and advances to banks (net)	**3,362**	2,402
Debt securities, treasury bills and other eligible bills	**5,281**	5,345
Liabilities		
Deposits by banks	**2,644**	1,339
Customer accounts	**10,265**	7,649

Year ended 31 December 2000 compared with year ended 31 December 1999

HSBC's operations in Latin America contributed US$324 million to HSBC's cash basis profit before tax in 2000, in line with 1999, which included exceptional profits earned from the volatility in the Brazilian financial markets in the first half of 1999. On 1 August, HSBC Bank USA completed the acquisition of Chase Manhattan's branch operations in Panama. The 11 branches acquired added US$752 million of assets.

In Brazil, a more favourable economic background in 2000, coupled with the focus on delivering HSBC's Global Strategic goals in Brazil, resulted in a strong performance in 2000. Brazilian operations (excluding Banco CCF Brazil) contributed US$206 million to pre-tax profits in 2000. Second half pre-tax profits of US$84 million were US$38 million lower than the first half reflecting higher credit costs and restructuring charges of US$17 million incurred to achieve further operational efficiencies and to integrate Banco CCF Brazil.

The economic environment in the second half of 2000 was characterised by concerns over the Argentinian economy and a greater perceived likelihood of a sharp US slowdown. Despite volatility in the Brazilian foreign exchange and interest rate markets, Brazil's economic fundamentals remained steady with GDP growth of 4 per cent and inflation at 5.97 per cent, in line with the Government's target for 2000, and an improvement on 8.64 per cent inflation in 1999. The improved economic environment allowed interest rates to fall by nearly 300 basis points from December 1999.

HSBC's strategy of embracing internet technology in the delivery of its services has developed rapidly in Brazil. HSBC Brazil has offered internet banking since 1998 to its personal and small business customers and has 200,000 registered users. As of November 2000, internet based services were extended to include WAP access through Brazil's cellular phone network.

In Argentina, a negative economic environment, exacerbated by higher oil prices and US economic uncertainty, produced an increase in the Argentine risk premium of up to 10 per cent. Since the end of the year, the spread on Argentinian government paper has fallen by 90 basis points.

Although GDP growth for the year ended 31 December 2000 improved markedly over 1999, when it fell by 4 per cent, it was still negative and thus adversely impeded opportunities for growth. Nevertheless, the bank in Argentina continued to follow its strategy of creating an integrated financial services group and, despite the economic recession, HSBC's Argentinian operations achieved pre-tax profits of US$107 million compared to US$67 million in 1999.

Net interest income in Latin America at US$1,219 million in 2000 was US$122 million higher than in 1999 with the largest increases in Brazil and Argentina, together with smaller increases due to the Panama acquisition and the former RNYC operations in Mexico and Uruguay. In Brazil, net interest income was US$886 million, 5 per cent higher than in 1999. This reflected a 20 per cent increase in average interest-earning assets with robust growth achieved in interest-earning commercial and retail assets, particularly in the areas of consumer credit and corporate working capital loans. There was a decline in the net interest margin of 168 basis points principally due to lower interest rates. In Argentina, net interest income was US$262m, US$16 million higher than 1999, principally as a result of higher volumes of investment securities than in 1999. The economic uncertainty had an impact on both the volume of the lending portfolio and overall rates. The funding base continued to grow, but this growth was largely deployed in liquid assets causing spreads to drop from 5.54 per cent to 4.95 per cent because of a more liquid asset mix and increased borrowing rates.

Other operating income was US$163 million higher than 1999 with Argentina contributing US$77 million and Brazil US$53 million to the increase. In Argentina, initiatives taken to improve both the volume and quality of the earnings stream included cross selling marketing campaigns, the launch of an incentives and rewards programme and a drive to improve service quality, in particular for bancassurance and HSBC *Premier* clients. Actions taken in prior years to curtail unprofitable motor portfolios and increase the use of scoring in sales of new products helped La Buenos Aires, the general insurance business, to achieve an improved underwriting profit of US$2.4 million despite weak market conditions. An improved result was also reported in the life assurance and annuity business. Total funds under management grew by some 39 per cent from 1999 to 2000, from US$3.1 billion to US$4.3 billion, principally within the pension plan administrator, Maxima. Mutual funds also grew and, despite the economic recession, market share improved from 5.9 per cent to 6.1 per cent reaching fifth position in the rankings.

Brazilian operations continued to develop their wealth management business, in the form of insurance and asset management products, and growing commercial and retail business. Asset Management operations in Brazil also continued to expand as a result of organic growth and the addition of Banco CCF Brazil SA ("CCF Brazil"). Funds under management stood at US$10.8 billion as at December 2000, compared with US$4.1 billion as at the end of 1999. CCF Brazil contributed US$5.6 billion of this increase. In total, funds under management by our Brazilian operations now rank fourth largest in Brazil, as at June 2000, compared to tenth at December 1999.

Operating expenses at US$1,648 million in 2000 were US$198 million higher than in 1999. Operating expenses in Brazil were US$56 million higher than in 1999. Cost increases reflected business growth and restructuring to achieve operating efficiencies and integrate CCF Brazil with HSBC's existing operations in Brazil. In Argentina, expenses rose by US$55 million to US$445 million. Staff costs grew by US$48 million as a result of a higher headcount and an increase in average salaries and bonuses. Controls were put in place to restrain operating expense growth with a number of contracts renegotiated in areas such as communications and mailing and marketing campaigns. These initiatives together with other one off impacts partially offset the higher staff costs. The cost:income ratio improved slightly to 73 per cent.

Provisions for bad and doubtful debts increased by US$71 million compared with 1999. In Brazil, there was a significant increase in provisioning requirements in the second half of the year reflecting changes in asset mix. Strong growth in the consumer book brought with it a corresponding increase in delinquencies and provisioning levels rose to reflect the underlying risks within the consumer portfolio. Provisioning on consumer lending was adequately covered by the interest revenue earned on these products and it is HSBC policy to make a full provision for delinquent consumer credit after 180 days. In Argentina, provisions for bad and doubtful debts in 2000 of US$56 million represented 2.1 per cent of average loans and advances to customers and were US$18 million lower than 1999 although still impacted by the weak economic environment. Non-performing loans at US$579 million were US$215 million higher than December 1999 reflecting the weak economy.

Consistent with HSBC's strong focus on capital management, Brazil paid dividends and capital repatriations of US$179 million during the year, bringing total dividends and remitted capital since December 1998 to US$373 million.

CCF Brazil made a small contribution to Group pre-tax profits.

Year ended 31 December 1999 compared with year ended 31 December 1998

Despite the devaluation of the Brazilian real at the beginning of 1999 and the continuing economic recession in Argentina, HSBC's Latin American operations contributed US$318 million to HSBC's profit before tax during 1999, an increase of 36 per cent. Brazilian operations reported profits before tax, in US dollar terms, 9 per cent higher than in 1998.

HSBC's Argentinean operations reported profits before tax of US$67 million compared with a pre-tax loss of US$13 million in 1998. This was due largely to improved operating efficiency, the fact that a provision taken with respect to an equity investment in 1998 was not repeated in 1999 and the benefits from increasing HSBC's participation in La Buenos Aires New York Life (a life assurance company) and Máxima (a pension fund manager), from that of associate to majority shareholder.

Net interest income was US$98 million lower than 1998 with underlying growth in both Brazil and Argentina more than offset by the impact of the devaluation of the Brazilian real. In Brazil, net interest income was 33 per cent higher in local currency terms. Strategic positioning, in anticipation of a second half fall in interest rates to pre-devaluation levels, resulted in strong levels of interest income in the second half of 1999, augmenting the exceptionally strong net interest income earned in the first half of the year. In Argentina, the benefit of volume growth in average interest-earning assets, particularly in lower yielding debt securities, mortgages, leasing and loans secured on pledges more than offset the fall in net interest margin resulting from the resultant change in asset mix.

Other operating income was US$122 million lower at US$790 million compared with 1998. At constant exchange rates there was an underlying increase of US$156 million, or 25 per cent. In Brazil, banking operations achieved a substantial increase in cross-sales of retail banking and insurance products. Much of this improvement was achieved through fund management operations where funds under management grew from US$3.7 billion to US$4.4 billion during the year (An increase of 76 per cent at constant exchange rates). HSBC's insurance operations continued to increase their proportion of products sold through HSBC Bank Brazil's distribution channels with 33 per cent of insurance revenues now earned through these channels, compared to 22 per cent in 1998. Dealing profits were also higher than 1998 due to exceptionally strong foreign exchange profits earned in the first half of the year. In Argentina, other operating income increased by 126 per cent reflecting the change to majority shareholder in La Buenos Aires New York Life and Máxima, and a stronger underwriting performance in the motor insurance business.

Operating expenses were US$261 million lower than 1998 at US$1,450 million. In Brazil, the devaluation of the Brazilian real masked an increase in staff costs resulting from substantial labour litigation provisions incurred in the second half of 1999. These provisions were largely due to restructuring and local labour laws, which are affecting the entire industry. Operating expenses in Argentina grew due to the change to majority shareholder in La Buenos Aires New York Life and Máxima, and to support volume growth and strengthen the control environment.

In Brazil, the charge for bad and doubtful debts remained low and was well covered by the margins achieved on lending products. Overall credit demand remained subdued and a cautious approach has been taken to lending to the middle market sector. In spite of this, customer loans, principally to personal customers, grew by 31 per cent in local terms during 1999.

In Argentina, the charge for bad and doubtful debts remained at 1998 levels as provisions were raised against a few corporate customers as a result of the current economic difficulties.

HSBC Investment Banking

	Year ended 31 December		
Figures in US$ millions	**2000**	1999*	1998*
Net interest income	**794**	373	373
Fees and commissions (net)	**2,209**	1,518	1,296
Trading income**	**363**	225	97
Other income***	**371**	455	241
Operating income	**3,737**	2,571	2,007
Operating expenses	**(2,649)**	(1,832)	(1,525)
Operating profit before provisions	**1,088**	739	482
Bad and doubtful debts	**(11)**	(5)	(38)
Other	**27**	40	5
Profit on ordinary activities before tax and goodwill amortisation	**1,104**	774	449
Goodwill amortisation	**(237)**	(21)	(5)
Profit on ordinary activities before tax	**867**	753	444
Segmental analysis of pre-tax profit and goodwill amortisation:			
Asset management	**83**	42	21
Private banking	**522**	206	221
Investment banking	**416**	407	116
Private Equity	**83**	119	91
Total	**1,104**	774	449
Cost:income ratio (excluding goodwill amortisation) (per cent)	**70.9**	71.3	76.0

* *Comparative figures have been restated to exclude income from unit trust related business, management responsibility for which was transferred from HSBC Investment Banking on 1 January 2000. 1998 figures include HSBC Trinkaus & Burkhardt KGaA transferred to HSBC Investment Banking on 1 January 1999.*

** *In order to present the results of HSBC Investment Banking on a basis consistent with common practice in investment banking, trading income as reported above includes all profits and losses relating to dealing activities, including interest income/expense and dividends arising from long and short positions. In this respect, it differs from dealing profits as reported on page 34.*

*** *Includes profit on disposal of venture capital and other investments of US$180 million in 2000, US$332 million in 1999 and US$117 million in 1998, which were included in gains on disposal of fixed assets and investments at the HSBC level.*

Year ended 31 December 2000 compared with year ended 31 December 1999

Profit before tax and goodwill amortisation increased by US$330 million, or 43 per cent, compared with 1999, including profits due to the acquisition and successful integration of RNYC, SRH and CCF of US$359 million. The charge for the amortisation of goodwill increased by US$227 million following the acquisition of RNYC, SRH and CCF. Attributable profit (post goodwill) increased by US$54 million, or 10 per cent.

Return on average shareholders' funds of 13.5 per cent was lower when compared with 25.4 per cent in 1999 due to the increased level of goodwill charge and the capital base of HSBC Investment Banking increasing substantially as a result of the inclusion of RNYC and SRH.

In Investment Banking, the Global Investment Banking division performed strongly showing an increased profit contribution over 1999 in spite of a downturn in global market activity in the latter part of 2000 and exceptional investment disposal gains last year. All geographical regions increased the level of equity commission revenue over 1999 as well as increasing trading revenues. A 33 per cent increase in fee income reflects an excellent performance in Corporate Finance where business transacted with the Group's corporate client base has increased substantially. The lower contribution generated in the second half of the year reflects both lower equity market volumes and a substantial deterioration in market conditions for new issues and for advisory mandates.

Merchant Banking businesses had a good year with particularly strong performances in Loan Syndication, Project & Export Finance and Aviation & Structured Finance. Equator Bank in Africa, however, suffered from a single large bad debt provision.

The results of HSBC Trinkaus & Burkhardt in Germany were 13 per cent lower as a result of adverse exchange rates and the non recurrence of exceptional gains in 1999 following changes in local tax regulations. Their underlying performance, however, remained strong and showed a satisfactory profit improvement of $33 million, or 33 per cent.

Asset management profits increased by 98 per cent to US$83 million. This performance reflects both a substantial growth in Funds under Management and the successful distribution of retail mutual funds and unit trusts through the Group's retail branch network. Funds under management have grown by 46 per cent to US$137 billion at the end of December (including CCF since 28 July). Sales of retail funds have increased by over 80 per cent compared to 1999 due to an especially strong performance in Asia and the inclusion of CCF.

A principal focus for Private Banking during 2000 has been the integration of the former RNYC and SRH businesses. This has proceeded satisfactorily with an increase in both clients and assets. Profits from Private Banking have increased by US$316 million, 153 per cent over 1999, reflecting the RNYC, SRH and CCF acquisitions as well as the continued growth of the underlying business. Profits in the second half of 2000 are lower compared with the first half as a result of exceptional gains in the first half due to a restructuring of portfolios following the acquisitions, and incremental costs in the second half associated with investment in the newly integrated business.

Private equity increased the level of new investments substantially in 2000 but fewer disposals resulted in a lower profit contribution compared with last year.

Operating expenses increased by 45 per cent compared with 1999, reflecting the inclusion of CCF and the former RNYC and SRH businesses for the first time, as well as increased compensation expenses linked to improved profitability.

Year ended 31 December 1999 compared with year ended 31 December 1998

Investment banking contributed US$753 million, or 9 per cent, to HSBC's profit on ordinary activities before tax in 1999. Pre-tax profits increased by US$309 million, or 70 per cent, to US$753 million.

The Global Investment Banking Division performed well, contributing to a significant increase in fee income. The continuing enhancement of relationships with large corporate customers of the major banking operations within HSBC has contributed to additional fee generation. Commission income increased reflecting active global equity markets. Trading income improved significantly despite significant provisioning in respect of exposure to a major trading company in Korea. All product areas performed well with further success in Europe and significant improvements in the Far East.

Merchant Banking had a good year with particularly strong performances in Structured Finance, Project and Export Finance and Syndicated Finance.

Funds under Management in the Asset Management business increased by 20 per cent to US$75 billion compared with December 1998. The increased emphasis on the distribution of retail mutual funds through HSBC's retail branch network has contributed to additional fee income during the year.

Private banking revenues increased by 7 per cent compared with 1998, but profits declined by 7 per cent due to increased bad debt and other provisions and the amortisation of goodwill arising from the purchase of the 24 per cent minority interest in HSBC Guyerzeller at the end of 1998. At the end of the year, the acquisition of SRH constituted a major step forward for HSBC's private banking business. The increased geographical spread of the combined business and the expanded customer base provide the platform for HSBC to demonstrate its commitment to building a global private banking operation; this is key to HSBC's strategy and the successful integration of its private banking operations will be given the highest priority in 2000.

Private Equity disposed of a number of equity investments from its portfolio, realising profits of US$114 million, an increase of 20 per cent compared with 1998. Other investment disposals generated profits of US$218 million.

Operating expenses increased by 20 per cent compared with 1998, reflecting increased compensation costs linked to improved profitability. Headcount grew by 1 per cent, excluding acquisitions.

UK GAAP compared with US GAAP

Under US GAAP, HSBC's net income was US$6,236 million in 2000, US$4,889 million in 1999 and US$3,934 million in 1998, compared with US$6,628 million in 2000, US$5,408 million in 1999 and US$4,318 million in 1998 under UK GAAP. Under US GAAP, shareholders' equity as at 31 December was US$48,072 million in 2000, US$35,930 million in 1999 and US$30,351 million in 1998, compared with US$45,570 million in 2000, US$33,408 million in 1999 and US$27,402 million in 1998 under UK GAAP. Differences result from the different treatment of lease financing, debt swaps, shareholders' interest in long-term assurance fund, pension costs, stock-based compensation, goodwill, internal software costs, revaluation of property, purchase accounting adjustments, fair value adjustment for securities available for sale, dividends payable and deferred taxation. See Note 49 of the 'Notes on the Accounts'.

Future accounting developments

United Kingdom

Financial Reporting Standard ('FRS') 17 'Retirement Benefits'

FRS 17 was issued in December 2000 and is fully effective for HSBC's 2003 financial statements. The FRS when applied in full will replace SSAP 24 'Accounting for pension costs', UITF Abstract 6 'Accounting for post-retirement benefits other than pensions' and UITF Abstract 18 'Pension costs following the 1997 tax changes in respect of dividend income'. There are also amendments to other accounting standards and UITF Abstracts.

The FRS prescribes the following:

- financial statements reflect at fair value the assets and liabilities arising from an employer's retirement benefit obligations and any related funding;
- the operating costs of providing retirement benefits to employees are recognised in the accounting period(s) in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise; and
- the financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

The FRS will require additional disclosures in HSBC's 2001 and 2002 financial statements, with the primary statement impact being recorded in 2003.

FRS 18 'Accounting Policies'

FRS 18 was issued in December 2000 and is fully effective for HSBC's 2001 financial statements. The FRS replaces SSAP 2 'Disclosure of accounting policies', UITF Abstract 7 'True and fair view override disclosures' and UITF Abstract 14 'Disclosure of changes in accounting policy'. There are also amendments to other accounting standards and UITF Abstracts.

The objective of the FRS is to ensure that for all material items an entity adopts appropriate accounting policies, that these are regularly reviewed and that they are explained in sufficient detail.

Adoption of FRS 18 is not expected to have a material impact on HSBC's financial statements.

FRS 19 'Deferred Tax'

FRS 19 was issued in December 2000 and is fully effective for HSBC's 2002 financial statements. The FRS replaces SSAP 15 'Accounting for deferred tax' and there are some amendments to other accounting standards.

The objective of the FRS is to ensure that future tax consequences of past transactions and events are recognised as liabilities or assets in the financial statements and that the financial statements disclose any other special circumstances that may have an effect on future tax charges.

In practice deferred tax will be provided in the accounts for all timing differences, where currently deferred tax assets and liabilities are recognised to the extent they are expected to crystallise.

Management are currently assessing the impact of the FRS and the effect on HSBC's financial statements is not yet known.

United States

Statement of Financial Accounting Standards ('SFAS') No. 133 'Accounting for Derivative Instruments and for Hedging Activities'

SFAS No. 133 was issued in June 1998 and amended in June 2000 by SFAS No.138. It is effective for HSBC from 1 January 2001.

FAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives be recognised as either assets or liabilities in the balance sheet and that those instruments be measured at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation as described below:

- For a derivative designated as hedging the exposures to changes in the fair value of a recognised asset or liability or a firm commitment, the gain or loss is recognised in earnings in the period of change together with the associated loss or gain on the hedged item attributable to the risk being hedged.
- For a derivative designated as hedging the exposure to variable cash flows of a recognised asset or liability, or of a forecasted transaction, the derivatives gain or loss associated with the effective portion of the hedge is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion is reported in earnings immediately.
- For net investment hedges, in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the change in fair value of the derivative associated with the effective portion of the hedge is included as a component of other comprehensive income together with the associated loss or gain on the hedged item. The ineffective portion is reported in earnings immediately.
- For a derivative not designated as a hedging instrument, the gain or loss is recognised in earnings in the period of change in fair value.

At the date of initial application all derivatives will be recognised on the balance sheet at fair value and all hedging relationships will be designated anew. Gains or losses on any hedged items attributable to the risk being hedged will also be recognised. Transition adjustments resulting from adopting this Statement shall be reported in US GAAP net income or other comprehensive income, as appropriate based on the hedging relationship, if any, that had existed for that derivative. HSBC does not believe that any significant adjustment to either net income or shareholders' equity will result from this process.

HSBC will continue to mitigate economic risks in its non-trading portfolio with derivatives. This process will be managed to meet UK GAAP, rather than US GAAP, requirements for hedge accounting. There may, therefore, be increased volatility in HSBC's earnings reported under US GAAP in future periods.

SFAS No. 140, 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'

SFAS 140, issued in September 2000, replaces SFAS No. 125, 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'. It revises the standards for accounting for securitisations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FAS 125's provisions without change.

SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities of HSBC occurring after 31 March 2001. However, the provisions of SFAS 140 concerning the recognition and reclassification of collateral and disclosures relating to securitisation transactions and collateral are effective for HSBC's US GAAP reporting for the year ended 31 December 2000 and have been reflected in this Annual Report. FAS 140 is to be applied prospectively with certain exceptions. Adoption is not expected to have a material impact on HSBC's US GAAP financial statements.

Average balance sheet and net interest income

Average balances and the related interest are shown for the domestic operations of HSBC's principal commercial banks by geographic region with all other commercial banking and investment banking balances and transactions included in 'Other operations'. Additional information on the basis of preparation is set out in the notes on page 68.

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
Assets		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Short-term funds and loans to banks										
Europe	HSBC Bank plc (i)	**18,667**	**1,084**	**5.81**	16,278	772	4.74	17,374	1,109	6.38
	HSBC Republic Holdings (Suisse)	**8,927**	**520**	**5.83**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**7,368**	**471**	**6.39**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**20,862**	**1,317**	**6.31**	19,706	1,108	5.62	16,982	1,210	7.13
	The Hongkong and Shanghai Banking Corporation Limited	**27,352**	**1,906**	**6.97**	25,825	1,608	6.23	20,804	1,479	7.11
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**6,350**	**351**	**5.53**	7,086	367	5.18	6,992	477	6.82
	HSBC Bank Malaysia Berhad	**1,842**	**57**	**3.09**	1,373	51	3.70	401	31	7.73
	HSBC Bank Middle East	**1,432**	**91**	**6.35**	1,339	69	5.17	1,356	75	5.53
North America	HSBC USA Inc	**4,141**	**247**	**5.96**	3,080	154	4.99	3,592	206	5.73
	HSBC Bank Canada (iii)	**1,395**	**83**	**5.95**	1,217	57	4.69	1,150	76	5.66
	HSBC Markets Inc	**3,198**	**147**	**4.60**	1,790	78	4.38	3,176	202	6.36
Latin America	HSBC Bank Brasil	**1,039**	**159**	**15.30**	672	116	17.23	2,521	510	20.23
	HSBC Bank Argentina S.A.	**824**	**51**	**6.19**	748	39	5.18	609	32	5.30
Other operations		**11,295**	**881**	**7.80**	12,899	782	6.06	13,407	911	6.79
		114,692	**7,365**	**6.42**	92,013	5,201	5.65	88,364	6,318	7.15
Loans and advances to customers										
Europe	HSBC Bank plc (i)	**87,684**	**6,721**	**7.67**	82,135	6,007	7.31	81,911	6,685	8.16
	HSBC Republic Holdings (Suisse).	**2,728**	**139**	**5.10**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**11,679**	**776**	**6.64**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**27,515**	**2,279**	**8.28**	25,859	2,112	8.17	26,351	2,534	9.62
	The Hongkong and Shanghai Banking Corporation Limited	**34,863**	**3,095**	**8.88**	38,189	3,066	8.03	42,643	3,894	9.13
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**19,149**	**1,483**	**7.74**	20,592	1,361	6.61	22,083	1,690	7.65
	HSBC Bank Malaysia Berhad	**3,702**	**237**	**6.41**	4,206	296	7.03	4,003	426	10.64
	HSBC Bank Middle East	**4,854**	**464**	**9.56**	4,475	420	9.39	4,394	416	9.47
North America	HSBC USA Inc	**37,626**	**2,983**	**7.93**	23,401	1,833	7.83	21,776	1,789	8.22
	HSBC Bank Canada (iii)	**14,170**	**1,056**	**7.45**	12,930	872	6.75	12,153	1,176	8.29
	HSBC Markets Inc	**5,821**	**277**	**4.76**	3,957	153	3.87	5,604	475	8.48
Latin America	HSBC Bank Brasil	**2,706**	**908**	**33.56**	1,800	658	36.55	2,463	802	32.56
	HSBC Bank Argentina S.A.	**2,263**	**350**	**15.47**	2,723	373	13.70	2,561	353	13.78
Other operations		**15,233**	**761**	**4.99**	12,925	987	7.64	14,890	1,182	7.94
		269,993	**21,529**	**7.97**	233,192	18,138	7.78	240,832	21,422	8.89

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
Assets (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Trading securities										
Europe	HSBC Bank plc (i)	**7,380**	**467**	**6.33**	12,760	655	5.13	24,343	1,481	6.08
	HSBC Republic Holdings (Suisse).	**179**	**11**	**6.15**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**3,135**	**218**	**6.95**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**210**	**13**	**6.41**	68	4	5.88	87	7	8.05
	The Hongkong and Shanghai Banking Corporation Limited	**6,742**	**450**	**6.67**	2,201	147	6.66	1,857	151	8.13
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**1,433**	**99**	**6.91**	1,078	73	6.73	823	84	10.21
	HSBC Bank Malaysia Berhad	**195**	**7**	**3.64**	76	4	4.72	50	4	8.00
North America	HSBC USA Inc	**1,826**	**105**	**5.75**	907	51	5.58	849	51	6.01
	HSBC Bank Canada (iii)	**188**	**11**	**5.85**	174	8	4.61	85	6	6.05
	HSBC Markets Inc	**10,879**	**660**	**6.07**	10,526	572	5.43	3,183	221	6.94
Latin America	HSBC Bank Brasil	**95**	**23**	**24.21**	173	50	28.66	315	81	25.71
	HSBC Bank Argentina S.A.	**192**	**21**	**10.94**	68	6	8.86	—	—	—
Other operations		**2,009**	**153**	**7.61**	2,526	128	5.07	2,904	237	8.16
		34,463	**2,238**	**6.49**	30,557	1,698	5.56	34,496	2,323	6.73
Investment securities										
Europe	HSBC Bank plc (i)	**20,573**	**1,231**	**5.98**	18,610	1,057	5.68	8,268	559	6.76
	HSBC Republic Holdings (Suisse).	**8,424**	**593**	**7.04**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**3,285**	**180**	**5.48**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**6,003**	**395**	**6.59**	5,249	307	5.85	4,620	307	6.65
	The Hongkong and Shanghai Banking Corporation Limited	**18,026**	**974**	**5.40**	12,660	595	4.70	7,391	439	5.94
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**6,203**	**418**	**6.74**	4,184	314	7.52	2,280	211	9.25
	HSBC Bank Malaysia Berhad	**676**	**29**	**4.26**	688	37	5.36	714	60	8.40
	HSBC Bank Middle East	**692**	**55**	**7.95**	604	54	8.94	518	51	9.85
North America	HSBC USA Inc	**19,952**	**1,403**	**7.03**	4,461	263	5.90	4,429	266	6.01
	HSBC Bank Canada (iii)	**2,209**	**127**	**5.75**	2,327	131	5.64	2,503	168	5.75
	HSBC Markets Inc	**16**	**1**	**6.25**	16	1	8.31	14	1	7.14
Latin America	HSBC Bank Brasil	**2,781**	**467**	**16.79**	3,026	697	23.05	3,940	1,003	25.46
	HSBC Bank Argentina S.A.	**808**	**86**	**10.64**	462	45	9.85	216	18	8.20
Other operations		**6,678**	**492**	**7.37**	10,658	561	5.26	6,998	426	6.09
		96,326	**6,451**	**6.70**	62,945	4,062	6.45	41,891	3,509	8.38

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
Assets (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Other interest-earning assets										
Europe	HSBC Bank plc (i)	**2,522**	**183**	**7.26**	5,496	293	5.33	6,338	365	5.76
	HSBC Republic Holdings (Suisse).	**1,915**	**124**	**6.48**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**45**	**3**	**6.67**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**1,335**	**92**	**6.89**	1,459	87	5.95	1,523	106	6.96
	The Hongkong and Shanghai Banking Corporation Limited	**9,890**	**487**	**4.92**	8,351	426	5.10	6,926	401	5.79
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**5,599**	**201**	**3.59**	2,837	130	4.59	3,347	170	5.08
	HSBC Bank Malaysia Berhad	**30**	**3**	**11.52**	16	1	8.18	69	1	1.45
	HSBC Bank Middle East	**905**	**60**	**6.63**	844	47	5.57	656	42	6.40
North America	HSBC USA Inc	**1,159**	**96**	**8.28**	145	7	5.18	203	10	4.93
	HSBC Bank Canada (iii)	**—**	**3**	—	—	—	—	—	—	—
	HSBC Markets Inc	**153**	**8**	**5.23**	311	16	4.98	732	53	7.24
Latin America	HSBC Bank Brasil	**302**	**31**	**10.26**	140	25	18.00	192	24	12.50
	HSBC Bank Argentina	**4**	**1**	**25.00**	—	—	—	—	—	—
Other operations		**(23,148)**	**(1,129)**	**4.88**	(19,081)	(927)	4.86	(19,621)	(1,124)	5.73
		711	**163**	**22.93**	518	105	20.27	365	48	13.15
Total interest-earning assets										
Europe	HSBC Bank plc (i)	**136,826**	**9,686**	**7.08**	135,279	8,784	6.49	138,234	10,199	7.38
	HSBC Republic Holdings (Suisse).	**22,173**	**1,387**	**6.26**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**25,512**	**1,648**	**6.46**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**55,925**	**4,096**	**7.32**	52,341	3,618	6.91	49,563	4,164	8.40
	The Hongkong and Shanghai Banking Corporation Limited	**96,873**	**6,912**	**7.13**	87,226	5,842	6.70	79,621	6,364	7.99
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**38,734**	**2,552**	**6.59**	35,777	2,245	6.28	35,525	2,632	7.41
	HSBC Bank Malaysia Berhad	**6,444**	**333**	**5.17**	6,359	389	6.11	5,237	522	9.97
	HSBC Bank Middle East	**7,883**	**670**	**8.50**	7,262	590	8.13	6,924	584	8.43
North America	HSBC USA Inc	**64,704**	**4,834**	**7.47**	31,994	2,308	7.21	30,849	2,322	7.53
	HSBC Bank Canada (iii)	**17,962**	**1,280**	**7.13**	16,648	1,068	6.42	15,891	1,426	7.69
	HSBC Markets Inc	**20,067**	**1,093**	**5.45**	16,600	820	4.94	12,709	952	7.49
Latin America	HSBC Bank Brasil	**6,923**	**1,588**	**22.94**	5,811	1,546	26.60	9,431	2,420	25.66
	HSBC Bank Argentina S.A.	**4,091**	**509**	**12.44**	4,001	463	11.58	3,386	403	11.92
Other operations		**12,068**	**1,158**	**9.60**	19,927	1,531	7.68	18,578	1,632	8.78
		516,185	**37,746**	**7.31**	419,225	29,204	6.97	405,948	33,620	8.28
Summary										
Total interest-earning assets		**516,185**	**37,746**	**7.31**	419,225	29,204	6.97	405,948	33,620	8.28
Provisions for bad and doubtful debts		**(7,980)**			(7,060)			(5,603)		
Non interest-earning assets		**107,480**			83,137			85,814		
Total assets & interest income		**615,685**	**37,746**	**6.13**	495,302	29,204	5.90	486,159	33,620	6.92

		Year ended 31 December		
		2000	1999	1998
		%	%	%
Assets (continued)				
Distribution of average total assets:				
Europe	HSBC Bank plc (i)	**27.9**	33.1	34.9
	HSBC Republic Holdings (Suisse).	**3.8**	—	—
	Crédit Commercial de France (ii)	**4.8**	—	—
Hong Kong	Hang Seng Bank	**9.6**	11.1	10.9
	The Hongkong and Shanghai Banking Corporation Limited	**20.5**	23.9	24.0
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**7.0**	7.9	8.3
	HSBC Bank Malaysia Berhad	**1.0**	1.3	1.2
	HSBC Bank Middle East	**1.4**	1.6	1.5
North America	HSBC USA Inc	**12.5**	7.0	6.9
	HSBC Bank Canada (iii)	**3.1**	3.6	3.5
	HSBC Markets Inc	**3.9**	4.1	4.8
Latin America	HSBC Bank Brasil	**1.4**	1.5	2.4
	HSBC Bank Argentina S.A.	**0.8**	0.9	0.8
Other operations (including consolidation adjustments)		**2.3**	4.0	0.8
		100.0	100.0	100.0

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
Liabilities and shareholders' funds		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Deposits by banks #										
Europe	HSBC Bank plc (i)	**12,725**	**668**	**5.25**	13,796	482	3.49	17,893	928	5.19
	HSBC Republic Holdings (Suisse).	**2,158**	**103**	**4.77**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**11,534**	**644**	**5.58**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**632**	**37**	**5.79**	859	43	5.03	615	31	4.99
	The Hongkong and Shanghai Banking Corporation Limited	**1,911**	**113**	**5.93**	2,277	111	4.86	4,011	233	5.80
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**1,956**	**109**	**5.57**	2,578	108	4.18	4,316	206	4.77
	HSBC Bank Malaysia Berhad	**51**	**1**	**2.26**	57	3	4.66	97	1	1.53
	HSBC Bank Middle East	**326**	**21**	**6.44**	235	14	5.82	273	16	6.02
North America	HSBC USA Inc	**2,776**	**102**	**3.67**	1,061	43	4.05	1,402	56	4.00
	HSBC Bank Canada (iii)	**374**	**21**	**5.61**	1,053	54	5.14	1,027	67	6.57
	HSBC Markets Inc	**2,791**	**131**	**4.69**	1,842	87	4.72	2,849	161	5.67
Latin America	HSBC Bank Brasil	**920**	**101**	**10.98**	705	101	14.39	916	153	16.71
	HSBC Bank Argentina S.A.	**425**	**35**	**8.24**	472	22	4.73	386	26	6.65
Other operations		**5,664**	**270**	**4.76**	5,623	181	3.22	3,720	264	7.11
		44,243	**2,356**	**5.33**	30,558	1,249	4.09	37,505	2,142	5.71
Customer accounts #										
Europe	HSBC Bank plc (i)	**88,360**	**4,037**	**4.57**	84,554	3,292	3.89	83,245	4,302	5.17
	HSBC Republic Holdings (Suisse).	**16,421**	**965**	**5.88**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**7,181**	**421**	**5.86**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**47,432**	**2,397**	**5.05**	43,835	1,962	4.48	41,796	2,567	6.14
	The Hongkong and Shanghai Banking Corporation Limited	**75,534**	**3,651**	**4.83**	69,255	3,040	4.39	59,962	3,571	5.96
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**22,994**	**1,117**	**4.86**	20,658	934	4.52	18,961	1,096	5.78
	HSBC Bank Malaysia Berhad	**4,360**	**146**	**3.35**	4,290	175	4.07	3,824	280	7.32
	HSBC Bank Middle East	**5,937**	**331**	**5.58**	5,412	272	5.03	4,962	269	5.41
North America	HSBC USA Inc	**41,966**	**1,951**	**4.65**	11,737	290	2.47	11,369	367	3.23
	HSBC Bank Canada (iii)	**12,314**	**593**	**4.82**	11,177	464	4.16	11,318	790	6.98
	HSBC Markets Inc	**4,427**	**234**	**5.29**	5,333	253	4.74	9,622	696	7.23
Latin America	HSBC Bank Brasil	**4,275**	**553**	**12.94**	3,715	559	15.05	6,768	1,204	17.79
	HSBC Bank Argentina S.A.	**2,854**	**191**	**6.69**	2,690	170	6.34	2,285	144	6.29
Other operations		**22,972**	**1,168**	**5.08**	21,083	1,196	5.67	21,662	1,364	6.30
		357,027	**17,755**	**4.97**	283,739	12,607	4.44	275,774	16,650	6.04

\# Further analysis is given on pages 101 and 102.

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
Liabilities and shareholders' funds (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
CDs and other money market instruments #										
Europe	HSBC Bank plc (i)	**1,284**	**79**	**6.15**	4,617	280	6.06	5,325	382	7.17
	HSBC Republic Holdings (Suisse).	**—**	**—**	**—**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**2,489**	**136**	**5.46**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**2,195**	**147**	**6.71**	1,511	98	6.52	1,140	96	8.42
	The Hongkong and Shanghai Banking Corporation Limited	**3,933**	**291**	**7.39**	4,203	260	6.18	4,277	359	8.39
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**1,397**	**82**	**5.87**	1,605	81	5.08	1,812	130	7.17
	HSBC Bank Malaysia Berhad	**175**	**8**	**4.29**	148	9	6.08	273	26	9.52
	HSBC Bank Middle East	**—**	**—**	**—**	47	3	6.38	40	3	7.50
North America	HSBC USA Inc	**2,192**	**72**	**3.28**	9,571	477	4.98	9,059	488	5.39
	HSBC Bank Canada (iii)	**1,589**	**91**	**5.73**	1,321	67	5.04	1,229	71	4.95
Latin America	HSBC Bank Brasil	**53**	**5**	**9.43**	4	—	7.83	—	—	—
	HSBC Bank Argentina	**113**	**10**	**8.85**						
Other operations		**539**	**22**	**4.17**	376	18	4.79	1,568	73	4.66
		15,959	**943**	**5.91**	23,403	1,293	5.52	24,723	1,628	6.58
Loan capital										
Europe	HSBC Bank plc (i)	**9,445**	**668**	**7.07**	9,148	589	6.44	9,110	651	7.15
	HSBC Republic Holdings (Suisse)	**91**	**8**	**8.79**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**1,093**	**58**	**5.31**	—	—	—	—	—	—
Hong Kong	The Hongkong and Shanghai Banking Corporation Limited	**1,820**	**121**	**6.64**	1,862	107	5.74	1,777	115	6.47
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**107**	**13**	**12.15**	109	12	10.93	—	—	—
North America	HSBC USA Inc	**5,271**	**462**	**8.76**	1,826	109	5.96	1,438	93	6.47
	HSBC Bank Canada (iii)	**1,628**	**107**	**6.57**	1,360	90	6.58	746	59	6.78
Latin America	HSBC Bank Brasil	**72**	**8**	**11.11**	82	9	10.67	159	49	30.82
	HSBC Bank Argentina S.A.	**281**	**27**	**9.61**	272	24	9.01	202	15	7.67
Other operations		**4,771**	**322**	**6.75**	3,898	279	7.16	3,370	239	7.09
		24,579	**1,794**	**7.30**	18,557	1,219	6.57	16,802	1,221	7.27

\# Further analysis is given on pages 102.

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
Liabilities and shareholders' funds (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Other interest-bearing liabilities										
Europe	HSBC Bank plc (i)	**10,849**	**582**	**5.36**	8,601	461	5.36	8,175	486	5.94
	HSBC Republic Holdings (Suisse)	**840**	**30**	**3.57**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**118**	**6**	**5.08**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**251**	**14**	**5.67**	223	11	4.75	115	5	4.35
	The Hongkong and Shanghai Banking Corporation Limited	**6,009**	**342**	**5.78**	3,048	170	5.59	3,397	168	4.95
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**8,153**	**385**	**4.72**	7,158	362	5.05	7,289	448	6.15
	HSBC Bank Malaysia Berhad	**80**	**4**	**4.86**	443	29	6.44	381	24	6.30
	HSBC Bank Middle East	**96**	**6**	**6.25**	127	7	5.51	235	16	6.81
North America	HSBC USA Inc	**9,767**	**603**	**6.17**	3,673	175	4.76	3,115	163	5.23
	HSBC Bank Canada (iii)	**406**	**20**	**4.93**	479	25	5.22	471	28	5.10
	HSBC Markets Inc.	**12,634**	**681**	**5.39**	9,517	486	5.11	6,028	242	4.01
Latin America	HSBC Bank Brasil	**261**	**49**	**18.77**	422	46	11.02	376	30	7.98
	HSBC Bank Argentina S.A.	**102**	**19**	**18.63**	187	24	12.83	149	19	12.75
Other operations		**(30,359)**	**(1,566)**	**5.16**	(20,851)	(950)	4.56	(19,061)	(1,199)	6.29
		19,207	**1,175**	**6.12**	13,027	846	6.49	10,670	430	4.03

		Year ended 31 December 2000			Year ended 31 December 1999			Year ended 31 December 1998		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
Liabilities and shareholders' funds (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Total interest-bearing liabilities										
Europe	HSBC Bank plc (i)	**122,663**	**6,034**	**4.92**	120,716	5,104	4.23	123,748	6,749	5.45
	HSBC Republic Holdings (Suisse)	**19,510**	**1,106**	**5.67**	—	—	—	—	—	—
	Crédit Commercial de France (ii)	**22,415**	**1,265**	**5.64**	—	—	—	—	—	—
Hong Kong	Hang Seng Bank	**50,510**	**2,595**	**5.14**	46,428	2,114	4.55	43,666	2,699	6.18
	The Hongkong and Shanghai Banking Corporation Limited	**89,207**	**4,518**	**5.08**	80,647	3,688	4.57	73,424	4,446	6.06
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**34,607**	**1,706**	**4.93**	32,108	1,497	4.66	32,378	1,880	5.81
	HSBC Bank Malaysia Berhad	**4,666**	**159**	**3.40**	4,938	215	4.35	4,575	331	7.23
	HSBC Bank Middle East	**6,359**	**358**	**5.63**	5,822	296	5.08	5,511	304	5.52
North America	HSBC USA Inc	**61,972**	**3,190**	**5.15**	27,868	1,094	3.93	26,383	1,167	4.42
	HSBC Bank Canada (iii)	**16,311**	**832**	**5.10**	15,390	701	4.56	14,791	1,016	5.89
	HSBC Markets Inc.	**19,852**	**1,046**	**5.27**	16,692	826	4.95	18,498	1,099	5.94
Latin America	HSBC Bank Brasil	**5,581**	**716**	**12.83**	4,928	716	14.53	8,219	1,436	17.47
	HSBC Bank Argentina S.A.	**3,775**	**282**	**7.47**	3,619	241	6.67	3,022	203	6.72
Other operations		**3,587**	**216**	**6.03**	10,128	722	7.13	11,258	743	6.60
		461,015	**24,023**	**5.21**	369,284	17,214	4.66	365,473	22,073	6.04
Total interest-bearing liabilities		**461,015**	**24,023**	**5.21**	369,284	17,214	4.66	365,473	22,073	6.04
Non interest-bearing current accounts		**27,199**			21,976			22,030		
Shareholders' funds & other non interest-bearing liabilities		**127,471**			104,042			98,656		
Total liabilities & interest expense		**615,685**	**24,023**	**3.90**	495,302	17,214	3.48	486,159	22,073	4.54

Net interest margin		Year ended 31 December 2000 %	1999 %	1998 %
Europe	HSBC Bank plc (i)	**2.67**	2.72	2.50
	HSBC Republic Holdings (Suisse).	**1.27**	—	—
	Crédit Commercial de France (ii)	**1.50**	—	—
Hong Kong	Hang Seng Bank	**2.68**	2.87	2.96
	The Hongkong and Shanghai Banking Corporation Limited	**2.47**	2.47	2.41
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**2.18**	2.09	2.12
	HSBC Bank Malaysia Berhad	**2.71**	2.73	3.65
	HSBC Bank Middle East	**3.96**	4.06	4.05
North America	HSBC USA Inc.	**2.54**	3.79	3.74
	HSBC Bank Canada (iii)	**2.49**	2.21	2.21
	HSBC Markets Inc.	**0.23**	(0.04)	(1.16)
Latin America	HSBC Bank Brasil	**12.60**	14.29	10.43
	HSBC Bank Argentina S.A.	**5.55**	5.55	5.92
Other operations		**7.80**	4.06	4.12
HSBC margin		**2.66**	2.86	2.84

Notes

(i) Excluding HSBC Republic Holdings (Suisse) and Crédit Commercial de France.

(ii) Credit Commercial de France's average balances and related interest income and expense include the results of its overseas branches and subsidiaries. HSBC expects to provide a full average balance sheet for Credit Commercial de France's domestic operations in its 2001 Annual Report.

(iii) HSBC Bank Canada's interest income and expense for 1998 reflect 14 months of results, the impact of which was to add US$57 million to net interest income. Gross interest yield, interest cost and net interest margin have been calculated on an annualised basis. The effect of the additional months of income and expense has been included in the rate column of the 'Analysis of changes in net interest income' table.

(iv) Average balances are based on daily averages for the principal areas of HSBC's banking activities with monthly or less frequent averages used elsewhere.

(v) 'Loans accounted for on a non-accrual basis' and 'Loans on which interest has been accrued but suspended' have been included in 'Loans and advances to banks' and 'Loans and advances to customers'. Interest income on such loans is included in the consolidated profit and loss account to the extent it has been received.

(vi) Balances and transactions with fellow subsidiaries are reported gross in the principal commercial banking entities within 'Other interest-earning assets' and 'Other interest bearing-liabilities' as appropriate and the elimination entries included within 'Other operations' in those two categories.

(vii) Other than as noted in (vi) above, 'Other operations' comprise the operations of the principal commercial banking entities outside their domestic markets and all other commercial banking and investment banking operations.

(viii) Non-equity minority interests are included within shareholders' funds and other non interest-bearing liabilities and the related coupon payments are included within minority interests in the profit and loss account.

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 2000 compared with 1999, and for 1999 compared with 1998. Changes due to a combination of volume and rate are allocated to rate.

		2000 compared with 1999 Increase/(decrease)			1999 compared with 1998 Increase/(decrease)			
Interest income		**2000 US$m**	**Volume US$m**	**Rate US$m**	1999 US$m	Volume US$m	Rate US$m	1998 US$m
Short-term funds and loans to banks								
Europe	HSBC Bank plc (i)	**1,084**	**113**	**199**	772	(70)	(267)	1,109
	HSBC Republic Holdings (Suisse).	**520**	**520**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**471**	**471**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**1,317**	**65**	**144**	1,108	194	(296)	1,210
	The Hongkong and Shanghai Banking Corporation Limited	**1,906**	**95**	**203**	1,608	357	(228)	1,479
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**351**	**(38)**	**22**	367	6	(116)	477
	HSBC Bank Malaysia Berhad	**57**	**17**	**(11)**	51	75	(55)	31
	HSBC Bank Middle East	**91**	**5**	**17**	69	(1)	(5)	75
North America	HSBC USA Inc.	**247**	**53**	**40**	154	(29)	(23)	206
	HSBC Bank Canada	**83**	**8**	**18**	57	4	(23)	76
	HSBC Markets Inc	**147**	**62**	**7**	78	(88)	(36)	202
Latin America	HSBC Bank Brasil	**159**	**63**	**(20)**	116	(374)	(20)	510
	HSBC Bank Argentina S.A.	**51**	**4**	**8**	39	7	0	32
Other operations		**881**	**(97)**	**196**	782	(35)	(94)	911
		7,365	**1,282**	**882**	5,201	261	(1,378)	6,318
Loans and advances to customers								
Europe	HSBC Bank plc (i)	**6,721**	**406**	**308**	6,007	18	(696)	6,685
	HSBC Republic Holdings (Suisse).	**139**	**139**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**776**	**776**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**2,279**	**135**	**32**	2,112	(47)	(375)	2,534
	The Hongkong and Shanghai Banking Corporation Limited	**3,095**	**(267)**	**296**	3,066	(407)	(421)	3,894
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**1,483**	**(95)**	**217**	1,361	(114)	(215)	1,690
	HSBC Bank Malaysia Berhad	**237**	**(35)**	**(24)**	296	22	(152)	426
	HSBC Bank Middle East	**464**	**36**	**8**	420	8	(4)	416
North America	HSBC USA Inc.	**2,983**	**1,114**	**36**	1,833	134	(90)	1,789
	HSBC Bank Canada	**1,056**	**84**	**100**	872	64	(368)	1,176
	HSBC Markets Inc	**277**	**72**	**52**	153	(140)	(182)	475
Latin America	HSBC Bank Brasil	**908**	**331**	**(81)**	658	(216)	72	802
	HSBC Bank Argentina S.A.	**350**	**(63)**	**40**	373	22	(2)	353
Other operations		**761**	**176**	**(402)**	987	(156)	(39)	1,182
		21,529	**2,862**	**529**	18,138	(679)	(2,605)	21,422

		2000 compared with 1999 Increase/(decrease)			1999 compared with 1998 Increase/(decrease)			
		2000	**Volume**	**Rate**	1999	Volume	Rate	1998
Interest income (continued)		**US$m**	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Trading securities								
Europe	HSBC Bank plc (i)	**467**	**(276)**	**88**	655	(704)	(122)	1,481
	HSBC Republic Holdings (Suisse).	**11**	**11**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**218**	**218**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**13**	**8**	**1**	4	(2)	(1)	7
	The Hongkong and Shanghai Banking Corporation Limited	**450**	**302**	**1**	147	28	(32)	151
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**99**	**24**	**2**	73	26	(37)	84
	HSBC Bank Malaysia Berhad	**7**	**6**	**(3)**	4	2	(2)	4
North America	HSBC USA Inc.	**105**	**51**	**3**	51	3	(3)	51
	HSBC Bank Canada	**11**	**1**	**2**	8	5	(3)	6
	HSBC Markets Inc.	**660**	**19**	**69**	572	510	(159)	221
Latin America	HSBC Bank Brasil	**23**	**(22)**	**(5)**	50	(37)	6	81
	HSBC Bank Argentina S.A.	**21**	**11**	**4**	6	—	6	—
Other operations		**153**	**26**	**51**	128	(31)	(78)	237
		2,238	**217**	**323**	1,698	(265)	(360)	2,323
Investment securities								
Europe	HSBC Bank plc (i)	**1,231**	**111**	**63**	1,057	699	(201)	559
	HSBC Republic Holdings (Suisse).	**593**	**593**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**180**	**180**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**395**	**44**	**44**	307	42	(42)	307
	The Hongkong and Shanghai Banking Corporation Limited	**974**	**252**	**127**	595	313	(157)	439
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**418**	**152**	**(48)**	314	176	(73)	211
	HSBC Bank Malaysia Berhad	**29**	**(1)**	**(7)**	37	(2)	(21)	60
	HSBC Bank Middle East	**55**	**8**	**(7)**	54	8	(5)	51
North America	HSBC USA Inc.	**1,403**	**914**	**226**	263	2	(5)	266
	HSBC Bank Canada	**127**	**(7)**	**3**	131	(10)	(27)	168
	HSBC Markets Inc.	**1**	**—**	**—**	1	—	—	1
Latin America	HSBC Bank Brasil	**467**	**(56)**	**(174)**	697	(233)	(73)	1,003
	HSBC Bank Argentina S.A.	**86**	**34**	**7**	45	20	7	18
Other operations		**492**	**(210)**	**141**	561	223	(88)	426
		6,451	**2,154**	**235**	4,062	1,764	(1,211)	3,509

		2000 compared with 1999 Increase/(decrease)			1999 compared with 1998 Increase/(decrease)			
Interest expense		**2000 US$m**	**Volume US$m**	**Rate US$m**	1999 US$m	Volume US$m	Rate US$m	1998 US$m
Deposits by banks								
Europe	HSBC Bank plc (i)	**668**	**(37)**	**223**	482	(212)	(234)	928
	HSBC Republic Holdings (Suisse).	**103**	**103**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**644**	**644**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**37**	**(11)**	**5**	43	12	—	31
	The Hongkong and Shanghai Banking Corporation Limited	**113**	**(18)**	**20**	111	(101)	(21)	233
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**109**	**(26)**	**27**	108	(83)	(15)	206
	HSBC Bank Malaysia Berhad	**1**	**—**	**(2)**	3	(1)	2	1
	HSBC Bank Middle East	**21**	**5**	**2**	14	(2)	(0)	16
North America	HSBC USA Inc.	**102**	**69**	**(10)**	43	(14)	1	56
	HSBC Bank Canada	**21**	**(35)**	**2**	54	2	(15)	67
	HSBC Markets Inc	**131**	**45**	**(1)**	87	(57)	(17)	161
Latin America	HSBC Bank Brasil	**101**	**31**	**(31)**	101	(35)	(16)	153
	HSBC Bank Argentina S.A.	**35**	**(2)**	**15**	22	6	(9)	26
Other operations		**270**	**1**	**88**	181	135	(219)	264
		2,356	**560**	**547**	1,249	(397)	(496)	2,142
Customer accounts								
Europe	HSBC Bank plc (i)	**4,037**	**148**	**597**	3,292	68	(1,078)	4,302
	HSBC Republic Holdings (Suisse).	**965**	**965**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**421**	**421**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**2,397**	**161**	**274**	1,962	125	(730)	2,567
	The Hongkong and Shanghai Banking Corporation Limited	**3,651**	**276**	**335**	3,040	554	(1,085)	3,572
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**1,117**	**106**	**77**	934	98	(260)	1,096
	HSBC Bank Malaysia Berhad	**146**	**3**	**(32)**	175	34	(139)	280
	HSBC Bank Middle East	**331**	**26**	**33**	272	24	(21)	269
North America	HSBC USA Inc.	**1,951**	**747**	**914**	290	12	(88)	367
	HSBC Bank Canada	**593**	**47**	**82**	464	(10)	(316)	790
	HSBC Markets Inc	**234**	**(43)**	**24**	253	(310)	(133)	696
Latin America	HSBC Bank Brasil	**553**	**84**	**(90)**	559	(543)	(102)	1,204
	HSBC Bank Argentina S.A.	**191**	**10**	**11**	170	25	1	144
Other operations		**1,168**	**107**	**(135)**	1,196	(37)	(131)	1,364
		17,755	**3,254**	**1,894**	12,607	481	(4,524)	16,650

Interest expense		2000 compared with 1999 Increase/(decrease) 2000 US$m	Volume US$m	Rate US$m	1999 compared with 1998 Increase/(decrease) 1999 US$m	Volume US$m	Rate US$m	1998 US$m
CDs and other money market instruments								
Europe	HSBC Bank plc (i)	**79**	**(202)**	**1**	280	(51)	(51)	382
	Crédit Commercial de France (ii)	**136**	**136**	**—**	—	—	—	—
Hong Kong	Hang Seng Bank	**147**	**45**	**4**	98	31	(29)	96
	The Hongkong and Shanghai Banking Corporation Limited	**291**	**(17)**	**48**	260	(6)	(93)	359
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**82**	**(11)**	**12**	81	(15)	(34)	130
	HSBC Bank Malaysia Berhad	**8**	**2**	**(3)**	9	(12)	(5)	26
	HSBC Bank Middle East	**—**	**(3)**	**—**	3	1	(1)	3
North America	HSBC USA Inc.	**72**	**(367)**	**(38)**	477	28	(39)	488
	HSBC Bank Canada	**91**	**14**	**10**	67	5	(9)	71
Latin America	HSBC Bank Brasil	**5**	**4**	**1**	—	—	—	—
	HSBC Bank Argentina S.A.	**10**	**0**	**10**	—	—	—	—
Other operations		**22**	**8**	**(4)**	18	(56)	1	73
		943	**(411)**	**61**	1,293	(87)	(248)	1,628
Loan capital								
Europe	HSBC Bank plc (i)	**668**	**19**	**60**	589	3	(65)	651
	HSBC Republic Holdings (Suisse).	**8**	**8**	**—**	—	—	—	—
	Crédit Commercial de France (ii)	**58**	**58**	**—**	—	—	—	—
Hong Kong	The Hongkong and Shanghai Banking Corporation Limited	**121**	**(2)**	**16**	107	5	(13)	115
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**13**	**—**	**1**	12	—	12	—
North America	HSBC USA Inc.	**462**	**205**	**148**	109	25	(9)	93
	HSBC Bank Canada	**107**	**18**	**(1)**	90	42	(11)	59
Latin America	HSBC Bank Brasil	**8**	**(1)**	**—**	9	(24)	(16)	49
	HSBC Bank Argentina S.A.	**27**	**1**	**2**	24	5	4	15
Other operations		**322**	**62**	**(19)**	279	37	3	239
		1,794	**396**	**179**	1,219	128	(130)	1,221

(i) Excluding HSBC Republic Holdings (Suisse) and Crédit Commercial de France.
(ii) Credit Commercial de France's average balances and related interest income and expense include the results of its overseas branches and subsidiaries. HSBC expects to provide a full average balance sheet for Crédit Commercial de France's domestic operations in its 2001 Annual Report.

Risk management

All of HSBC's activities involve analysis, evaluation and management of some degree of risk or combination of risks. The most important types of risk are credit risk (which includes cross-border risk), liquidity risk, market risk and operational risk. Market risk includes foreign exchange, interest rate and equity price risks.

HSBC's risk management policy is designed to identify and analyse credit risk, liquidity and market risk and other risks, to set appropriate risk limits, and to continually monitor these risks and limits by means of reliable and up-to-date administrative and information systems. HSBC continually modifies and enhances its risk management policies and systems to reflect changes in markets and products.

The Group Executive Committee, a committee of executive Directors and Group General Managers appointed by the Board of Directors, formulates risk management policy, monitors risk and regularly reviews the effectiveness of HSBC's risk management policies.

Credit risk management

Credit risk is the risk that a customer or counterparty will be unable or unwilling to meet a commitment that it has entered into with HSBC. It arises principally from lending, trade finance, treasury and leasing activities. HSBC has dedicated standards, policies and procedures to control and monitor all such risks.

Within Group Head Office, Group Credit and Risk is mandated to provide high level centralised management of credit risk for HSBC on a global basis. Group Credit and Risk is headed by a Group General Manager who reports to the Group Chief Executive, and its responsibilities include the following:

- formulation of high level credit policies. These are embodied in HSBC Standards with which all HSBC subsidiaries are required to comply in formulating their own more detailed credit policies and procedures, which are written in each HSBC subsidiary's dedicated credit policy manuals. The credit policies and procedures are monitored by Group Credit and Risk;
- establishment and maintenance of HSBC's Large Credit Exposure Policy which sets controls at the HSBC level on exposures to customers and customer groups and on other risk concentrations. HSBC's policy, which is designed to be more conservative than the internationally accepted regulatory standards, is required to be adopted by all the banking subsidiaries within HSBC;
- issue of Lending Guidelines which provide HSBC subsidiaries with clear guidance on HSBC's attitude towards and appetite for lending to different market sectors, industries, products, etc. Each HSBC subsidiary and major business unit is required to produce its own lending guidelines which conform with the HSBC Guidelines and which are regularly up-dated and provided to all credit and marketing executives;
- an independent review and objective assessment of risk. Group Credit and Risk undertakes an independent assessment of all commercial non-bank credit facilities over designated limits originated by all HSBC subsidiaries, prior to the facilities being offered to the customer. The business may not proceed without the concurrence of Group Credit and Risk. Similarly renewals and reviews of commercial non-bank facilities over designated levels are subject to review by and concurrence of Group Credit and Risk;
- control of exposures to banks and financial institutions. HSBC's credit and settlement risk limits to counterparties in the financial and government sectors are approved centrally to optimise the use of credit availability and to avoid excessive risk concentration. A dedicated unit within Group Credit and Risk controls and manages these exposures on a global basis using centralised systems and automated processes. Full authority is devolved to this unit by the respective HSBC subsidiaries;
- control of cross-border exposures. Control of country and cross-border risk is also managed by a dedicated unit within Group Credit and Risk using centralised systems, through the imposition of country limits with sub-limits by maturity and type of business. Country limits are determined taking into account economic and political factors together with local business knowledge. Transactions with countries deemed to be higher risk are considered on a case-by-case basis;
- control of exposure to certain industries. Group Credit and Risk controls HSBC's exposure to the shipping and aviation industries, and closely monitors exposures to other industries or products such as telecoms and commercial real estate. Controls such as restrictions on new business or the capping of exposure within HSBC subsidiaries may be introduced where necessary;
- maintenance of HSBC's universal facility grading process. HSBC's grading structure contains seven grades, the first three of which are applied to differing levels of satisfactory risk. Of the four unsatisfactory grades, grades 6 and 7 are non-

performing loans. In the case of banks, the grading structure involves 10 tiers, six of which cover satisfactory risk. It is the responsibility of the final approving executive to approve the facility grade. Facility grades are subject to frequent review and amendments, where necessary, are required to be undertaken promptly;

- review efficiency and effectiveness of subsidiaries' credit approval processes. Regular reports are provided to Group Credit and Risk on the credit quality of the local portfolios and corrective action is taken where necessary;

- reporting to senior executives on aspects of the HSBC loan portfolio. Reports are produced for senior management including the Group Executive Committee, Group Audit Committee and the Board covering:

  — risk concentrations and exposures to industry sectors

  — large customer group exposures

  — emerging market debt and provisioning

  — large non-performing accounts and provisions

  — specific segments of the portfolio — commercial real estate, telecoms, aviation, shipping, credit cards, as well as ad hoc reviews as necessary

  — country limits and cross-border exposures;

- management and direction of credit-related systems initiatives. HSBC has a centralised database of large corporate, sovereign and bank facilities and is finalising roll out of a new standard corporate credit application system;

- provision of advice and guidance to HSBC's subsidiaries. In order to promote best practice throughout HSBC, advice is given and procedures approved where necessary on numerous credit-related issues such as:

  — regulatory issues

  — environmental policy

  — credit scoring

  — new products

  — training courses

  — credit-related reporting; and

- primary interface on credit-related issues on behalf of HSBC Holdings with external parties including the Bank of England and the FSA, the rating agencies and corporate analysts and counterparts in the world's major banks and non-bank financial institutions.

In each of HSBC's subsidiaries, local management is fully responsible for the quality of its credit portfolio. Each major subsidiary has an appointed Chief Credit Officer, who reports to the local Chief Executive Officer, with a functional reporting line to the Group General Manager, Group Credit and Risk. Each subsidiary has established a credit process involving credit policies, procedures and lending guidelines conforming with HSBC requirements, and credit approval authorities delegated from the Board of Directors of HSBC Holdings to the local Chief Executive Officer. The objective is to build and maintain risk assets of high quality where risk and return are commensurate.

Each subsidiary is responsible for all the assets in its portfolio, including any subject to central control by Group Credit and Risk, and for managing its own risk concentrations on a market sector, geographical and product basis. Each HSBC subsidiary has systems in place to control and monitor its exposures at the customer and counterparty level.

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

Regular audits of subsidiaries' credit processes are undertaken by the HSBC Internal Audit function. Such audits include consideration of the completeness and adequacy of credit manuals and lending guidelines, together with an in-depth analysis of a representative sample of accounts in the portfolio to assess the quality of the loan book and other exposures. Individual accounts are reviewed to ensure that the facility grade is appropriate, that credit procedures have been properly followed and that where an account is non-performing, provisions raised are adequate. Internal audit will discuss any facility grading they consider should be revised at the end of the audit and their subsequent recommendations for revised grades must then be assigned to the facility.

Loan portfolio

Loans and advances to customers are spread across the various industrial sectors, as well as geographically.

Excluding CCF and at constant exchange rates, loans and advances to customers (excluding the finance sector and settlement accounts) grew by 7 per cent during 2000. Within this growth, personal lending grew by 9 per cent and loans and advances to the commercial and corporate customer base grew by 5 per cent.

Residential mortgages increased by US$6.0 billion to US$72.4 billion and comprised 24 per cent of total gross customer loans at 31 December 2000. Residential mortgages in Europe increased by US$2.8 billion, of which US$2.5 billion arose from the acquisition of CCF. In UK Banking, there was underlying growth of US$1.8 billion. Residential mortgage lending in Hong Kong fell by US$0.5 billion as a result of remortgaging following intense price competition. Residential mortgage loans made under the Hong Kong SAR Government Home Ownership Scheme increased by US$0.8 billion due to growth in Hang Seng Bank. In the Rest of Asia-Pacific, residential mortgages grew by US$0.7 billion with strong growth in India, Korea and Taiwan. In North America, residential mortgage lending grew by US$2.7 billion.

The increase of US$0.3 billion in residential mortgages in Latin America arose primarily due to the acquisition made in Panama.

Other personal lending remained stable at approximately 12 per cent of the overall loan portfolio. The acquisition of CCF brought some US$3.4 billion of personal lending, mainly in the domestic branch network in France. Elsewhere in the world, personal lending grew by US$0.5 billion in both Hong Kong and Brazil and by US$0.8 billion in North America. Strong growth was also achieved in consumer lending in the United Kingdom and in personal lending in India. These increases reflected the greater focus on this sector of the market.

Commercial lending grew in Europe due to an underlying 10 per cent increase in the UK and the acquisition of CCF. In Hong Kong, the Rest of Asia-Pacific and North America corporate loan demand was muted. There was corporate loan asset growth in Latin America in Brazil as demand for working capital loans expanded as the economic environment improved.

The table below sets out HSBC's exposure to the Telecoms industry in terms of outstanding advances. Telecoms industry exposure is a designated special category of exposure and is controlled under agreed caps. The exposure analysed below is well spread across geographic markets reflecting HSBC's global footprint.

Telecoms exposure as a percentage of total loans and advances was 2.2 per cent as at 31 December 2000. This exposure had the following characteristics:

	% of Telecoms industry exposure
Investment grade under HSBC gradings	95
Under one year remaining maturity	73
Telecom operators	81
Telecom manufacturers	19
Non-performing accounts	1
of which provided	66

The following tables analyse loans by industry sector and by the location of the principal operations of the lending subsidiary or, in the case of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, CCF, HSBC Bank Middle East and HSBC Bank USA operations, by the location of the lending branch.

Analysis of loans and advances to customers by geographical region and by type of customer

	Europe	Hong Kong	Rest of Asia-Pacific#	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans	Provisions for bad and doubtful debts
31 December 2000	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**%**	**US$m**
Personal:								
Residential mortgages	**24,822**	**23,121**	**3,723**	**19,641**	**1,099**	**72,406**	**24.2**	**(324)**
Hong Kong SAR Government Home Ownership Scheme	**—**	**7,353**	**—**	**—**	**—**	**7,353**	**2.5**	**—**
Other personal	**19,763**	**4,923**	**3,860**	**6,694**	**1,517**	**36,757**	**12.3**	**(1,149)**
Total personal	**44,585**	**35,397**	**7,583**	**26,335**	**2,616**	**116,516**	**39.0**	**(1,473)**
Corporate and commercial:								
Commercial, industrial and international trade	**38,012**	**9,584**	**11,644**	**8,831**	**3,246**	**71,317**	**23.9**	**(2,663)**
Commercial real estate	**10,053**	**8,293**	**2,773**	**6,865**	**127**	**28,111**	**9.4**	**(307)**
Other property-related	**3,121**	**3,850**	**1,816**	**4,053**	**175**	**13,015**	**4.4**	**(376)**
Government	**2,572**	**130**	**574**	**710**	**55**	**4,041**	**1.4**	**(44)**
Other commercial*	**19,570**	**7,459**	**5,516**	**3,710**	**980**	**37,235**	**12.4**	**(924)**
Total corporate and commercial	**73,328**	**29,316**	**22,323**	**24,169**	**4,583**	**153,719**	**51.5**	**(4,314)**
Financial:								
Non-bank financial institutions	**10,374**	**1,664**	**683**	**8,593**	**188**	**21,502**	**7.2**	**(278)**
Settlement accounts	**3,946**	**142**	**361**	**2,464**	**41**	**6,954**	**2.3**	**—**
Total financial	**14,320**	**1,806**	**1,044**	**11,057**	**229**	**28,456**	**9.5**	**(278)**
Total	**132,233**	**66,519**	**30,950**	**61,561**	**7,428**	**298,691**	**100.0**	**(6,065)**
General provisions								**(2,102)**
Suspended interest						**(687)**		
Total						**298,004**		**(8,167)**

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

\# *Further analysis is given on page 79.*

Analysis of loans and advances to customers by geographical region and by type of customer (continued)

	Europe	Hong Kong	Rest of Asia-Pacific#	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans	Provisions for bad and doubtful debts
31 December 1999	US$m	US$m	US$m	US$m	US$m	US$m	%	US$m
Personal:								
Residential mortgages	22,047	23,614	3,028	16,942	766	66,397	25.3	(228)
Hong Kong SAR Government Home Ownership Scheme	—	6,565	—	—	—	6,565	2.5	—
Other personal	16,668	4,409	3,748	5,857	1,024	31,706	12.1	(921)
Total personal	38,715	34,588	6,776	22,799	1,790	104,668	39.9	(1,149)
Corporate and commercial:								
Commercial, industrial and international trade	27,380	9,762	12,317	8,914	2,470	60,843	23.2	(2,468)
Commercial real estate	6,519	8,987	3,353	5,709	255	24,823	9.5	(248)
Other property-related	2,020	2,093	2,034	4,097	168	10,412	3.1	(319)
Government	3,405	140	749	726	153	5,173	2.0	(90)
Other commercial*	17,982	6,874	5,349	4,466	867	35,538	14.4	(1,143)
Total corporate and commercial	57,306	27,856	23,802	23,912	3,913	136,789	52.2	(4,268)
Financial:								
Non-bank financial institutions	7,227	2,262	1,047	6,380	209	17,125	6.5	(275)
Settlement accounts	2,827	114	200	619	9	3,769	1.4	—
Total financial	10,054	2,376	1,247	6,999	218	20,894	7.9	(275)
Total	106,075	64,820	31,825	53,710	5,921	262,351	100.0	(5,692)
General provisions								(2,304)
Suspended interest						(788)		
Total						261,563		(7,996)
31 December 1998								
Personal:								
Residential mortgages	20,716	25,051	2,746	13,059	640	62,212	25.7	(156)
Hong Kong SAR Government Home Ownership Scheme	—	6,291	—	—	—	6,291	2.6	—
Other personal	12,000	4,257	3,322	5,265	888	25,732	10.6	(789)
Total personal	32,716	35,599	6,068	18,324	1,528	94,235	38.9	(945)
Corporate and commercial:								
Commercial, industrial and international trade	28,224	10,952	13,189	6,444	2,602	61,411	25.3	(1,973)
Commercial real estate	6,418	9,420	3,601	4,615	62	24,116	9.9	(232)
Other property-related	2,110	2,248	2,126	1,591	174	8,249	3.4	(194)
Government	3,381	551	567	651	135	5,285	2.2	(141)
Other commercial*	15,200	7,377	5,071	3,934	885	32,467	13.4	(967)
Total corporate and commercial	55,333	30,548	24,554	17,235	3,858	131,528	54.2	(3,507)
Financial:								
Non-bank financial institutions	4,638	2,259	1,527	3,238	101	11,763	4.9	(156)
Settlement accounts	877	78	231	3,734	43	4,963	2.0	—
Total financial	5,515	2,337	1,758	6,972	144	16,726	6.9	(156)
Total	93,564	68,484	32,380	42,531	5,530	242,489	100.0	(4,608)
General provisions								(2,019)
Suspended interest						(567)		
Total						241,922		(6,627)

** Other commercial includes advances in respect of agriculture, transport, energy and utilities.*
 # Further analysis is given on page 79.

Analysis of loans and advances to customers by geographical region and by type of customer (continued)

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans	Provisions for bad and doubtful debts
31 December 1997	US$m	US$m	US$m	US$m	US$m	US$m	%	US$m
Personal:								
Residential mortgages	19,133	24,364	2,233	13,858	414	60,002	24.4	(58)
Hong Kong SAR Government Home Ownership Scheme	—	4,631	—	—	—	4,631	1.9	—
Other personal	10,236	4,367	3,187	5,597	788	24,175	9.8	(509)
Total personal	29,369	33,362	5,420	19,455	1,202	88,808	36.1	(567)
Corporate and commercial:								
Commercial, industrial and international trade	28,277	11,947	14,464	5,601	2,267	62,556	25.4	(1,047)
Commercial real estate	6,092	10,424	3,660	4,955	14	25,145	10.2	(240)
Other property-related	2,023	2,569	1,757	1,585	148	8,082	3.3	(102)
Government	3,530	120	277	576	11	4,514	1.8	(148)
Other commercial*	13,943	7,649	5,171	3,811	786	31,360	12.7	(923)
Total corporate and commercial	53,865	32,709	25,329	16,528	3,226	131,657	53.4	(2,460)
Financial:								
Non-bank financial institutions	5,569	5,283	1,632	8,230	649	21,363	8.7	(84)
Settlement accounts	1,248	182	211	2,644	54	4,339	1.8	—
Total financial	6,817	5,465	1,843	10,874	703	25,702	10.5	(84)
Total	90,051	71,536	32,592	46,857	5,131	246,167	100.0	(3,111)
General provisions								(2,021)
Suspended interest						(614)		
Total						245,553		(5,132)
31 December 1996								
Personal:								
Residential mortgages	16,942	18,406	2,028	7,614	—	44,990	22.5	(58)
Hong Kong SAR Government Home Ownership Scheme	—	4,235	—	—	—	4,235	2.1	—
Other personal	9,420	3,605	2,412	5,455	—	20,892	10.5	(371)
Total personal	26,362	26,246	4,440	13,069	—	70,117	35.1	(429)
Corporate and commercial:								
Commercial, industrial and international trade	25,119	11,007	14,261	5,288	—	55,675	27.9	(1,027)
Commercial real estate	5,504	8,012	3,419	4,494	—	21,429	10.7	(321)
Other property-related	1,988	2,213	1,769	953	—	6,923	3.5	(116)
Government	3,895	145	832	659	—	5,531	2.7	(333)
Other commercial*	12,666	5,644	4,750	3,774	—	26,834	13.4	(864)
Total commercial	49,172	27,021	25,031	15,168	—	116,392	58.2	(2,661)
Financial:								
Non-bank financial institutions	4,537	2,512	1,497	1,213	—	9,759	4.9	(43)
Settlement accounts	1,565	195	150	1,609	—	3,519	1.8	—
Total financial	6,102	2,707	1,647	2,822	—	13,278	6.7	(43)
Total	81,636	55,974	31,118	31,059	—	199,787	100.0	(3,133)
General provisions								(1,572)
Suspended interest						(568)		
Total						199,219		(4,705)

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

Customer loans and advances by principal area within Rest of Asia-Pacific

	Residential mortgages	Other personal	Property related	Commercial international trade and other	Total
At 31 December 2000	US$m	US$m	US$m	US$m	US$m
Loans and advances to customers (gross)					
Singapore	**497**	**770**	**1,069**	**3,077**	**5,413**
Australia and New Zealand	**1,064**	**101**	**1,243**	**2,157**	**4,565**
Malaysia	**627**	**368**	**540**	**2,455**	**3,990**
Middle East	**29**	**1,602**	**666**	**2,750**	**5,047**
Indonesia	**3**	**17**	**34**	**821**	**875**
South Korea	**485**	**47**	**28**	**698**	**1,258**
Thailand	**34**	**49**	**48**	**753**	**884**
Japan	**4**	**92**	**265**	**1,332**	**1,693**
Mainland China	**29**	**—**	**332**	**1,226**	**1,587**
India	**85**	**214**	**15**	**1,119**	**1,433**
Taiwan	**696**	**298**	**7**	**790**	**1,791**
Other	**170**	**302**	**342**	**1,600**	**2,414**
Total of Rest of Asia-Pacific	**3,723**	**3,860**	**4,589**	**18,778**	**30,950**
At 31 December 1999					
Loans and advances to customers (gross)					
Singapore	469	921	1,429	3,261	6,080
Australia and New Zealand	1,113	112	1,389	2,326	4,940
Malaysia	551	341	681	2,749	4,322
Middle East	27	1,621	597	2,974	5,219
Indonesia	3	17	19	848	887
South Korea	48	17	31	754	850
Thailand	45	45	67	786	943
Japan	41	6	276	1,448	1,771
Mainland China	36	—	479	1,246	1,761
India	32	122	11	808	973
Taiwan	485	280	6	757	1,528
Other	178	266	402	1,705	2,551
Total of rest of Asia-Pacific	3,028	3,748	5,387	19,662	31,825

Analysis of loans and advances to banks by geographical region

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to banks	Provisions for bad and doubtful debts
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
31 December 2000	**45,072**	**57,154**	**11,197**	**9,279**	**3,362**	**126,064**	**(30)**
Suspended interest						**(2)**	
Total						**126,062**	
31 December 1999	29,395	53,778	10,024	4,503	2,402	100,102	(24)
Suspended interest						(1)	
Total						100,101	
31 December 1998	22,713	44,938	11,433	4,523	1,740	85,347	(31)
Suspended interest						(1)	
Total						85,346	
31 December 1997	22,471	36,725	11,993	10,563	4,827	86,579	(46)
Suspended interest						(11)	
Total						86,568	
31 December 1996	26,131	38,878	6,279	12,093	—	83,381	(53)
Suspended interest						(13)	
Total						83,368	

Provisions for bad and doubtful debts

It is HSBC's policy that each operating company will make provisions for bad and doubtful debts promptly where required and on a prudent and consistent basis. Generally this policy results in provisioning that matches or exceeds the requirements of all relevant regulatory bodies.

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 either of 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. This exception is used infrequently.

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

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 HSBC'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, among other things, 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 HSBC'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 unsecured consumer lending products. HSBC has in place a minimum provisioning standard for all consumer lending products based on length of delinquency.

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. HSBC 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 HSBC'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 HSBC's capital base for regulatory purposes.

Loans on which interest is 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.

Aggregate customer provisions increased by US$171 million during 2000 and at US$8.2 billion represented 2.73 per cent of gross customer advances at 31 December 2000 compared with 3.05 per cent at 31 December 1999. Provisioning fell due to write-offs of US$1.8 billion and through releases and recoveries of US$1.1 billion reflecting the improved economic condition in Asia. These reductions were offset by the inclusion of US$0.9 billion of provisions transferred in from CCF and a net customer bad debt charge of US$0.9 billion. Provisions in Latin America were higher due to the weak economic conditions in Argentina and from the expansion of personal lending in Brazil.

The total general provision reduced slightly from 1999 to 0.74 per cent of gross customer lending (excluding reverse repo transactions). This is well in excess of HSBC's minimum standard of 0.6 per cent. The reduction reflected the release of US$174 million, or 60 per cent, of the US$290 million special general provision raised in 1997 against increased risk in the Asian portfolios, the mix effect of the acquisition of CCF and a reduction in the USA as unallocated general provisions were allocated to identified risks. General provisions may also be held in excess of the minimum requirement where local management deem it to be prudent in the light of local economic conditions, as in the case of Brazil and Malaysia. Releases are taken when the size of the surplus over 0.6 per cent is no longer justified. Management determined the minimum requirement of 0.6 per cent as a conservative level for HSBC's general provision in 1995, having been increased from 0.5 per cent in view of management's concern over the potential increase in the level of latent risk in the portfolio and, hence, the potential deterioration in credit quality. A series of internal checks is regularly performed to confirm the ongoing adequacy of the general provisions.

The following tables show details of the movements in HSBC's provisions for bad and doubtful debts by location of lending office for each of the past five years. A discussion of the material movements in the charge for provisions by region is included within the analysis of results by operating segments on pages 41 to 56.

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
2000	US$m	US$m	US$m	US$m	US$m	US$m
Provisions at 1 January	**2,153**	**1,887**	**2,686**	**857**	**437**	**8,020**
Amounts written off:						
Banks	**(9)**	—	—	—	—	**(9)**
Commercial, industrial and international trade	**(154)**	**(202)**	**(191)**	**(96)**	**(37)**	**(680)**
Real estate	**(27)**	**(9)**	**(58)**	**(13)**	**(3)**	**(110)**
Non-bank financial institutions	**(2)**	**(8)**	**(3)**	—	—	**(13)**
Governments	**(37)**	—	—	—	—	**(37)**
Other commercial	**(68)**	**(68)**	**(149)**	**(97)**	**(15)**	**(397)**
Residential mortgages	**(5)**	**(82)**	**(5)**	**(4)**	**(7)**	**(103)**
Other personal	**(181)**	**(73)**	**(88)**	**(90)**	**(30)**	**(462)**
Total amounts written off	**(483)**	**(442)**	**(494)**	**(300)**	**(92)**	**(1,811)**
Recoveries of amounts written off in previous years:						
Commercial, industrial and international trade	**4**	**3**	**3**	**1**	**2**	**13**
Real estate	**7**	—	**2**	**3**	—	**12**
Non-bank financial institutions	**3**	—	**2**	**1**	—	**6**
Governments	**3**	—	—	—	—	**3**
Other commercial	**4**	**4**	**23**	**11**	**1**	**43**
Residential mortgages	**1**	**1**	—	—	**1**	**3**
Other personal	**32**	**8**	**19**	**15**	**6**	**80**
Total recoveries	**54**	**16**	**49**	**31**	**10**	**160**
Charge to profit and loss account:						
Banks	**2**	—	—	—	—	**2**
Commercial, industrial and international trade	**87**	**81**	**107**	**84**	**48**	**407**
Real estate	**(9)**	**40**	**19**	**10**	**5**	**65**
Non-bank financial institutions	**1**	—	**(3)**	**(2)**	**2**	**(2)**
Governments	**(19)**	—	—	—	—	**(19)**
Other commercial	**(3)**	**(30)**	**(18)**	**75**	**26**	**50**
Residential mortgages	**1**	**101**	**5**	**9**	**12**	**128**
Other personal	**245**	**55**	**63**	**109**	**109**	**581**
General provisions	**43**	**1**	**(188)**	**(138)**	**2**	**(280)**
Total charge	**348**	**248**	**(15)**	**147**	**204**	**932**
Foreign exchange and other movements #	**953**	**93**	**(135)**	**(12)**	**(3)**	**896**
Provisions at 31 December	**3,025**	**1,802**	**2,091**	**723**	**556**	**8,197**
Provisions against banks:						
Specific provisions	**30**	—	—	—	—	**30**
Provisions against customers:						
Specific provisions	**2,135**	**1,241**	**1,929**	**262**	**498**	**6,065**
General provisions*	**860**	**561**	**162**	**461**	**58**	**2,102**
Provisions at 31 December	**3,025**	**1,802**	**2,091**	**723**	**556**	**8,197**
Provisions against customers as a % of gross loans and advances to customers:						
Specific provisions	**1.61**	**1.87**	**6.23**	**0.43**	**6.70**	**2.03**
General provisions	**0.65**	**0.84**	**0.53**	**0.75**	**0.78**	**0.70**
Total	**2.26**	**2.71**	**6.76**	**1.18**	**7.48**	**2.73**

* *General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.*

\# *Other movements include amounts transferred in on the acquisition of CCF of US$882 million.*

1999	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m
Provisions at 1 January	1,932	1,554	2,181	594	397	6,658
Amounts written off:						
Commercial, industrial and international trade	(89)	(146)	(130)	(33)	(36)	(434)
Real estate	(25)	(14)	(32)	(2)	(1)	(74)
Non-bank financial institutions	(1)	—	(35)	(2)	—	(38)
Governments	—	—	—	—	—	—
Other commercial	(43)	(15)	(49)	(12)	(14)	(133)
Residential mortgages	(2)	(3)	(5)	(10)	(4)	(24)
Other personal	(222)	(78)	(62)	(106)	(15)	(483)
Total amounts written off	(382)	(256)	(313)	(165)	(70)	(1,186)
Recoveries of amounts written off in previous years:						
Banks	—	—	1	—	—	1
Commercial, industrial and international trade	15	1	1	3	2	22
Real estate	2	—	2	13	—	17
Non-bank financial institutions	20	—	—	—	—	20
Governments	11	—	—	—	—	11
Other commercial	10	1	1	9	—	21
Other personal	32	8	13	19	1	73
Total recoveries	90	10	18	44	3	165
Charge to profit and loss account:						
Banks	(2)	—	(2)	—	—	(4)
Commercial, industrial and international trade	155	273	414	59	45	946
Real estate	(14)	96	86	(18)	4	154
Non-bank financial institutions	11	45	75	1	—	132
Governments	(62)	—	—	(2)	—	(64)
Other commercial	19	42	169	11	33	274
Residential mortgages	—	86	7	1	8	102
Other personal	312	77	74	79	38	580
General provisions	19	(34)	(14)	(23)	5	(47)
Total charge	438	585	809	108	133	2,073
Foreign exchange and other movements	75	(6)	(9)	276	(26)	310
Provisions at 31 December	2,153	1,887	2,686	857	437	8,020
Provisions against banks:						
Specific provisions	24	—	—	—	—	24
Provisions against customers:						
Specific provisions	1,411	1,428	2,221	254	378	5,692
General provisions*	718	459	465	603	59	2,304
Provisions at 31 December	2,153	1,887	2,686	857	437	8,020
Provisions against customers as a % of gross loans and advances to customers:						
Specific provisions	1.33	2.20	6.98	0.47	6.38	2.17
General provisions	0.68	0.71	1.46	1.12	1.00	0.88
Total	2.01	2.91	8.44	1.59	7.38	3.05

* *General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.*

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
Provisions at 1 January	2,076	934	1,300	629	239	5,178
Amounts written off:						
Banks	(24)	—	(4)	—	—	(28)
Commercial, industrial and international trade	(147)	(34)	(19)	(32)	(3)	(235)
Real estate	(54)	(10)	(18)	(13)	—	(95)
Non-bank financial institutions	(2)	—	—	—	—	(2)
Governments	(10)	—	—	—	—	(10)
Other commercial	(203)	(50)	(300)	(19)	(4)	(576)
Residential mortgages	(3)	—	(1)	(10)	—	(14)
Other personal	(190)	(47)	(55)	(122)	(24)	(438)
Total amounts written off	(633)	(141)	(397)	(196)	(31)	(1,398)
Recoveries of amounts written off in previous years:						
Commercial, industrial and international trade	28	1	6	3	—	38
Real estate	25	—	1	21	—	47
Non-bank financial institutions	1	—	—	1	—	2
Governments	1	—	—	—	—	1
Other commercial	4	3	—	14	—	21
Other personal	27	5	9	22	—	63
Total recoveries	86	9	16	61	—	172
Charge to profit and loss account:						
Banks	4	—	5	—	—	9
Commercial, industrial and international trade	67	361	679	48	70	1,225
Real estate	(54)	105	113	(45)	2	121
Non-bank financial institutions	(1)	45	43	—	—	87
Governments	—	—	—	1	—	1
Other commercial	60	107	272	4	26	469
Residential mortgages	—	59	27	8	9	103
Other personal	245	88	88	129	62	612
General provisions	48	(18)	(8)	(36)	24	10
Total charge	369	747	1,219	109	193	2,637
Foreign exchange and other movements	34	5	43	(9)	(4)	69
Provisions at 31 December	1,932	1,554	2,181	594	397	6,658
Provisions against banks:						
Specific provisions	28	—	3	—	—	31
Provisions against customers:						
Specific provisions	1,286	1,059	1,701	223	339	4,608
General provisions*	618	495	477	371	58	2,019
Provisions at 31 December	1,932	1,554	2,181	594	397	6,658
Provisions against customers as a % of gross loans and advances to customers:						
Specific provisions	1.37	1.55	5.26	0.53	6.13	1.90
General provisions	0.66	0.72	1.47	0.87	1.05	0.83
Total	2.03	2.27	6.73	1.40	7.18	2.73

* *General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.*

1997	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	North America US$m	Latin America US$m	Total US$m
Provisions at 1 January	2,412	763	844	739	—	4,758
Acquisitions of subsidiaries	—	—	—	—	228	228
Amounts written off:						
Banks	(1)	—	—	—	—	(1)
Commercial, industrial and international trade	(113)	(34)	(30)	(24)	(17)	(218)
Real estate	(91)	—	(5)	(31)	—	(127)
Non-bank financial institutions	(1)	—	—	—	—	(1)
Governments	—	—	—	(19)	—	(19)
Other commercial	(10)	—	(1)	(21)	—	(32)
Residential mortgages	(1)	—	(1)	(10)	—	(12)
Other personal	(138)	(29)	(19)	(156)	—	(342)
Total amounts written off	(355)	(63)	(56)	(261)	(17)	(752)
Recoveries of amounts written off in previous years:						
Banks	1	—	—	—	—	1
Commercial, industrial and international trade	29	5	2	11	—	47
Real estate	12	—	1	12	—	25
Non-bank financial institutions	14	—	12	—	—	26
Governments	—	—	—	1	—	1
Other commercial	3	—	—	15	—	18
Other personal	28	3	5	19	—	55
Total recoveries	87	8	20	58	—	173
Charge to profit and loss account:						
Banks	(4)	—	—	—	—	(4)
Commercial, industrial and international trade	119	72	116	(12)	1	296
Real estate	(33)	7	13	(16)	—	(29)
Non-bank financial institutions	(22)	2	23	(2)	—	1
Governments	(151)	—	—	(17)	—	(168)
Other commercial	5	7	28	9	1	50
Residential mortgages	5	—	7	4	—	16
Other personal	165	30	31	141	4	371
General provisions +	(15)	105	397	(28)	22	481
Total charge	69	223	615	79	28	1,014
Foreign exchange and other movements	(137)	3	(123)	14	—	(243)
Provisions at 31 December	2,076	934	1,300	629	239	5,178
Provisions against banks:						
Specific provisions	45	—	1	—	—	46
Provisions against customers:						
Specific provisions	1,455	423	812	218	203	3,111
General provisions*	576	511	487	411	36	2,021
Provisions at 31 December	2,076	934	1,300	629	239	5,178
Provisions against customers as a % of gross loans and advances to customers:						
Specific provisions	1.62	0.59	2.49	0.46	3.96	1.26
General provisions	0.64	0.72	1.50	0.88	0.70	0.82
Total	2.26	1.31	3.99	1.34	4.66	2.08

\+ *Includes a special general provision of US$290 million reflecting the unsettled economic environment in the Asia-Pacific region.*

* *General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.*

1996	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	North America US$m	Total US$m
Provisions at 1 January	2,503	565	841	864	4,773
Amounts written off:					
Banks	(3)	—	—	—	(3)
Commercial, industrial and international trade	(115)	(5)	(12)	(53)	(185)
Real estate	(146)	(3)	(4)	(48)	(201)
Non-bank financial institutions	(5)	—	—	(2)	(7)
Governments	(49)	—	(8)	(1)	(58)
Other commercial	(110)	(2)	(2)	(56)	(170)
Residential mortgages	(12)	—	—	(4)	(16)
Other personal	(149)	(33)	(11)	(115)	(308)
Total amounts written off	(589)	(43)	(37)	(279)	(948)
Recoveries of amounts written off in previous years:					
Commercial, industrial and international trade	7	3	3	18	31
Real estate	14	—	2	25	41
Non-bank financial institutions	33	—	—	2	35
Other commercial	8	—	1	9	18
Residential mortgages	—	—	—	1	1
Other personal	25	8	2	15	50
Total recoveries	87	11	8	70	176
Charge to profit and loss account:					
Banks	(13)	(9)	—	—	(22)
Commercial, industrial and international trade	73	152	43	(18)	250
Real estate	(19)	8	(10)	(19)	(40)
Non-bank financial institutions	(30)	(1)	1	3	(27)
Governments	(15)	(4)	8	—	(11)
Other commercial	145	(3)	(48)	(47)	47
Residential mortgages	2	—	2	8	12
Other personal	114	21	17	123	275
General provisions	35	63	17	5	120
Total charge	292	227	30	55	604
Foreign exchange and other movements	119	3	2	29	153
Provisions at 31 December	2,412	763	844	739	4,758
Provisions against banks:					
Specific provisions	53	—	—	—	53
Provisions against customers:					
Specific provisions	1,756	356	708	313	3,133
General provisions*	603	407	136	426	1,572
Provisions at 31 December	2,412	763	844	739	4,758
Provisions against customers as a % of gross loans and advances to customers:					
Specific provisions	2.15	0.63	2.27	1.01	1.57
General provisions	0.74	0.73	0.44	1.37	0.79
Total	2.89	1.36	2.71	2.38	2.36

* *General provisions are allocated to geographical segments based on the location of the office booking the provision. Consequently, the general provision booked in Hong Kong may cover assets booked in branches located outside Hong Kong, principally in the rest of Asia-Pacific, as well as those booked in Hong Kong.*

Risk elements in the loan portfolio

The US Securities and Exchange Commission (the 'SEC') requires disclosure of credit risk elements under the following headings that reflect US accounting practice and classifications:

- loans accounted for on a non-accrual basis;
- accruing loans contractually past due 90 days or more as to interest or principal; and
- troubled debt restructurings not included in the above.

HSBC, however, classifies loans in accordance with UK accounting practice which differs from US practice as follows:

Suspended interest

Under the UK Statement of Recommended Practice on Advances, UK banks continue to charge interest on doubtful debts where there is a realistic prospect of recovery. This interest is credited to a suspense account and is not included in the profit and loss account. In the United States, loans on which interest has been accrued but suspended would be included in risk elements as loans accounted for on a non-accrual basis.

Assets acquired in exchange for advances

Under US GAAP, assets acquired in exchange for advances in order to achieve an orderly realisation are reported in a separate balance sheet category, 'Owned Real Estate'. Under UK GAAP, these assets are reported within loans and advances.

Troubled debt restructurings

US GAAP requires separate disclosure of any loans whose terms have been modified due to problems with the borrower. Such disclosures may be discontinued after the first year if the new terms were in line with market conditions at the time of the restructuring and the borrower has remained current with the new terms.

In addition, US banks typically write off problem lendings more quickly than is the practice in the United Kingdom. This practice means that HSBC's reported level of credit risk elements is likely to be higher than for a comparable US bank.

Potential problem loans

Credit risk elements also cover potential problem loans. These are loans where known information about possible credit problems of borrowers causes management serious doubts as to the borrowers' ability to comply with the loan repayment terms. At 31 December 2000, there were no significant potential problem loans, other than the amounts shown in the following table.

Total non-performing loans decreased by US$1 billion during 2000 excluding the impact of CCF. At 31 December 2000, non-performing loans, including CCF, represented 3.5 per cent of total lending compared with 4.0 per cent at 31 December 1999.

Within Europe, underlying credit quality remained stable both in the UK and in France. Non-performing loans in Europe rose by US$0.7 billion due to the inclusion of CCF. Asset quality in Hong Kong, reflected the improved economic conditions with non-performing loans US$0.6 billion lower than at 31 December 1999.

In the rest of Asia-Pacific, non-performing advances decreased by US$0.5 billion due to a combination of write-offs, credit upgrades and recoveries.

In North America, although the overall quality of the portfolio remained sound, non-performing loans rose slightly due to some deterioration in the quality of leveraged credits; these constitute a small portion of the loan book.

In Latin America, non-performing loans rose by US$0.2 billion due to weak economic conditions in Argentina, the inclusion of new business acquired in Panama and as a result of the expansion of customer lending in Brazil.

The following table provides an analysis of risk elements in the loan portfolios as at 31 December for the past five years:

	2000 US$m	1999 US$m	1998 US$m	1997 US$m	1996 US$m
Loans accounted for on a non-accrual basis:					
Europe	**1,985**	1,176	1,092	1,064	1,310
Hong Kong	**236**	163	77	22	23
Rest of Asia-Pacific	**429**	435	344	181	133
North America	**606**	550	546	564	701
Latin America*	**571**	447	359	261	—
Total non-accrual loans	**3,827**	2,771	2,419	2,079	2,167
Loans on which interest has been accrued but suspended:					
Europe	**1,389**	1,514	1,243	1,558	1,838
Hong Kong	**2,259**	2,898	2,443	597	521
Rest of Asia-Pacific	**2,627**	3,099	2,691	1,076	863
North America	**18**	18	24	39	167
Latin America	**181**	149	48	8	—
Total suspended interest loans	**6,474**	7,678	6,449	3,270	3,389
Assets acquired in exchange for advances:					
Europe	**25**	27	28	72	143
Hong Kong	**26**	72	—	—	—
Rest of Asia-Pacific	**24**	2	—	—	—
North America	**19**	17	22	35	47
Total assets acquired in exchange for advances	**94**	118	50	107	190
Total non-performing loans	**10,395**	10,567	8,913	5,467	5,746
Troubled debt restructurings:					
Europe	**—**	—	22	98	49
Hong Kong	**395**	266	187	6	7
Rest of Asia-Pacific	**231**	138	68	38	17
North America	**5**	9	1	6	25
Latin America*	**144**	146	18	1	—
Total troubled debt restructurings	**775**	559	296	149	98
Accruing loans contractually past due 90 days or more as to principal or interest:					
Europe	**11**	21	1	49	65
Hong Kong	**76**	84	121	91	152
Rest of Asia-Pacific	**66**	54	69	79	122
North America	**64**	59	30	57	75
Latin America*	**82**	58	67	57	—
Total accruing loans contractually past due 90 days or more	**299**	276	288	333	414
Total risk elements:					
Europe	**3,410**	2,738	2,386	2,841	3,405
Hong Kong	**2,991**	3,483	2,828	716	703
Rest of Asia-Pacific	**3,377**	3,728	3,172	1,374	1,135
North America	**712**	653	623	701	1,015
Latin America	**978**	800	496	327	—
Total risk elements*	**11,468**	11,402	9,497	5,949	6,258
Provisions for bad and doubtful debts as a % of total risk elements	**70.1**	70.3	70.1	87.0	76.0

* *Restated to include certain fully provided loans.*

Interest forgone on non-performing lendings

Interest income that would have been recognised under the original terms of the non-accrual, suspended interest and restructured loans amounted to approximately US$955 million in 2000 compared with US$946 million in 1999, US$811 million in 1998, US$411 million in 1997 and US$389 million in 1996. Interest income of approximately US$324 million in 2000 from such loans was recorded in 2000, compared with US$328 million in 1999, US$192 million in 1998, US$232 million in 1997 and US$260 million in 1996.

Non-performing loans* and specific provisions outstanding against loans and advances to customers by geographic segment

	Non-performing loans	*Specific provisions*	*Non-performing loans*	*Specific provisions*
	2000	**2000**	1999	1999
	US$m	**US$m**	US$m	US$m
Europe…………….	3,376	2,135	2,679	1,411
Hong Kong………..	2,521	1,241	3,133	1,428
Rest of Asia-Pacific	3,081	1,929	3,534	2,221
North America…….	642	262	584	254
Latin America…….	752	498	595**	378
	10,372	6,065	10,525**	5,692

* *net of suspended interest*

** *restated to include certain fully provided loans*

Country distribution of outstandings and cross-border exposures

HSBC controls the risks associated with cross-border lending, essentially the risk of foreign currency required for payments not being available to local residents, through a central process of internal country limits which are determined by taking into account both economic and political risks. Exposure to individual countries and cross-border exposure in aggregate is kept under continuous review.

The following tables analyse in-country foreign currency and cross-border outstandings by type of borrower to countries which individually represent in excess of 1 per cent of HSBC's total assets. Classification is based upon the country of residence of the borrower but recognises the transfer of country risk in respect of third party guarantees or residence of the head office where the borrower is a branch. In accordance with the Bank of England Country Exposure Report (Form C1) guidelines, outstandings comprise loans and advances (excluding settlement accounts), amounts receivable under finance leases, acceptances, commercial bills, certificates of deposit and debt and equity securities (net of short positions), and exclude accrued interest and intra-HSBC exposures. Outstandings to the United Kingdom, HSBC Holdings' country of domicile, are not recorded on Form C1 and have not been disclosed below.

	Banks	Government and official institutions	Other	Total
31 December 2000	**US$bn**	**US$bn**	**US$bn**	**US$bn**
United States	**6.3**	**10.3**	**6.0**	**22.6**
Germany...	**18.4**	**0.9**	**1.3**	**20.6**
France	**10.0**	**1.9**	**3.8**	**15.7**
Italy..	**7.3**	**3.8**	**0.7**	**11.8**
Hong Kong...	**1.0**	**0.6**	**10.0**	**11.6**
Canada	**7.7**	**2.2**	**1.4**	**11.3**
The Netherlands...	**7.1**	**0.1**	**2.1**	**9.3**
Japan	**4.5**	**2.6**	**0.5**	**7.6**

31 December 1999	Banks	Government and official institutions	Other	Total
	US$bn	US$bn	US$bn	US$bn
United States	6.5	12.7	5.7	24.9
Germany	19.0	(0.3)	1.6	20.3
France	9.8	2.4	1.4	13.6
Hong Kong	0.8	0.2	10.4	11.4
Japan	3.9	4.8	0.4	9.1
Canada	6.1	0.8	1.2	8.1
The Netherlands	6.7	—	1.2	7.9
Italy	5.7	0.1	0.3	6.1

31 December 1998	Banks	Government and official institutions	Other	Total
	US$bn	US$bn	US$bn	US$bn
United States	5.7	5.9	3.9	15.5
Germany	12.6	0.6	0.7	13.9
Hong Kong	1.0	—	12.0	13.0
France	7.4	1.7	1.0	10.1
Canada	5.0	2.1	0.9	8.0
Japan	4.8	2.1	0.7	7.6
The Netherlands	5.2	—	1.0	6.2
Italy	4.4	0.5	0.2	5.1

As at 31 December 2000, HSBC had in-country foreign currency and cross-border outstandings to Australia and Switzerland of between 0.75% and 1% of total assets. The aggregate in-country foreign currency and cross-border outstandings were: Australia: US$6.5 billion; and Switzerland: US$6.0 billion.

As at 31 December 1999, HSBC had in-country foreign currency and cross-border outstandings to Australia, Belgium and Switzerland of between 0.75% and 1% of total assets. The aggregate in-country foreign currency and cross-border outstandings were: Australia: US$5.4 billion; Belgium: US$4.4 billion; and Switzerland: US$4.4 billion.

As at 31 December 1998, HSBC had in-country foreign currency and cross-border outstandings to Australia, mainland China and Singapore of between 0.75% and 1% of total assets. The aggregate in-country foreign currency and cross-border outstandings were: Australia: US$4.3 billion; mainland China: US$4.1 billion; and Singapore: US$4.0 billion.

The following table 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.

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.

	Brazil	Indonesia	Malaysia	South Korea	Thailand
As at 31 December 2000					
Figures in US$bn					
In-country local currency outstandings	**8.4**	**0.3**	**6.5**	**1.7**	**0.7**
In-country foreign currency outstandings	**0.4**	**0.8**	**0.6**	**0.7**	**0.4**
Net cross-border outstandings	**1.5**	**0.7**	**0.6**	**0.7**	**0.2**
	1.9	**1.5**	**1.2**	**1.4**	**0.6**
Claims under contracts in financial derivatives	**0.2**	—	—	**0.1**	**0.1**
Total	**10.5**	**1.8**	**7.7**	**3.2**	**1.4**
Figures in US$m					
Non-performing customer loans*	**152**	**557**	**796**	**32**	**269**
Specific provisions outstanding	**159**	**404**	**488**	**27**	**192**
As at 31 December 1999					
Figures in US$bn					
In-country local currency outstandings	6.2	0.5	6.2	1.1	0.7
In-country foreign currency outstandings	0.2	0.8	0.7	0.8	0.4
Net cross-border outstandings	1.3	0.5	0.5	1.3	0.2
	1.5	1.3	1.2	2.1	0.6
Claims under contracts in financial derivatives	0.1	—	—	—	—
Total	7.8	1.8	7.4	3.2	1.3
Figures in US$m					
Non-performing customer loans*	80	612 **	992	316	358
Specific provisions outstanding	65	473	596	223	217

* *Net of suspended interest*

** *The comparative figure for 31 December 1999 has been presented on a consistent basis with 31 December 2000 for interest in suspense*

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.

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.

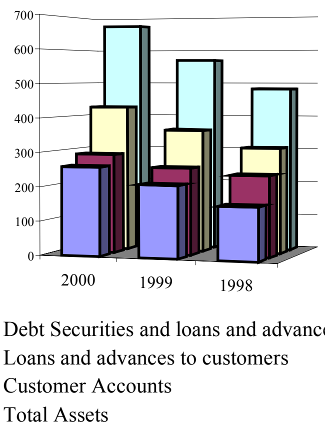
Compliance with liquidity requirements is monitored by local Asset and Liability Policy Committees which report to Group Head Office on a regular basis. This process includes:

- 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.

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC's overall funding. HSBC places considerable importance on the stability of these deposits, which is achieved through HSBC'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.

HSBC Holdings' primary source of cash is dividends from its directly and indirectly held subsidiaries. The ability of these subsidiaries to pay dividends or loan or advance monies to HSBC Holdings depends, among other things, on their respective regulatory capital requirements, statutory reserves, and their financial and operating performance. HSBC Holdings actively manages the cash flows from its subsidiaries to maximise the amount of cash held at the holding company and non-trading subsidiary levels and expects to continue to do so in the future. The company believes that dividends from subsidiaries, coupled with debt and equity financing, will enable it to meet anticipated cash obligations.

Assets, deposits and advances (US$bn)



As at 31 December 2000, HSBC did not have any material capital commitments.

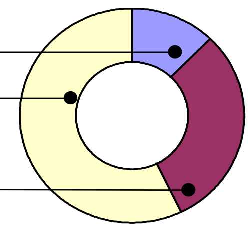
Over the last two years, HSBC's balance sheet has become more liquid as the proportion of the balance sheet lent has declined. At 31 December 2000, customer accounts at US$427 billion accounted for 87.7 per cent of HSBC's deposit base compared with US$360 billion, or 90.4 per cent, at 31 December 1999. The percentage of HSBC's customer accounts deployed in loans and advances to customers decreased from 70.4 per cent at 31 December 1999 to 67.9 per cent at 31 December 2000.

Excluding the impact of asset and liability movements arising from the CCF acquisition, this increased liquidity is reflected in the net cash flow from operating activities of US$15.2 billion on page 199. The net cash flow reflects the US$42.2 billion increase in customer accounts, due to continued deposit growth in Hong Kong and the United Kingdom, partially offset by the deployment of part of these deposits into increased holdings of debt securities.

The cash element of the CCF acquisition was partly funded by the issue of Tier 1 securities, together with internally generated cash resources.

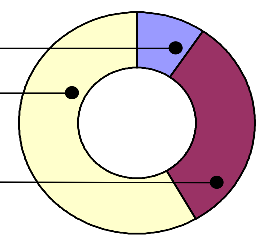
Customer accounts and deposits by banks 2000

	%	US$bn
Deposits by banks	12.3	60.1
Current	30.5	148.6
Savings and other deposits	57.2	278.5
Total	100.0	487.2



Customer accounts and deposits by banks 1999

	%	US$bn
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



Market risk management

Market risk

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 HSBC. 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).

HSBC 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.

HSBC manages market risk through risk limits approved by the Group Executive Committee. Traded Markets Development and Risk, an independent unit within the Investment Banking and Markets operation, 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.

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.

HSBC VAR, predominantly calculated on a variance/covariance basis, uses historical movements in market rates and prices, a 99 per cent 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. As at 31 December 2000, HSBC's VAR included the VAR of the former Republic operations on a variance/covariance basis. However, during the year, the VAR of the former Republic operations was calculated using a historical simulation approach, based on the previous two years' data, using a 99 per cent confidence interval over a 10-day holding period; this method differs from that of HSBC and therefore the VAR is shown separately.

HSBC 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 fully liquidate or hedge all positions;
- The use of a 99 per cent 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 not always hold 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 on an HSBC basis; and
- VAR does not necessarily capture all of the higher order market risks and may underestimate real market risk exposure.

HSBC 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. HSBC's stress testing regime provides senior management with an assessment of the impact of extreme events on the market risk exposures of HSBC.

Trading VAR for HSBC for 2000 was:

	Combined HSBC	Excluding former Republic operations			
	At 31 December 2000 US$m	**At 31 December 2000 US$m**	Minimum during the year **US$m**	Maximum during the year **US$m**	Average for the year **US$m**
Total trading activities	**75.0**	**64.8**	**44.5**	**83.7**	**63.1**
Foreign exchange trading positions	**19.1**	**17.2**	**8.9**	**26.8**	**16.6**
Interest rate trading positions	**58.9**	**45.0**	**32.2**	**66.4**	**46.9**
Equities trading positions	**39.9**	**39.9**	**23.6**	**53.4**	**36.2**

Trading VAR for HSBC for 1999 was:

	Excluding former Republic operations			
	At 31 December 1999 US$m	Minimum during the year US$m	Maximum during the year US$m	Average for the year US$m
Total trading activities	46.1	42.7	101.9	66.7
Foreign exchange trading positions	12.8	10.2	58.5	25.0
Interest rate trading positions	39.4	32.2	82.1	54.1
Equities trading positions*	16.2	11.1	26.8	16.4

* *In 2000, the basis of computing equities VAR included a refinement in respect of non–linear risk. Non-linear risk was not a significant component of VAR in 1999 and it is not practicable retrospectively to amend the comparative figures for this refinement.*

Trading VAR for CCF is included in the above table from the date of acquisition.

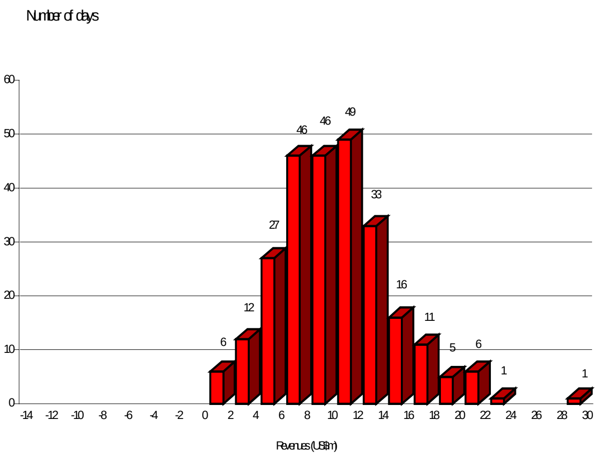
Trading VAR for the former Republic operations at 31 December 2000 was US$23.2 million on a variance/co-variance basis. On a historical simulation approach, trading VAR for the former Republic operations at 31 December 2000 was US$11.7 million (31 December 1999:US$14.5 million), the maximum during 2000 was US$37.1 million, the minimum US$9.3 million and the average US$18.8 million. The scope of calculation of VAR on the former Republic operations was refined at 30 June 2000, following a review of its basis, to be more consistent with that of the rest of HSBC. The maximum, minimum and average on a historical simulation approach for each half year are set out below:

	Former Republic operations Total trading	
	First half 2000 **US$m**	Second half 2000 **US$m**
Maximum in the half-year	**37.1**	**19.1**
Minimum in the half-year	**12.5**	**9.3**
Average for the half-year	**22.7**	**13.6**

The average daily revenue earned from market risk-related treasury activities in 2000, including accrual book net interest income and funding related to dealing positions, was US$10.0 million compared with US$8.2 million in 1999. The standard deviation of these daily revenues was US$4.4 million compared with US$4.5 million in 1999. An analysis of the frequency distribution of daily revenues shows that there were no days with negative revenues during 2000. The most frequent result was a daily revenue of between US$11 million and US$12 million, with 27 occurrences. The highest daily revenue was US$29 million.

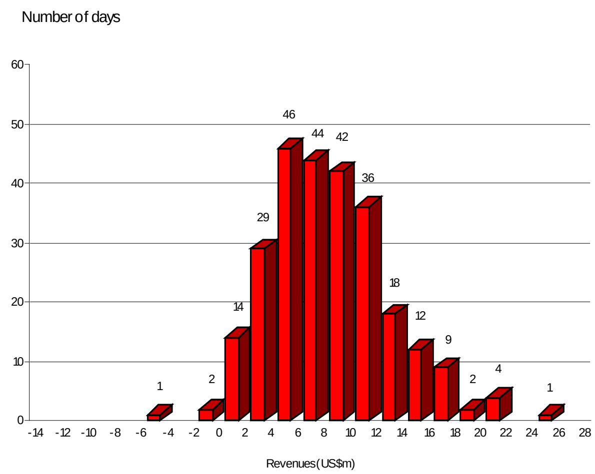
Daily distribution of market risk revenues 2000

Treasury



Daily distribution of market risk revenues 1999

Treasury



Foreign exchange exposure

HSBC's foreign exchange exposure comprises trading exposures and structural foreign currency translation exposure.

Trading value at risk

Foreign exchange trading exposure comprises those which arise from foreign exchange dealing within Treasury and currency exposures originated by commercial banking businesses in HSBC. 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 above.

The average one-day foreign exchange revenue in 2000 was US$2.8 million compared with US$2.3 million in 1999.

Structural currency exposure

HSBC'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.

HSBC's structural foreign currency exposures are managed with the primary objective of ensuring, where practical, that HSBC's and individual banking subsidiaries' tier 1 capital ratios are protected from the effect of changes in exchange rates. This is usually achieved by holding qualifying tier 1 capital broadly in proportion to the corresponding foreign-currency-denominated risk-weighted assets at a subsidiary bank level. HSBC considers hedging structural foreign currency exposures only in limited circumstances, to protect the tier 1 capital ratio or the US dollar value of capital invested. Such hedging would be undertaken using forward foreign exchange contracts or by financing with borrowings in the same currencies as the functional currencies involved.

As subsidiaries are generally able to balance adequately foreign currency tier 1 capital with foreign currency risk-weighted assets, HSBC'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 2000. There was no material effect from foreign currency exchange rate movements on HSBC or subsidiary tier 1 capital ratios during the year.

HSBC's main operations are in the United Kingdom, Hong Kong, France, the United States and Brazil 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 HSBC's business is transacted are, therefore, sterling, Hong Kong dollars, Euros, US dollars and Brazilian reais.

Since the currency in which HSBC Holdings prepares its consolidated financial statements is US dollars, HSBC's Holdings' 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.

Details of HSBC's structural foreign currency exposures are given in Note 39 in the 'Notes on the Financial Statements'.

Interest rate exposure

HSBC's interest rate exposures comprise those originating in its treasury trading activities and structural interest rate exposures; both are managed under limits described on pages 92 and 93. Interest rate risk arises on both trading positions and accrual books.

Trading value at risk

The average daily revenues earned from treasury-related interest rate activities for 2000 were US$6.5 million compared with US$5.9 million for 1999. The interest rate risk on interest rate trading positions is set out in the trading VAR table on pages 93 and 94.

Structural interest rate risk

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. 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 2001 would decrease planned net income for the 12 months to 31 December 2001 by US$139 million, while a hypothetical 100 basis points parallel fall in all yield curves would increase planned income by US$92 million.

Rather than assuming 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 2001 can then be described as follows:

Figures in US$ millions	**US dollar Bloc**	**Sterling Bloc**	**Asian Bloc**	**Latin American Bloc**	**Euro Bloc**	**Total 2001**	Total 2000
Change in 2001 projected net interest income							
+100 basis points shift in yield curves	**35**	**(67)**	**(98)**	**6**	**(15)**	**(139)**	(116)
-100 basis points shift in yield curves	**(79)**	**55**	**106**	**(5)**	**15**	**92**	82

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

HSBC'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 pages 93 and 94.

Operational risk management

Operational risk is the risk of economic loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organisation and covers a wide spectrum of issues.

HSBC manages this risk through a controls-based environment in which processes are documented, authorisation is independent and where transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit. In each of HSBC's subsidiaries local management are responsible for establishing an effective and efficient operational control environment so that HSBC's assets are adequately protected, and whereby the operational risks have been identified and adequate risk management procedures maintained to control those risks. HSBC also maintains contingency facilities to support operations in the event of disasters. Insurance cover is arranged to mitigate potential losses associated with certain operational risk events.

Capital management

Capital measurement and allocation

The Financial Services Authority ('FSA') is the supervisor of HSBC on a consolidated basis and, in this capacity, receives information on the capital adequacy of, and sets capital requirements for, HSBC 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 HSBC's major banking subsidiaries have exercised capital adequacy supervision in a broadly similar framework.

Under the European Union's Banking Consolidation Directive, 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 HSBC's policy to maintain a strong capital base to support development of HSBC's business. HSBC seeks to maintain a prudent balance between the different components of HSBC's capital and, in HSBC Holdings, between the composition of its capital and that of its investment in subsidiaries.

Capital adequacy is measured by the ratio of HSBC's capital to risk-weighted assets, taking into account both balance sheet assets and off-balance-sheet transactions.

HSBC's capital is divided into two tiers: tier 1, comprising shareholders' funds excluding revaluation reserves, innovative tier 1 securities 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.

Capital structure

The table below sets out the analysis of regulatory capital at the end of 2000 and 1999.

	2000 US$m	1999 US$m
Composition of capital		
Tier 1:		
Shareholders' funds	**45,570**	33,408
Minority interests	**4,419**	4,228
Innovative tier 1 securities	**3,512**	—
Less: property revaluation reserves	**(2,611)**	(2,353)
goodwill capitalised and intangible assets	**(15,597)**	(6,750)
Own shares held*	**(673)**	—
Total qualifying tier 1 capital	**34,620**	28,533
Tier 2:		
Property revaluation reserves	**2,611**	2,353
General provisions	**2,132**	2,088
Perpetual subordinated debt	**3,531**	3,264
Term subordinated debt	**10,224**	10,151
Minority interests in tier 2 capital	**697**	577
Total qualifying tier 2 capital	**19,195**	18,433
Unconsolidated investments	**(1,463)**	(1,487)
Investments in other banks	**(1,241)**	(1,032)
Other deductions	**(147)**	(177)
Total capital	**50,964**	44,270
Total risk-weighted assets	**383,687**	336,126
Capital ratios (per cent)		
Total capital	**13.3**	13.2
Tier 1 capital	**9.0**	8.5

* *This principally reflects shares held in trust to fulfil HSBC's obligations under share options.*

The above figures were computed in accordance with the EU Banking Consolidation Directive and FSA guidelines.

Tier 1 capital increased by US$6.1 billion. Of this, US$8.6 billion arose as a result of share capital issued and US$3.5 billion from innovative tier 1 capital issuance both to finance the acquisition of CCF. Retained profits also contributed US$2.6 billion to this increase. This was partially offset by $9.3 billion of goodwill arising on acquisitions.

The increase in tier 2 capital reflects the proceeds of capital issues, net of redemptions and regulatory amortisation. The acquisition of CCF brought into HSBC US$ 0.5 billion of tier 2 capital.

Risk-weighted assets by principal subsidiary

In order to give an indication as to how HSBC's capital is deployed, the table below analyses the disposition of risk-weighted assets by principal subsidiary at 31 December. The risk-weighted assets are calculated using FSA rules and exclude intra-HSBC items.

	2000 US$m	1999 US$m
Hang Seng Bank	**31,775**	27,438
HSBC Investment Bank Asia Holdings	**2,238**	2,409
The Hongkong and Shanghai Banking Corporation Ltd and other subsidiaries	**74,869**	71,473
The Hongkong and Shanghai Banking Corporation Ltd and subsidiaries	**108,882**	101,320
HSBC Bank plc (excluding CCF and HSBC Republic)	**113,778**	114,465
Crédit Commercial de France	**35,460**	—
HSBC Republic	**10,433**	9,406
Total HSBC Bank plc	**159,671**	123,871
HSBC USA Inc	**54,220**	55,766
HSBC Bank Middle East	**5,243**	5,650
HSBC Bank Malaysia Berhad	**4,041**	3,939
HSBC Bank Canada	**14,241**	12,477
HSBC Latin American operations	**9,470**	7,009
HSBC Holdings sub-group	**420**	301
Other	**27,499**	25,793
HSBC risk-weighted assets	**383,687**	336,126

Loan maturity and interest sensitivity analysis

There follows a geographic analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis as at 31 December 2000. All amounts are net of suspended interest.

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Maturity of 1 year or less						
Loans and advances to banks*	**42,817**	**57,122**	**11,026**	**9,267**	**3,296**	**123,528**
Commercial loans to customers						
— Commercial, industrial and international trade	**24,279**	**7,238**	**9,642**	**4,917**	**2,626**	**48,702**
— Real estate and other property related	**6,446**	**4,219**	**2,445**	**4,535**	**201**	**17,846**
— Non-bank financial institutions	**9,056**	**1,505**	**599**	**8,197**	**160**	**19,517**
— Governments	**606**	**97**	**210**	**423**	**46**	**1,382**
— Other commercial	**13,464**	**3,027**	**3,310**	**4,914**	**814**	**25,529**
	53,851	**16,086**	**16,206**	**22,986**	**3,847**	**112,976**
Hong Kong SAR Government Home Ownership Scheme	**—**	**522**	**—**	**—**	**—**	**522**
Residential mortgages and other personal loans	**12,042**	**6,316**	**2,997**	**5,063**	**1,490**	**27,908**
Loans and advances to customers	**65,893**	**22,924**	**19,203**	**28,049**	**5,337**	**141,406**
Total loans maturing in one year or less	**108,710**	**80,046**	**30,229**	**37,316**	**8,633**	**264,934**
Maturity after 1 year but within 5 years						
Loans and advances to banks	**1,544**	**33**	**154**	**—**	**66**	**1,797**
Commercial loans to customers						
— Commercial, industrial and international trade	**10,092**	**1,960**	**1,698**	**3,342**	**480**	**17,572**
— Real estate and other property related	**4,468**	**6,928**	**1,720**	**3,628**	**50**	**16,794**
— Non-bank financial institutions	**995**	**156**	**71**	**273**	**21**	**1,516**
— Governments	**984**	**29**	**323**	**30**	**8**	**1,374**
— Other commercial	**4,783**	**3,159**	**1,883**	**973**	**163**	**10,961**
	21,322	**12,232**	**5,695**	**8,246**	**722**	**48,217**
Hong Kong SAR Government Home Ownership Scheme	**—**	**1,840**	**—**	**—**	**—**	**1,840**
Residential mortgages and other personal loans	**11,068**	**5,782**	**1,826**	**7,896**	**571**	**27,143**
Loans and advances to customers	**32,390**	**19,854**	**7,521**	**16,142**	**1,293**	**77,200**
Total loans maturing after 1 year but within 5 years	**33,934**	**19,887**	**7,675**	**16,142**	**1,359**	**78,997**

* *Excludes sight balances with central banks*

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Maturity after 1 year but within 5 years (continued)						
Interest rate sensitivity of loans and advances to banks and commercial loans to customers:						
— Fixed interest rate	**4,601**	**243**	**2,487**	**3,348**	**356**	**11,035**
— Variable interest rate	**18,266**	**12,022**	**3,362**	**4,898**	**432**	**38,980**
Total	**22,867**	**12,265**	**5,849**	**8,246**	**788**	**50,015**
Maturity after 5 years						
Loans and advances to banks	**708**	**—**	**16**	**13**	**—**	**737**
Commercial loans to customers						
— Commercial, industrial and international trade	**3,605**	**186**	**167**	**571**	**130**	**4,659**
— Real estate and other property related	**2,250**	**931**	**386**	**2,754**	**50**	**6,371**
— Non-bank financial institutions	**321**	**1**	**4**	**125**	**6**	**457**
— Governments	**980**	**4**	**43**	**256**	**1**	**1,284**
— Other commercial	**5,245**	**1,386**	**649**	**285**	**37**	**7,602**
	12,401	**2,508**	**1,249**	**3,991**	**224**	**20,373**
Hong Kong SAR Government Home Ownership Scheme	**—**	**4,990**	**—**	**—**	**—**	**4,990**
Residential mortgages and other personal loans	**21,455**	**15,903**	**2,750**	**13,376**	**551**	**54,035**
Loans and advances to customers	**33,856**	**23,401**	**3,999**	**17,367**	**775**	**79,398**
Total loans maturing after 5 years	**34,564**	**23,401**	**4,015**	**17,380**	**775**	**80,135**
Interest rate sensitivity of loans and advances to banks and commercial loans to customers:						
— Fixed interest rate	**3,406**	**104**	**359**	**2,802**	**114**	**6,785**
— Variable interest rate	**9,703**	**2,404**	**906**	**1,202**	**110**	**14,325**
Total	**13,109**	**2,508**	**1,265**	**4,004**	**224**	**21,110**

Deposits

The following table analyses the average amount of bank and customer deposits and certificates of deposit ('CDs') and other money market instruments (which are included within 'debt securities in issue' in the balance sheet) together with the average interest rates paid thereon for each of the past three years. The geographical analysis of average deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies. The 'Other' category includes securities sold under agreements to repurchase.

	Year ended 31 December					
	2000		1999		1998	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	US$m	**%**	US$m	%	US$m	%
Deposits by banks						
Europe						
Demand and other— non-interest bearing .	**3,842**	—	4,406	—	4,191	—
Demand — interest bearing	**6,402**	**4.5**	3,593	2.2	2,697	5.0
Time	**14,981**	**5.9**	8,654	3.5	8,971	5.6
Other	**8,895**	**4.3**	5,814	3.9	7,156	6.0
Total	**34,120**		22,467		23,015	
Hong Kong						
Demand and other — non-interest bearing	**945**	—	988	—	1,159	—
Demand — interest bearing	**1,581**	**5.7**	2,133	4.7	386	4.4
Time	**1,075**	**6.4**	1,015	5.4	4,246	5.8
Other	**12**	**9.8**	11	3.9	42	9.2
Total	**3,613**		4,147		5,833	
Rest of Asia-Pacific						
Demand and other — non-interest bearing	**692**	—	411	—	100	—
Demand — interest bearing	**525**	**4.0**	537	2.7	481	3.3
Time	**2,485**	**6.7**	2,966	4.1	5,082	5.3
Other	**252**	**5.6**	310	6.1	349	7.2
Total	**3,954**		4,224		6,012	
North America						
Demand and other — non-interest bearing	**722**	—	483	—	366	—
Demand — interest bearing	**2,323**	**3.4**	1,024	4.0	1,229	4.3
Time	**875**	**5.1**	1,136	5.1	2,587	5.9
Other	**2,984**	**4.8**	2,029	4.8	2,978	6.2
Total	**6,904**		4,672		7,160	
Latin America						
Demand and other — non-interest bearing	**200**	—	146	—	17	—
Demand — interest bearing	**810**	**12.1**	524	7.1	371	10.2
Time	**862**	**6.9**	553	8.0	588	10.3
Other	**181**	**13.6**	259	19.6	343	23.9
Total	**2,053**		1,482		1,319	
Total						
Demand and other — non-interest bearing	**6,401**	—	6,434	—	5,833	—
Demand — interest bearing	**11,641**	**4.9**	7,811	3.5	5,164	5.0
Time	**20,278**	**6.0**	14,324	4.1	21,474	5.8
Other	**12,324**	**4.6**	8,423	4.7	10,868	6.7
Total	**50,644**		36,992		43,339	

	Year ended 31 December					
	2000		1999		1998	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	US$m	**%**	US$m	%	US$m	%
Customer accounts						
Europe						
Demand and other — non-interest bearing	**19,521**	**—**	14,471	—	13,382	—
Demand — interest bearing	**55,269**	**3.6**	48,235	2.9	44,379	4.0
Savings	**21,204**	**5.7**	17,426	4.9	13,700	6.1
Time	**45,587**	**5.9**	30,381	5.1	35,468	6.3
Other	**1,440**	**5.6**	538	3.7	1,370	5.7
Total	**143,021**		111,051		108,299	
Hong Kong						
Demand and other — non-interest bearing	**5,465**	**—**	4,760	—	4,588	—
Demand — interest bearing	**46,208**	**4.2**	41,960	3.6	34,154	4.8
Savings	**76,503**	**5.2**	71,251	4.9	66,951	6.6
Time	**6,477**	**5.8**	5,421	4.7	5,907	6.0
Other	**353**	**7.0**	393	4.6	334	5.8
Total	**135,006**		123,785		111,934	
Rest of Asia-Pacific						
Demand and other — non-interest bearing	**4,301**	**—**	3,506	—	3,239	—
Demand — interest bearing	**8,749**	**3.0**	6,827	2.9	5,734	4.3
Savings	**20,128**	**5.3**	18,122	5.0	16,670	7.2
Time	**7,141**	**5.6**	7,302	4.5	8,014	5.9
Other	**775**	**4.8**	632	3.2	404	4.1
Total	**41,094**		36,389		34,061	
North America						
Demand and other — non-interest bearing	**7,947**	**—**	5,785	—	7,317	—
Demand — interest bearing	**3,765**	**5.4**	2,045	3.3	2,073	4.8
Savings	**38,707**	**3.9**	18,531	2.9	17,440	3.5
Time	**7,841**	**7.4**	1,615	5.8	2,736	6.9
Other	**8,818**	**5.6**	6,500	9.5	11,460	8.4
Total	**67,078**		34,476		41,026	
Latin America						
Demand and other — non-interest bearing	**1,071**	**—**	608	—	859	—
Demand — interest bearing	**932**	**15.8**	463	18.2	1,352	22.9
Savings	**6,391**	**9.5**	5,590	11.1	7,125	14.0
Time	**360**	**11.1**	169	5.2	171	5.5
Other	**379**	**6.7**	338	9.2	330	11.8
Total	**9,133**		7,168		9,837	
Total						
Demand and other — non-interest bearing	**38,305**	**—**	29,130	—	29,385	—
Demand — interest bearing	**114,923**	**4.0**	99,530	3.3	87,692	4.7
Savings	**162,933**	**5.2**	130,920	4.9	121,886	6.7
Time	**67,406**	**6.1**	44,888	4.9	52,296	6.3
Other	**11,765**	**5.7**	8,401	8.4	13,898	7.5
Total	**395,332**		312,869		305,157	
CDs and other money market instruments						
Europe	**3,821**	**6.5**	4,709	6.0	5,645	7.1
Hong Kong	**6,163**	**6.4**	5,714	6.3	5,417	8.4
Rest of Asia-Pacific	**1,890**	**5.8**	2,075	5.1	2,563	7.0
North America	**3,781**	**4.3**	10,898	5.0	11,094	5.3
Latin America	**304**	**9.9**	7	10.9	4	8.1
Total	**15,959**	**5.9**	23,403	5.5	24,723	6.6

Certificates of deposit and other time deposits

At 31 December 2000 the maturity analysis of certificates of deposit and other wholesale time deposits, by remaining maturity, was as follows:

	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
	US$m	**US$m**	**US$m**	**US$m**	**US$m**
Europe					
Certificates of deposit	**4,132**	**337**	**44**	**78**	**4,591**
Time deposits:					
—banks	**21,964**	**804**	**733**	**713**	**24,214**
—customers	**38,807**	**1,423**	**1,116**	**3,601**	**44,947**
Total	**64,903**	**2,564**	**1,893**	**4,392**	**73,752**
Hong Kong					
Certificates of deposit	**775**	**221**	**556**	**3,114**	**4,656**
Time deposits:					
—banks	**847**	**2**	**—**	**6**	**855**
—customers	**8,792**	**469**	**73**	**11**	**9,345**
Total	**10,414**	**692**	**629**	**3,131**	**14,866**
Rest of Asia-Pacific					
Certificates of deposit	**852**	**166**	**13**	**163**	**1,194**
Time deposits:					
—banks	**1,801**	**219**	**285**	**335**	**2,640**
—customers	**5,918**	**350**	**52**	**381**	**6,701**
Total	**8,571**	**735**	**350**	**879**	**10,535**
North America					
Certificates of deposit	**—**	**—**	**—**	**—**	**—**
Time deposits:					
—banks	**914**	**81**	**110**	**—**	**1,105**
—customers	**6,376**	**555**	**309**	**192**	**7,432**
Total	**7,290**	**636**	**419**	**192**	**8,537**
Latin America					
Certificates of deposit	**69**	**51**	**—**	**—**	**120**
Time deposits:					
—banks	**869**	**180**	**186**	**66**	**1,301**
—customers	**250**	**18**	**—**	**—**	**268**
Total	**1,188**	**249**	**186**	**66**	**1,689**
Total					
Certificates of deposit	**5,828**	**775**	**613**	**3,355**	**10,571**
Time deposits:					
—banks	**26,395**	**1,286**	**1,314**	**1,120**	**30,115**
—customers	**60,143**	**2,815**	**1,550**	**4,185**	**68,693**
Total	**92,366**	**4,876**	**3,477**	**8,660**	**109,379**

The geographical analysis of deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies. The majority of certificates of deposit and time deposits are in amounts of US$100,000 and over or the equivalent in other currencies.

Short-term borrowings

HSBC includes short-term borrowings within customer accounts, deposits by banks and debt securities in issue and does not show short-term borrowings separately on the balance sheet. Short-term borrowings are defined by the SEC as Federal funds purchased and securities sold under agreements to repurchase, commercial paper and other short-term borrowings. Securities sold under agreements to repurchase are the only significant short-term borrowings of HSBC. The following table provides additional information with respect to HSBC's securities sold under agreements to repurchase for each of the past three years.

	Year ended 31 December		
	2000	1999	1998
	US$m	US$m	US$m
Outstanding at 31 December	**16,312**	13,139	13,055
Average amount outstanding during the year	**15,374**	14,669	21,615
Maximum quarter-end balance outstanding during the year	**16,312**	13,139	20,416
Weighted average interest rate during the year	**7.5%**	7.4%	7.6%
Weighted average interest rate at the year-end	**6.6%**	6.4%	8.5%

Directors

Sir John Bond, *Group Chairman*

Age 59. 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 and a Director of The Hongkong and Shanghai Banking Corporation Limited. Chairman of the Institute of International Finance and a Director of Ford Motor Company.

* **The Baroness Dunn,** DBE, *Deputy Chairman and senior non-executive Director*

Age 60. 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 69. Non-executive Deputy Chairman of GlaxoSmithKline 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 57. 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. Chairman of Merrill Lynch HSBC Limited and 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 63. 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 49. A Director of Inchcape plc and Chairman of Inchcape Greater China. A non-executive Director since 1998. Chairman of HSBC Private Equity (Asia) Limited. Chairman of chinadotcom corporation and its subsidiary, hongkong.com corporation, and a Director of MTR Corporation Limited. 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. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997.

* **D E Connolly,** OBE

Age 69. 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.

C F W de Croisset

Age 57. An executive Director since 1 September 2000. Chairman and Chief Executive Officer of Crédit Commercial de France S.A. Joined Crédit Commercial de France S.A. in 1980 having previously held senior appointments in the French civil service. A Director of HSBC Bank plc.

W R P Dalton

Age 57. An executive Director since 1998. Director and Chief Executive of HSBC Bank plc since 1998. Joined HSBC in 1980. President and Chief Executive Officer, HSBC Bank Canada from 1992 to 1997. Deputy Chairman of Merrill Lynch HSBC Limited and a Director of Crédit Commercial de France S.A., HSBC Investment Bank Holdings plc, HSBC Private Banking Holdings (Suisse) S.A. and HSBC Bank Malta p.l.c. President 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 55. An executive Director since 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 1999. Non-executive Chairman of Hang Seng Bank Limited and a non-executive Director of Swire Pacific Limited and MTR Corporation Limited.

D J Flint

Age 45. 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 52. 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 52. 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, Crédit Commercial de France S.A., HSBC Guyerzeller Bank AG, HSBC USA Inc., HSBC Bank USA, HSBC Private Banking Holdings (Suisse) S.A. and HSBC Trinkaus & Burkhardt KGaA.

† **S Hintze** *(appointed a Director with effect from 1 March 2001)*

Age 56. Independent consultant. Former Chief Operating Officer of Barilla SPA and former Senior Vice President of Nestlé SA. With Mars Incorporated from 1972 to 1993, latterly as Executive Vice President of M&M/Mars in New Jersey.

A W Jebson

Age 51. Group IT Director. An executive Director since 2000. Joined HSBC in 1978. A Director of Merrill Lynch HSBC Limited. Non-executive Deputy Chairman of CLS Services Limited.

† **Sir John Kemp-Welch**

Age 64. Former Joint Senior Partner at Cazenove & Co and former Chairman of the London Stock Exchange. A non-executive Director since 1 September 2000.

† **The Lord Marshall**

Age 67. Chairman of British Airways Plc and Invensys plc. Deputy Chairman of British Telecommunications plc. A non-executive Director since 1993. A non-executive Director of HSBC Bank plc from 1989 to 1994.

† **C Miller Smith**

Age 61. 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.

† **Sir Brian Moffat,** OBE

Age 62. Chairman of Corus Group plc. A non-executive Director since 1998. A member of the Court of the Bank of England and a non-executive Director of Enterprise Oil plc.

† **Sir Mark Moody-Stuart,** KCMG *(appointed a Director with effect from 1 March 2001)*

Age 60. Chairman of the Committee of Managing Directors of the Royal Dutch/Shell Group of Companies and Chairman of The "Shell" Transport and Trading Company, plc. Since joining the Royal Dutch/Shell Group in 1966, as a geologist, has held a number of senior international appointments in that Group and has been a Group Managing Director since 1991.

† **M Murofushi**

Age 69. Chairman of ITOCHU Corporation. A non-executive Director since 1992. Honorary 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 69. Former Chairman and Chief Executive of Wells Fargo & Company. A non-executive Director since 1996. A Director of HCA – The Healthcare Company, ConAgra, Inc., Ford Motor Company, McKesson HBOC, Inc., Newhall Management Corporation and PG&E Corporation.

* **H Sohmen**, OBE

Age 61. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited and World Finance International Limited. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1984 and Deputy Chairman since 1996.

† **Sir Adrian Swire**

Age 69. 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 54. 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.

Senior Management

R J Arena

Age 52. Group General Manager, Global e-business. Joined HSBC in 1999. Appointed a Group General Manager in February 2000.

D W Baker

Age 58. Chief Operating Officer and Director, HSBC Bank plc. Joined HSBC in 1962. Appointed a Group General Manager in 1999.

R G Barber

Age 50. 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.

D Beath

Age 62. Group General Manager, Internal Audit. Joined HSBC in 1960. Appointed a Group General Manager in 1993.

R E T Bennett

Age 49. Group General Manager, Legal and Compliance. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

V H C Cheng, OBE

Age 52. 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 56. Deputy Chairman, HSBC Bank Middle East. Joined HSBC in 1965. Appointed a Group General Manager in 1995.

M F Geoghegan

Age 47. President and Chief Executive Officer, HSBC Bank Brasil S.A.-Banco Múltiplo. Joined HSBC in 1973. Appointed a Group General Manager in 1997.

E W Gill

Age 54. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited, Singapore. Joined HSBC in 1968. Appointed a Group General Manager in July 2000.

S T Gulliver

Age 41. Chief Executive, Investment Banking and Markets Asia-Pacific. Joined HSBC in 1980. Appointed a Group General Manager in August 2000.

A P Hope

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

D D J John

Age 50. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia. Joined HSBC in 1972. Appointed a Group General Manager in August 2000.

M B McPhee

Age 59. Group General Manager, Credit and Risk. Joined HSBC in 1984. Appointed a Group General Manager in 1997.

A Mehta

Age 54. 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 46. 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 53. Group General Manager, Strategic Development. Joined HSBC in 1969. Appointed a Group General Manager in 1992.

R C F Or

Age 51. General Manager, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1972. Appointed a Group General Manager in August 2000.

R M J Orgill

Age 62. Group General Manager, Corporate and Institutional Banking. Joined HSBC in 1958. Appointed a Group General Manager in 1986.

K Patel

Age 52. Chief Executive Officer Equities Division, HSBC Investment Bank plc. Joined HSBC in 1984. Appointed a Group General Manager in August 2000.

R C Picot

Age 43. Joined HSBC in 1993. Group Chief Accountant since 1995.

J C S Rankin

Age 59. Group General Manager, Human Resources. Joined HSBC in 1960. Appointed a Group General Manager in 1990.

M R P Smith, OBE

Age 44. Chairman and Chief Executive Officer, HSBC Argentina Holdings S.A. Joined HSBC in 1978. Appointed a Group General Manager in August 2000.

I A Stewart

Age 42. Head of Investment Banking and Markets, Americas. Joined HSBC in 1980. Appointed a Group General Manager in August 2000.

Results for 2000

HSBC reported operating profits before provisions up 9 per cent to US$10,486 million. HSBC's profit for the year attributable to shareholders of HSBC Holdings was US$6,628 million, a 16.5 per cent return on shareholders' funds.

A first interim dividend of US$0.15 per ordinary share was paid on 5 October 2000. The Directors have declared a second interim dividend of US$0.285 per ordinary share in lieu of a final dividend, making a total distribution for the year of US$4,010 million. The second interim dividend will be payable on 2 May 2001 in cash in United States dollars, or in sterling or Hong Kong dollars at exchange rates to be fixed on 23 April 2001, with a scrip dividend alternative. The reserves available for distribution before accounting for the second interim dividend of US$2,627 million are US$8,059 million.

Further information about the results is given in the consolidated profit and loss account on page 127.

Principal activities and business review

Through its subsidiary and associated undertakings, HSBC provides a comprehensive range of banking and related financial services through an international network of some 6,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. Taken together, the five largest customers of HSBC do not account for more than 1 per cent of HSBC's income.

During the year a joint venture was formed with Merrill Lynch to create the first global on-line banking and investment services company. Its equity research offer for UK private investors and its full transactional service for self-directed investors in Canada and Australia were launched in December 2000.

HSBC Holdings completed the acquisition of Crédit Commercial de France S.A. during 2000 for a total consideration of US$12,509 million in cash and new shares.

A review of the development of the business of HSBC undertakings during the year, and an indication of likely future developments are given in the 'Description of Business' on pages 6 to 27. On 22 February 2001 the French Finance Ministry announced the sale of Banque Hervet to CCF, for a consideration of FRF3,471 million.

HSBC's five-year strategy, launched in December 1998, is designed to focus on shareholder value. The results of the first two years of the strategy reflect solid progress in implementing 'Managing for Value'. HSBC Holdings' governing objective is to exceed the total shareholder return of a benchmark comprising a peer group of financial institutions, with a minimum objective of doubling shareholder return over the five-year period. Total shareholder return for the first two years was 203 per cent, compared to 136 per cent for the benchmark (starting point 100 per cent on 31 December 1998). An explanation of the basis of calculation of total shareholder return can be found on page 116.

Capital and reserves

The following events occurred during the year:

Acquisition of Crédit Commercial de France S.A.

1. 678,173,769 ordinary shares of US$0.50 each were issued on 26 and 28 July 2000 under the Exchange Offer for shares of Crédit Commercial de France S.A. The Exchange Offer was 13 ordinary shares of US$0.50 for each Crédit Commercial de France S.A. share of €5 tendered to the Offer.

2. Upon acquisition of Crédit Commercial de France S.A. outstanding options over Crédit Commercial de France S.A. shares of €5 each granted (at nil consideration) to employees between 1994 and 1999 vested and options granted in 2000 will, subject to continued employment, vest on 1 January 2002. The options are exercisable at prices ranging from FRF215 (€32.78) to €142.5 per share. On exercise of the options, the Crédit Commercial de France S.A. shares are exchangeable either for cash or HSBC Holdings ordinary shares of US$0.50 each in the same ratio as the Exchange Offer (13 ordinary shares of US$0.50 for each Crédit Commercial de France S.A. share).

   Since the acquisition, 27,900 Crédit Commercial de France S.A. shares were issued in connection with the exercise of employee share options. Of these, 12,400 were exchanged for 161,200 ordinary shares of US$0.50 each and the balance will be exchanged for ordinary shares of US$0.50 each on the fifth anniversary of the award of the options.

   At 31 December 2000, there were 3,200,625 options outstanding that are exchangeable for ordinary shares of US$0.50 each and 445,000 options outstanding that are exchangeable for cash. HSBC Holdings General Employee Benefit Trust holds 39,838,800 ordinary shares of US$0.50 each which may be exchanged for Crédit Commercial de France S.A. shares arising from the exercise of options.

Scrip dividends

3. 41,883,577 ordinary shares of US$0.50 each were issued at par on 27 April 2000 to shareholders who elected to receive new shares in lieu of the 1999 second interim dividend. The market value per share

used to calculate shareholders' entitlements to new shares was US$11.1624, being the United States dollar equivalent of £7.094.

4. 33,983,920 ordinary shares of US$0.50 each were issued at par on 5 October 2000 to shareholders who elected to receive new shares in lieu of the 2000 first interim dividend. The market value per share used to calculate shareholders' entitlements to new shares was US$14.0173, being the United States dollar equivalent of £9.373.

Discretionary share incentive plans

5. 4,624,089 ordinary shares of US$0.50 each were issued at prices ranging from £2.1727 to £7.460 per share in connection with the exercise of options under the Executive Share Option Scheme. Options over 4,070,643 ordinary shares of US$0.50 each lapsed.

6. Options over 32,789,332 ordinary shares of US$0.50 each were awarded at nil consideration on 3 April 2000 under the Executive Share Option Scheme. The options, subject to the attainment of a performance condition, are exercisable between the third and 10th anniversaries of the award at a price of £7.460 per share, the average market value over the five business days immediately preceding the date of the award.

7. Options over 460,458 ordinary shares of US$0.50 each were awarded at nil consideration on 4 October 2000 under the Group Share Option Plan. The options, subject to the attainment of a performance condition, are exercisable between the third and 10th anniversaries of the award at a price of £9.642 per share, the average market value over the five business days immediately preceding the date of the award. Options over 5,159 ordinary shares of US$0.50 each lapsed.

All-Employee share plans

8. 14,491,914 ordinary shares of US$0.50 each were issued at prices ranging from £1.806 to £6.0299 per share in connection with the exercise of options under the Savings-Related Share Option Plan. Options over 5,001,746 ordinary shares of US$0.50 each lapsed.

9. 17,762 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 Plan (USA section).

10. The HSBC Qualifying Employee Share Ownership Trust ('the QUEST') was established in 1999 to satisfy maturing options exercised by UK participants of the Savings-Related Share Option Plan. 33,749,569 ordinary shares of US$0.50 each were issued at market values ranging from £7.03 to £10.44 to HSBC QUEST Trustee (UK) Limited, the corporate trustee of the QUEST. Of these, 28,800,000 were subscribed for on 10 March 2000 at £7.09 from funds received from HSBC Holdings. 23,412,488 shares were transferred to those exercising options under the Savings-Related Share Option Plan during 2000. At 31 December 2000, the QUEST held 10,337,081 ordinary shares of US$0.50 each.

11. 159,234 ordinary shares of US$0.50 each were issued at prices ranging from 39.476p to 68.40p per share in connection with the exercise of options under the HSBC Bank Savings-Related Share Option Schemes.

12. Under the authority granted by shareholders at the Annual General Meeting in 2000, 3,014,961 ordinary shares of US$0.50 each were issued at €12.7327 in connection with a plan d'epargne d'entreprise for the benefit of non-UK resident employees of Crédit Commercial de France S.A. and its subsidiaries.

13. Options over 48,194,581 ordinary shares of US$0.50 each were awarded at nil consideration on 10 April 2000 to 57,322 Group employees resident in 46 countries and territories under the Savings-Related Share Option Plan. The options are exercisable within six months following the fifth anniversary of the commencement of the relevant savings contract on 1 August 2000 at a price of £6.0299 per share, a 15 per cent discount to the average market value over the five business days immediately preceding the date of the invitation.

Authority to repurchase shares

14. The Annual General Meeting in 2000 authorised the market repurchase of up to 848,847,000 ordinary shares of US$0.50 each. Your Directors have not exercised this authority.

Valuation of freehold and leasehold land and buildings

HSBC's freehold and long leasehold properties, together with all leasehold properties in the Hong Kong SAR, were revalued in November 2000 in accordance with HSBC's policy of annual valuation. As a result of this revaluation, the net book value of land and buildings has increased by US$397 million.

Further details are included in Note 24 of the 'Notes on the Financial Statements'.

Board of Directors

The objectives of the management structures within HSBC, headed by the Board of Directors of HSBC Holdings 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 HSBC'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, C F W de Croisset, W R P Dalton, D G Eldon, D J Flint, W K L Fung, S K Green, A W Jebson, Sir John Kemp-Welch, Lord Marshall, C Miller Smith, Sir Brian Moffat, M Murofushi, C E Reichardt, H Sohmen and Sir Adrian Swire.

C F W de Croisset and Sir John Kemp-Welch were appointed Directors on 1 September 2000 and S Hintze and Sir Mark Moody-Stuart have been appointed Directors with effect from 1 March 2001. Having been appointed since the Annual General Meeting in 2000, they will retire at the forthcoming Annual General Meeting and offer themselves for election.

Lord Butler, D E Connolly, W R P Dalton, Baroness Dunn, W K L Fung, S K Green and Sir Peter Walters will retire by rotation at the forthcoming Annual General Meeting. With the exception of D E Connolly and Sir Peter Walters, who will retire, they offer themselves for re-election.

Brief biographical particulars for each Director are set out on pages 105 to 107.

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 HSBC Holdings or any of its subsidiary undertakings.

Board Committees

The Board has appointed a number of committees consisting of certain Directors and Group General Managers. 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, C F W de Croisset, 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 HSBC's senior financial, internal audit and compliance management and the external auditor to consider HSBC Holdings 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, Sir John Kemp-Welch, C Miller-Smith and C E Reichardt, all of whom are non-executive Directors.

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.

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

HSBC is committed to high standards of corporate governance. HSBC Holdings 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 appended to the Listing Rules of the UK Listing Authority.

Internal control

The Directors are responsible for internal control in HSBC Holdings 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 HSBC 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 26 February 2001, the date of approval of the *Annual Report and Accounts*. In the case of companies acquired during the year, including Crédit Commercial de France S.A. , the internal controls in place have been reviewed against HSBC's benchmarks since they were acquired and they are being integrated into HSBC's systems. HSBC'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 HSBC Holdings or by the Group Executive Committee under powers delegated by the Board. The appointment of executives to the most senior positions within HSBC requires the approval of the Board of Directors of HSBC Holdings. Functional, operating and financial reporting standards are established by Group Head Office management for application across the whole of HSBC. 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 HSBC Holdings 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 HSBC 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 as compared with the related plan are prepared throughout HSBC each quarter. A strategic plan is prepared by major operating subsidiaries every three years. Financial accounting and reporting and certain management reporting standards are established for application across HSBC. 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; operational 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 of HSBC. The work of the internal audit function is focused on areas of greatest risk to HSBC 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 HSBC 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.

The Directors, through the Group Audit Committee, have conducted an annual review of the effectiveness of HSBC's system of internal control covering all controls, including financial, operational and compliance controls and risk management.

Communication with shareholders

Communication with shareholders is given high priority. Extensive information about HSBC's activities is provided in the *Annual Report and Accounts, Annual Review* 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 HSBC 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 HSBC.

Remuneration

Policy

Within the authority delegated by the Board of Directors, the Remuneration Committee is responsible for determining the remuneration policy of HSBC, including the terms of bonus plans, share option plans and other long-term incentive plans, and for agreeing the individual remuneration packages of executive Directors and other senior Group employees. No Directors are involved in deciding their own remuneration. During 2000, seven meetings of the Remuneration Committee were held.

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 HSBC 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 HSBC Holdings shareholders. The vesting of share awards is subject to the attainment of certain total shareholder return targets. 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 plans, 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 an HSBC company operates and by which the executive Director or employee is employed. Due regard is paid to advice rendered by independent external professional consultants.

Share options are awarded to employees under the Group Share Option Plan (previously under the Executive Share Option Scheme) and the Savings-Related Share Option Plan in order to align the interests of staff with those of shareholders. When share options are granted which are to be satisfied by the issue of new shares, 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 Financial Statements'. The dilutive effect of exercising all outstanding share options would be only 0.7 per cent of basic earnings per share.

During 2000, an independent survey of remuneration in respect of executive Directors and other senior executives identified a need to review base salaries, cash bonuses and long term incentives. The survey's recommendations, which took into account the fact that the remuneration of HSBC's key Directors and executives was significantly behind the international market, were endorsed by the Remuneration Committee in January 2001 and have been implemented.

Basic salary and benefits

Salaries are reviewed annually in the context of individual and business performance, market practice, internal relativities and competitive market pressures. 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 HSBC Holdings, constituent businesses and the individual concerned. Key measures of success include achievement of financial goals, concerning both revenue generation and expense control; customer relationships; full utilisation of professional skills; and adherence to HSBC's ethical standards. HSBC 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 HSBC and its staff are aligned with those of its shareholders, and that HSBC'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 plans.

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

Long-term share awards

The Restricted Share Plan 2000, and previously the Restricted Share Plan, are 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 are normally held under restrictions for five years and are transferred to the individuals only after the attainment of a performance condition which demonstrates the sustained and above average financial performance of HSBC.

Executive Directors and Group General Managers have been eligible to receive conditional awards of Performance Shares under the Restricted Share Plan since 1997. The award of Performance Shares under the Restricted Share Plan was extended to other senior executives from 1999.

In appropriate circumstances, employees may receive awards under the Restricted Share Plan 2000 and the Group Share Option Plan. Participants in these Plans are also eligible to participate in the Savings-Related Share Option Plan on the same terms as other eligible employees.

As part of HSBC's strategy, the use of the existing share plans has been extended so that more employees participate in the success they help to create. In France, a plan d'epargne d'entreprise, which enables employees to subscribe for new shares with significant French tax advantages on their contributions, was established during the year.

Service contracts and terms of appointment

No executive Director has a service contract with HSBC Holdings 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 save as referred to below.

W R P Dalton and S K Green, who are to stand for re-election at the forthcoming Annual General Meeting, are employed on contracts that require 12 months' notice to be given by either party.

C F W de Croisset, who will also stand for re-election at the forthcoming Annual General Meeting, has a contract of employment that was in force before he joined the board of Crédit Commercial de France S.A. In accordance with French legal requirements and practice this contract is suspended while he serves as an executive Director of Crédit Commercial de France S.A. However, on 7 July 2000 HSBC Holdings undertook with him that, in the event of termination of his employment (except for serious cause) with Crédit Commercial de France S.A. during 2000 or 2001, it will procure that he receives an aggregate termination sum equal to (a) twice his total annual compensation for the preceding calendar year and (b) such termination indemnity (but not to exceed twice such total annual compensation) as would have been payable had he been a salaried employee during the entire length of his career with Crédit Commercial de France S.A. HSBC Holdings also undertook to procure that his total annual compensation from Crédit Commercial de France S.A., both base and variable, in respect of 2000 and 2001 would be no less than his total annual compensation in respect of 1999.

Members of Senior Management are employed on service contracts which generally provide for a term of service expiring at the end of a period of up to two years, or the individual's sixtieth birthday, whichever is earlier.

Non-executive Directors are appointed for fixed terms not exceeding three years, subject to their re-election by shareholders at the intervening Annual General Meetings. Non-executive Directors' terms of appointment will expire in: 2002 – Lord Marshall, C Miller Smith, M Murofushi, C E Reichardt and Sir Adrian Swire; 2003 – Baroness Dunn, and H Sohmen; and 2004 – Lord Butler, R K F Ch'ien, W K L Fung, S Hintze, Sir John Kemp-Welch, Sir Brian Moffat and Sir Mark Moody-Stuart. Sir Peter Walters and D E Connolly will retire at the forthcoming Annual General Meeting.

Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 2000 were as follows:

	Fees	*Salary and other remuneration*	*Benefits in kind*	*Discretionary bonuses*[1]	*Total 2000*	*Total 1999*
	£000	£000	£000	£000	£000	£000
Executive Directors						
Sir John Bond	35	764	1	800	1,600	750
C F W de Croisset[2]	12	82	1	133	228	—
W R P Dalton	35	488	23	—[3]	546	441
D G Eldon[4]	22	364	656	110[5]	1,152	1,114
D J Flint	35	521	7	250	813	503
S K Green	35	424	8	300	767	506
AW Jebson	35	359	1	250	645	—
K R Whitson	35	592	15	700	1,342	620
Non-executive Directors						
Lord Butler	40	—	—	—	40	25
R K F Ch'ien	158[6]	—	—	—	158	141
D E Connolly	43	—	—	—	43	33
Baroness Dunn	35	—	—	—	35	33
W K L Fung	62	—	—	—	62	45
Sir John Kemp-Welch[2]	12	—	—	—	12	—
Lord Marshall	40	—	—	—	40	25
C Miller Smith	35	—	—	—	35	25
Sir Brian Moffat	45	—	—	—	45	34
M Murofushi	35	—	—	—	35	25
C E Reichardt	43	—	—	—	43	33
H Sohmen	27	—	—	—	27	23
— waived	(35)				(35)	(30)
Sir Adrian Swire	35	—	—	—	35	25
Sir Peter Walters	45	—	—	—	45	30
Total (£)	899	3,594	712	2,543	7,748	4,454
Total (US$)	1,362	5,446	1,079	3,854	11,741	7,207

1 *These discretionary bonuses are in respect of 2000 and will be paid in 2001.*
2 *Appointed on 1 September 2000.*
3 *In return for the prior waiver of bonus, the employer contribution into the pension scheme has been increased by the amount (£300,000) which would otherwise have been paid.*
4 *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.*
5 *Of the amount shown, 50 per cent has been awarded in cash and 50 per cent will be awarded in Restricted Shares with a three-year restricted period.*
6 *Includes fees as non-executive Chairman of HSBC Private Equity (Asia) Limited.*

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

The aggregate remuneration of Directors and Senior Management for the year ended 31 December 2000 was US$46,699,000.

A fee of £25,000 (1999: £23,000) was paid to Sir Wilfrid Newton, a former Director, in respect of his role as Chairman of the HSBC Bank plc Committee overseeing the construction of the new HSBC headquarters.

2001 conditional awards under the Restricted Share Plan 2000

The Remuneration Committee has proposed to the Trustee of the Restricted Share Plan 2000 that conditional awards of Performance Shares under the Plan should be made in 2001. The Trustee to the Plan will be provided with funds to acquire ordinary shares of US$0.50 each between 26 February and 9 March 2001. The 2001 awards proposed for executive Directors and Group General Managers in respect of 2000 would have an aggregate value at the date of award of £8.275 million including awards to the following values to executive Directors:

	£000
Sir John Bond	700
W R P Dalton	400
D G Eldon	400
D J Flint	500
S K Green	700
A W Jebson	600
K R Whitson	550
Total	3,850

No share options will be granted under the Group Share Option Plan in respect of 2000 to the executive Directors listed above.

No award under the Restricted Share Plan 2000 will be made to C F W de Croisset in respect of 2000. Mr de Croisset will instead receive an option to acquire 206,000 ordinary shares of US$0.50 each under the Group Share Option Plan.

Purpose

The Restricted Share Plan 2000 is intended to reward the delivery of sustained financial growth of HSBC Holdings. So as to align the interests of Directors and senior employees more closely with those of shareholders, the Restricted Share Plan 2000 links the vesting of 2001 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 applicable in 2001 are set out below.

Vesting schedule

Having regard to HSBC Holdings’ 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.

The extent to which awards will vest will be determined by reference to HSBC Holdings’ TSR measured against the mean of the benchmark. The calculation of the share price component within HSBC Holdings’ TSR will be the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 2001 is 26 February. The starting point will be, therefore, the average over the period 26 February to 23 March inclusive. TSR for the benchmark banks will be based on the published share price for 23 March 2001.

If HSBC Holdings’ TSR over the performance period exceeds the mean of the comparator group, awards with a value at the date of grant of up to 100 per cent of an employee’s earnings or less will vest. For higher value awards, the greater of 50 per cent of the award or the number of shares equating at the date of grant to 100 per cent of the employee’s earnings will vest at this level of performance. If HSBC Holdings’ TSR over the performance period places it within the upper quartile in the ranked list, these higher value awards will vest in full. For performance between the mean and upper quartile vesting will be on a straight-line basis. The level of awards will continue to be determined by the Remuneration Committee. It is the Committee’s current intention that the annual value of awards to UK-based executive Directors and senior executives will not as a general rule exceed 100 per cent of earnings.

The initial performance period will be three years. If the upper quartile performance target is achieved at the third anniversary of the date of grant, but not if it is achieved later, an additional award equal to 20 per cent of the initial performance share award will be made and will vest at the same time as the original award to which it relates. However, regardless of whether the upper quartile target is achieved at the third anniversary or the benchmark mean is achieved on the third, fourth or fifth anniversary, full vesting and transfer of the shares will not generally occur until the fifth anniversary.

As a secondary condition, options and awards will only vest if the Remuneration Committee is satisfied that HSBC Holdings' financial performance has shown a sustained improvement in the period since the date of grant.

Awards will vest immediately in cases of death or if the business is no longer part of HSBC Holdings. 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 or redundancy. Awards will normally be forfeited if the participant is dismissed or resigns from HSBC.

Where events occur which cause the Remuneration Committee to consider that the performance condition has become unfair or impractical, 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, supplementary provision is made for S K Green, via an employer contribution to a personal pension plan, with £3,395 having been made during 2000 (1999: £3,648).

C F W de Croisset is eligible for pension benefits which are supplementary to those accrued under the French State and Compulsory arrangements. The amount of this additional pension, payable from age 60, currently accrues at the rate of FRF40,000 per annum, for each year of service (maximum 18 years) as an executive Director of Crédit Commercial de France S.A. The whole cost of this benefit is met by Crédit Commercial de France S.A.

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 2000, including a bonus waiver of £300,000, of £453,511 (1999: £249,000).

The pension arrangements for D J Flint to contractual retirement age of 60 are provided through an executive allowance paid to fund personal pension arrangements set at 30 per cent of basic salary. This is supplemented through the HSBC Holdings plc Funded Unapproved Retirement Benefits Scheme on a defined contribution basis with an employer contribution during 2000 of £69,825 (1999: nil). The intention of these arrangements is to provide benefits broadly comparable to an accrual rate of one thirtieth of pensionable salary per year of pensionable service.

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.

	Accrued annual pension at 31 December 2000 *£000*	*Increase in accrued pension during 2000, excluding any increase for inflation* *£000*	*Personal contributions towards pension* *£000*	*Transfer value relating to increase in accrued pension* *£000*[1]
Sir John Bond	187	62	—	1,174
C F W de Croisset	46	2	—	23
W R P Dalton	249[2]	—	—	—
D G Eldon[3]	211	12	13	238
S K Green	111	23	—	329
A W Jebson	77	39	—	553
K R Whitson	156	53	—	925

1 *The transfer value represents a liability of HSBC's pension funds and not a sum paid or due to the individual; it cannot therefore meaningfully be added to annual remuneration.*
2 *Entitlement unchanged at C$560,000 – difference over 2000 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. At 1 January 2000, this immediate pension entitlement amounted to £194,000 per annum.*

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

Pension payments totalling £319,000 (1999: £315,000) were made to four former Directors of HSBC Holdings; of this £159,000 (1999: £157,000) was paid by HSBC Bank plc to two of them as former Directors of the bank.

The aggregate amount set aside or accrued to provide pension, retirement or similar benefits for Directors and Senior Management for the year ended 31 December 2000 was US$3,008,000.

Directors' interests

According to the registers of Directors' interests maintained by HSBC Holdings pursuant to section 325 of the Companies Act 1985 and section 29 of the Securities (Disclosure of Interests) Ordinance, the Directors of HSBC Holdings at the year-end had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC Holdings:

	At 1 January 2000	*At 31 December 2000*				
		Personal	*Family*	*Corporate*	*Other*	*Total*
Ordinary shares of US$0.50						
Sir John Bond[1]	58,317	262,727	3,040	—	—	265,767
R K F Ch'ien	22,456	23,116	—	—	—	23,116
D E Connolly	50,632	52,121	—	—	—	52,121
C F W de Croisset[1]	32,500[2]	32,847	—	—	—	32,847
W R P Dalton[1]	3,798	12,534	—	—	—	12,534
Baroness Dunn	124,684	103,316	—	—	24,000[3]	127,316
D G Eldon[1]	1,749	2,570	1,249	—	—	3,819
D J Flint[1]	5,336	19,643	—	—	—	19,643
W K L Fung	287,502	328,000	—	—	—	328,000
S K Green[1]	13,030	—	13,414	—	—	13,414
Sir John Kemp-Welch	256,800[2]	25,000	—	—	231,800[3]	256,800
Lord Marshall	6,780	6,980	—	—	—	6,980
C Miller Smith	452	452	—	—	—	452
Sir Brian Moffat	5,289	—	5,289	—	—	5,289
C E Reichardt	30,000	30,000	—	—	—	30,000
H Sohmen	2,519,311	—	372,656	2,342,488[4]	—	2,715,144
Sir Adrian Swire	425,000	—	20,000	—	24,000[3]	44,000
Sir Peter Walters	39,015	39,015	—	—	—	39,015
K R Whitson[1]	5,598	15,413	—	—	—	15,413
11.69 per cent subordinated bonds 2002 of £1						
Sir John Bond	500,000	500,000	—	—	—	500,000
A W Jebson[1]	100,000	100,000	—	—	—	100,000
Lord Marshall	975	975	—	—	—	975
Sir Peter Walters	6,500	6,500	—	—	—	6,500

1 *Details of additional interests in ordinary shares of US$0.50 each under the Share Option Plans and Restricted Share Plan are set out below.*
2 *Interests at 1 September 2000 – date of appointment.*
3 *Non-beneficial.*
4 *Interests held by private investment companies.*

At 31 December 2000, Directors and Senior Management held, in aggregate, beneficial interests in 7,580,181 ordinary shares of US$0.50 each (0.08% per cent of the issued ordinary shares).

Share options

At 31 December 2000, 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 Plan are exercisable at a 15 per cent discount to the market value at the date of award.

There are no remaining 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 2000 was £9.85. The highest and lowest market values of the ordinary shares of US$0.50 each during the year were £10.50 and £6.815. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date.

	Options held at 1 January 2000	*Options awarded during year*	*Options exercised during year*	*Options held at 31 December 2000*	*Exercise price £*	*Date of award*	*Exercisable from*[1]	*Exercisable until*
Sir John Bond	60,543	—	60,543[2]	—	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	60,543	—	60,543[2]	—	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	75,000	—	75,000[2]	—	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	9,549[3]	—	9,549[4]	—	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	75,000	—	—	75,000[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	—	2,798[3]	—	2,798	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
W R P Dalton	22,704	—	—	22,704	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	30,273	—	—	30,273	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	36,000	—	—	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	8,625[3]	—	8,625[4]	—	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	36,000	—	—	36,000[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	—	2,798[3]	—	2,798	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D G Eldon	36,000	—	—	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	40,500	—	—	40,500[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
D J Flint	36,000	—	9,000[6]	27,000[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	3,813	—	—	3,813[3]	4.5206	9 Apr 1997	1 Aug 2002	31 Jan 2003
S K Green	24,216	—	—	24,216	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	36,324	—	—	36,324	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	45,000	—	—	45,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	45,000	—	—	45,000[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	5,637	—	—	5,637[3]	3.0590	3 Apr 1996	1 Aug 2001	31 Jan 2002
A W Jebson	15,000	—	—	15,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	22,500	—	—	22,500[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
K R Whitson	37,839	—	—	37,839	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	60,000	—	—	60,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	9,549[3]	—	9,549[4]	—	1.8060	10 Apr 1995	1 Aug 2000	31 Jan 2001
	60,000	—	—	60,000[5]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	—	2,798[3]	—	2,798	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*
2 *At the date of exercise, 18 December 2000, the market value per share was £9.72.*
3 *Options awarded under the Savings-Related Share Option Plan.*
4 *At the date of exercise, 1 August 2000, the market value per share was £8.93.*
5 *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.*
6 *At the date of exercise, 8 August 2000, the market value per share was £9.01.*

As explained on page 109 ordinary shares of US$0.50 each have been purchased and may be used to satisfy the exercise of Crédit Commercial de France S.A. employee share options. These shares are held through the HSBC Holdings General Employee Benefit Trust and, as a potential beneficiary of the Trust, C F W de Croisset has a technical interest in all of the shares held by the Trust. At 31 December 2000, the Trust held 39,838,800 HSBC Holdings plc ordinary shares of US$0.50 each.

At 31 December 2000, C F W de Croisset held the following options to acquire Crédit Commercial de France S.A. shares of €5 each. On exercise of these options each Crédit Commercial de France S.A. share will be exchanged for 13 ordinary shares of US$0.50 each. The options were granted by Crédit Commercial de France S.A. for nil consideration at a 5 per cent discount to the market value at the date of award. Except where indicated, there are no performance criteria conditional upon which the outstanding options are exercisable.

Crédit Commercial de France S.A. shares of €5 each

Options held at 1 September 2000[1]	*Exercise price per share*	*Options exercised during period*	*Options held at 31 December 2000*	*Equivalent HSBC Holdings ordinary shares of US$0.50 each at 31 December 2000*	*Date of award*	*Exercisable until*
20,000	FRF215 (€32.78)	10,000 [2]	10,000	130,000	23 Jun 1994	23 Jun 2004
30,000	FRF223 (€34.00)		30,000	390,000	22 Jun 1995	22 Jun 2005
30,000	FRF233 (€35.52)		30,000	390,000	09 May 1996	09 May 2006
30,000	FRF243 (€37.05)		30,000	390,000	07 May 1997	07 May 2007
30,000	FRF482 (€73.50)		30,000	390,000	29 Apr 1998	29 Apr 2008
28,000	€81.71		28,000	364,000	07 Apr 1999	07 Apr 2009
28,000	€142.50		28,000 [3]	364,000	12 Apr 2000	12 Apr 2010

1 *Date of appointment.*
2 *On exercise of this option, the 10,000 Crédit Commercial de France S.A. shares were exchanged for ordinary shares of US$0.50 each in the same ratio as for the acquisition of Crédit Commercial de France S.A. (13 ordinary shares of US$0.50 each for 1 Crédit Commercial de France S.A. share). At the date of exercise, 25 October 2000, the market value per ordinary share of US$0.50 each was £9.83.*
3 *The exercise of this option is conditional upon continued employment with Crédit Commercial de France S.A. until 1 January 2002.*

At 31 December 2000, Directors and Senior Management held, in aggregate, options to subscribe for 4,060,661 ordinary shares of US$0.50 each in HSBC Holdings under the Executive Share Option Scheme and Savings-Related Share Option Plans. These options are exercisable between 2001 and 2010 at prices ranging from £1.5704 to £6.8036.

Restricted Share Plan

	Awards held at 1 January 2000	*Awards made during year*	*Monetary value of awards made during year (£000)*	*Awards vested during year*[1]	*Awards held at 31 December 2000*[1]	*Year in which awards may vest*
Ordinary shares of US$0.50						
Sir John Bond	25,179	—	—	—	25,921	2001 [2]
	26,614	—	—	—	27,397	2002 or 2003
	51,688	—	—	—	53,210	2004
	—	76,375	550	—	78,624	2005
W R P Dalton	31,938	—	—	32,877 [3]	—	—
	15,747	—	—	—	16,211	2001 [2]
	17,745	—	—	—	18,267	2002 or 2003
	30,152	—	—	—	31,039	2004
	—	34,716	250	—	35,739	2005
D G Eldon	18,897	—	—	—	19,453	2001 [2]
	21,290	—	—	—	21,917	2002 or 2003
	30,152	—	—	—	31,039	2004
	—	6,733	47	—	6,805 [4]	2003
	—	34,716	250	—	35,739	2005
D J Flint	15,747	—	—	—	16,211	2001 [2]
	17,745	—	—	—	18,267	2002 or 2003
	30,152	—	—	—	31,039	2004
	—	31,244	225	—	32,164	2005
S K Green	18,897	—	—	—	19,453	2001 [2]
	21,290	—	—	—	21,917	2002 or 2003
	30,152	—	—	—	31,039	2004
	—	34,716	250	—	35,739	2005
A W Jebson	10,498	—	—	—	10,808	2001 [2]
	8,873	—	—	—	9,134	2002 or 2003
	25,844	—	—	—	26,605	2004
	—	27,772	200	—	28,590	2005
K R Whitson	18,897	—	—	—	19,453	2001 [2]
	21,290	—	—	—	21,917	2002 or 2003
	43,074	—	—	—	44,342	2004
	—	48,602	350	—	50,034	2005

Unless otherwise indicated, vesting of these shares is subject to the performance tests described in the 'Report of the Directors' in the 1996, 1997, 1998 and 1999 Annual Report and Accounts *being satisfied.*

1 *Includes additional shares arising from scrip dividends.*
2 *Based on performance over the four year period to 31 December 2000, 50 per cent of share awards will vest in 2001 and 50 per cent will be forfeited.*
3 *Award not subject to performance conditions; vested on 29 December 2000.*
4 *50 per cent of D G Eldon's 1999 discretionary bonus was awarded in Restricted Shares with a three-year restricted period.*

Sir John Bond has a personal interest in £290,000 of HSBC Capital Funding (Sterling 1) L.P. 8.208 per cent Non-cumulative Step-up Perpetual Preferred Securities, which he acquired during the year.

D G Eldon has a personal interest in 300 Hang Seng Bank Limited ordinary shares of HK$5.00 each, which he acquired during the year.

S K Green has a personal interest in €75,000 of HSBC Holdings plc 5½ per cent Subordinated Notes 2009 and 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 and in US$3,000,000 of HSBC Bank plc Senior Subordinated Floating Rate Notes 2009, which he held throughout the year. Dr Sohmen also has a corporate interest in US$3,000,000 of HSBC Capital Funding (Dollar 1) L.P. 9.547 per cent Non-cumulative Step-up Perpetual Preferred Securities, Series 1 and in

US$2,900,000 of HSBC Finance Nederland BV 7.40 per cent securities 2003, which he acquired during the year.

As Directors of Crédit Commercial de France S.A., C F W de Croisset, with effect from 20 December 2000, and W R P Dalton and S K Green, with effect from 14 February 2001, each acquired a personal interest in 10 shares of €5 each in that company but have waived their rights to receive dividends. On cessation of this directorship, the directors have undertaken to transfer these shares to HSBC.

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 non-beneficial interests of Sir John Kemp-Welch increased following the acquisition of 25,000 ordinary shares of US$0.50 each by a Trust whose portfolio of investments is managed by investment managers. There have been no other changes in Directors' interests from 31 December 2000 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 HSBC. 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 HSBC company by which the executive Director is employed, unless otherwise approved by the Remuneration Committee.

Employees' emoluments

Set out below is information in respect of the five individuals, who are not Directors of HSBC Holdings, 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 HSBC for the year ended 31 December 2000.

	£000
Basic salaries, allowances and benefits in kind	804
Pension contributions	60
Bonuses paid or receivable	18,680
Compensation for loss of office	
- contractual	7,792
- other	14,168
Total	41,504

Their emoluments are within the following bands:

	Number of Employees
£3,700,001 - £3,800,000	1
£6,900,001 - £7,000,000	1
£8,600,001 - £8,700,000	1
£10,600,001 - £10,700,000	1
£11,500,001 - £11,600,000	1

Employee involvement

HSBC Holdings 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 HSBC'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 HSBC is further encouraged through participation in bonus and share option plans as appropriate.

There are some 83,000 HSBC employees in more than 50 countries and territories worldwide now participating in one or more of HSBC's employee share plans.

Employment of disabled persons

HSBC Holdings 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 is 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

HSBC Holdings 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. Copies of, and information about, the Code are available from: The Department of Trade and Industry, No. 1 Victoria Street, London SW1 0ET.

It is HSBC Holdings' practice to organise payment to its suppliers through a central accounts function 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 2000, represented 25 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 ('Hong Kong SAR Government') had an interest on 16 October 2000 in 478,769,418 ordinary shares of US$0.50, representing 5.17 per cent of the ordinary shares of HSBC Holdings at that date, for the account of the Exchange Fund. In addition, the Hong Kong SAR Government had 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 Hong Kong SAR Government has an undivided interest in all the ordinary shares of HSBC Holdings in TraHK's portfolio, but has no ability to exercise any voting rights in respect of those shares. To the best of the Hong Kong SAR Government's knowledge, the TraHK's portfolio on 16 October 2000 held 72,508,352 ordinary shares of HSBC Holdings, representing 0.78 per cent of the ordinary shares of HSBC Holdings at that date, giving the Hong Kong SAR Government a 5.95 per cent interest overall. The Hong Kong SAR Government first disclosed an interest in HSBC Holdings' ordinary shares under section 211 of the Companies Act 1985 on 1 September 1998, at which time it had an interest in 239,506,537 ordinary shares of HK$10 each, representing 13.23 per cent of the HK$10 ordinary shares of HSBC Holdings at that date.

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

Between 27 September 2000 and 8 November 2000 Banque Dewaay, a 75 per cent subsidiary, bought and sold 111,240 HSBC Holdings ordinary shares of US$0.50 each. The aggregate prices on the London and Paris stock exchanges paid for the shares purchased were £25,588.56 and €2,191,593.27 and the aggregate prices received for the shares sold were £1,116,344.95 and €349,150.99. Save for this and the dealings by HSBC Investment Bank plc, trading as a intermediary in HSBC Holdings' shares in London, neither HSBC Holdings nor any subsidiary undertaking has bought or sold any shares of HSBC Holdings during the 12 months ended 31 December 2000.

Connected transactions

The following constituted a connected transaction under the rules of The Stock Exchange of Hong Kong.

In November 2000, Comfina AG, a 95.8 per cent indirectly-owned subsidiary of HSBC Holdings, sold 60 per cent of the equity of Asia Investment Managers Limited and granted a call option over a further 30 per cent of the equity exercisable over fifteen years, to four directors and an executive of Asia Investment Managers Limited. The aggregate consideration was US$16 million (HK$125 million).

Donations

During the year, HSBC made charitable donations totalling US$24,513,000. Of this amount, US$6,698,000 was given for charitable purposes in the United Kingdom.

No political donations were made during the year.

Annual General Meeting

The Annual General Meeting of HSBC Holdings will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 25 May 2001 at 11.00 a.m.

An informal meeting of shareholders will be held at Level 28, 1 Queens's Road Central, Hong Kong on Tuesday, 22 May 2001 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 HSBC Holdings 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* 26 February 2001

Statement of Directors' Responsibilities in Relation to Financial Statements

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in its report on page 126, 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 HSBC Holdings plc and its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial year. They are also required to present additional information for US shareholders. Accordingly, these financial statements are framed to meet both UK and US requirements, including those of the United States Securities and Exchange Commission, to give a consistent view to all shareholders. 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 HSBC 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 127 to 231, HSBC Holdings has used appropriate accounting policies, consistently applied, save as disclosed in the 'Notes on the Financial Statements', and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that HSBC Holdings keeps accounting records which disclose with reasonable accuracy the financial position of HSBC Holdings 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 HSBC and to prevent and detect fraud and other irregularities.

On behalf of the Board — 26 February 2001
R G Barber, *Secretary*

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

We have audited the financial statements on pages 127 to 231.

Respective responsibilities of Directors and Auditors
The Directors are responsible for preparing the Annual Report and Annual Report on Form 20F. As described on page 125 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards; the Directors have also presented additional information under US requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, Auditing Standards generally accepted in the United Kingdom and the United States, the Listing Rules of the UK Financial Services Authority, the United States Securities and Exchange Commission 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 HSBC Holdings 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 HSBC is not disclosed.

We review whether the statement on pages 111 and 112 reflects HSBC Holdings' compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, 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 HSBC's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Accounts, 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 generally accepted in the United Kingdom and the United States. 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 HSBC'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. We believe that our audit process provides a reasonable basis for our opinion.

United Kingdom opinion
In our opinion the financial statements give a true and fair view of the state of affairs of HSBC Holdings and HSBC as at 31 December 2000 and of the profit of HSBC for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSBC and HSBC Holdings as at 31 December 2000 and 1999, and the results of HSBC's operations and cash flows for each of the years in the three-year period ended 31 December 2000, in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected HSBC's results of operations for each of the years in the three-year period ended 31 December 2000 and shareholders' equity as of 31 December 2000 and 1999 to the extent summarised in Note 49 of 'Notes on the Financial Statements'.

KPMG Audit Plc — 26 February 2001
Registered Auditor
Chartered Accountants, London

Consolidated Profit and Loss Account for the Year Ended 31 December 2000

	Note	2000 US$m	1999 US$m	1998 US$m
Interest receivable				
— interest receivable and similar income arising from debt securities		**7,458**	4,373	3,892
— other interest receivable and similar income		**30,288**	24,831	29,728
Interest payable		**(24,023)**	(17,214)	(22,073)
Net interest income		**13,723**	11,990	11,547
Dividend income	3	**197**	157	148
Fees and commissions receivable		**8,576**	7,149	6,970
Fees and commissions payable		**(1,265)**	(1,132)	(1,234)
Dealing profits	4	**1,626**	1,299	1,149
Other operating income		**1,716**	1,539	1,475
Operating income	6	**24,573**	21,002	20,055
— continuing operations		**23,696**		
— acquisitions		**877**		
Administrative expenses	5,6	**(12,496)**	(10,350)	(10,090)
Depreciation and amortisation				
— tangible fixed assets	24	**(1,081)**	(963)	(904)
— goodwill	23	**(510)**	(36)	(10)
Operating profit before provisions		**10,486**	9,653	9,051
Provisions				
— provisions for bad and doubtful debts	16	**(932)**	(2,073)	(2,637)
— provisions for contingent liabilities and commitments	31	**(71)**	(143)	(144)
Amounts written off fixed asset investments		**(36)**	(28)	(85)
Operating profit		**9,447**	7,409	6,185
— continuing operations		**9,462**		
— acquisitions		**(15)**		
Share of operating loss in joint ventures		**(51)**	—	—
Share of operating profit in associates		**75**	123	136
Gains on disposal of				
— investments		**302**	450	222
— tangible fixed assets		**2**	—	28
Profit on ordinary activities before tax	6	**9,775**	7,982	6,571
Tax on profit on ordinary activities	7	**(2,238)**	(2,038)	(1,789)
Profit on ordinary activities after tax		**7,537**	5,944	4,782
Minority interests				
— equity		**(558)**	(460)	(393)
— non-equity		**(351)**	(76)	(71)
Profit for the financial year attributable to shareholders		**6,628**	5,408	4,318
Dividends	9	**(4,010)**	(2,872)	(2,495)
Retained profit for the year		**2,618**	2,536	1,823
		US$	*US$*	*US$*
Basic earnings per ordinary share	10	**0.76**	*0.65*	*0.54*
Diluted earnings per ordinary share	10	**0.75**	*0.65*	*0.53*
Cash earnings per ordinary share	10	**0.81**	*0.66*	*0.54*
Dividends per ordinary share	9	**0.435**	*0.340*	*0.308*

Movements in reserves are set out in Note 35.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Balance Sheet at 31 December 2000

	Note	2000 US$m	*1999 US$m*
ASSETS			
Cash and balances at central banks		**5,006**	6,179
Items in the course of collection from other banks		**6,668**	5,826
Treasury bills and other eligible bills	*11*	**23,131**	23,213
Hong Kong SAR Government certificates of indebtedness	*12*	**8,193**	9,905
Loans and advances to banks	*14*	**126,032**	100,077
Loans and advances to customers	*15*	**289,837**	253,567
Debt securities	*18*	**132,818**	110,068
Equity shares	*19*	**8,104**	4,478
Interests in joint ventures:			
— share of gross assets		**2,242**	
— share of gross liabilities		**(1,959)**	
	20	**283**	—
Interests in associates	*21*	**1,085**	926
Other participating interests	*22*	**126**	280
Intangible fixed assets	*23*	**15,089**	6,541
Tangible fixed assets	*24*	**14,021**	12,868
Other assets	*26*	**35,562**	29,363
Prepayments and accrued income		**7,859**	5,848
Total assets		**673,814**	569,139
LIABILITIES			
Hong Kong SAR currency notes in circulation	*12*	**8,193**	9,905
Deposits by banks	*27*	**60,053**	38,103
Customer accounts	*28*	**427,069**	359,972
Items in the course of transmission to other banks		**4,475**	4,872
Debt securities in issue	*29*	**27,956**	33,780
Other liabilities	*30*	**63,114**	59,584
Accruals and deferred income		**9,270**	6,129
Provisions for liabilities and charges	*31*		
— deferred taxation		**1,251**	1,388
— other provisions for liabilities and charges		**3,332**	2,920
Subordinated liabilities	*32*		
— undated loan capital		**3,546**	3,235
— dated loan capital		**12,676**	12,188
Minority interests			
— equity		**2,138**	2,072
— non-equity	*33*	**5,171**	1,583
Called up share capital	*34*	**4,634**	4,230
Share premium account	*35*	**3,305**	2,882
Other reserves	*35*	**8,786**	—
Revaluation reserves	*35*	**2,611**	2,342
Profit and loss account	*35*	**26,234**	23,954
Shareholders' funds		**45,570**	33,408
Total liabilities		**673,814**	569,139
MEMORANDUM ITEMS			
Contingent liabilities	*38*		
— acceptances and endorsements		**5,160**	4,482
— guarantees and assets pledged as collateral security		**33,968**	27,319
— other contingent liabilities		**14**	39
		39,142	31,840
Commitments	*38*	**182,716**	168,738

Sir John Bond, *Group Chairman.*

The accompanying notes are an integral part of the Consolidated Financial Statements.

HSBC Holdings Balance Sheet at 31 December 2000

	Note	2000 US$m	*1999 US$m*
FIXED ASSETS			
Tangible assets	24	**10**	10
Investments	25		
— shares in HSBC undertakings		**46,395**	32,079
— loans to HSBC undertakings		**5,406**	7,033
— other investments other than loans		**289**	—
— own shares		**564**	6
		52,664	39,128
CURRENT ASSETS			
Debtors			
— money market deposits with HSBC undertakings		**2,650**	917
— other amounts owed by HSBC undertakings		**1,090**	1,883
— amounts owed by HSBC undertakings (falling due after more than 1 year)		**90**	91
— other debtors		**33**	17
Investments			
— other investments		**—**	362
		3,863	3,270
Cash at bank and in hand			
— balances with HSBC undertakings		**751**	515
		4,614	3,785
CREDITORS: amounts falling due within 1 year			
Amounts owed to HSBC undertakings		**(1,714)**	(975)
Other creditors		**(216)**	(2,807)
Proposed dividend	9	**(2,627)**	(1,754)
		(4,557)	(5,536)
NET CURRENT ASSETS/(LIABILITIES)		**57**	(1,751)
TOTAL ASSETS LESS CURRENT LIABILITIES		**52,721**	37,377
CREDITORS: amounts falling due after more than 1 year			
Subordinated liabilities	32		
— owed to third parties		**(2,860)**	(2,615)
— owed to HSBC undertakings		**(3,903)**	(349)
Amounts owed to HSBC undertakings		**(215)**	(716)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	31	**(173)**	(289)
NET ASSETS		**45,570**	33,408
CAPITAL AND RESERVES			
Called up share capital	34	**4,634**	4,230
Share premium account	35	**3,305**	2,882
Revaluation reserve	35	**31,652**	21,874
Reserve in respect of obligations under CCF share options	35	**496**	—
Profit and loss account	35	**5,483**	4,422
		45,570	33,408

Sir John Bond, *Group Chairman.*

The accompanying notes are an integral part of the Financial Statements.

Statement of Total Consolidated Recognised Gains and Losses for the Year Ended 31 December 2000

	2000 **US$m**	1999 US$m	1998 US$m
Profit for the financial year attributable to shareholders	**6,628**	5,408	4,318
Impairment of land and buildings	**—**	—	(38)
Unrealised surplus/(deficit) on revaluation of investment properties:			
— subsidiaries	**6**	(45)	(190)
— associates	**8**	(1)	(56)
Unrealised surplus/(deficit) on revaluation of land and buildings (excluding investment properties):			
— subsidiaries	**357**	371	(1,787)
— associates	**4**	—	—
Exchange and other movements	**(1,064)**	(622)	(31)
Total recognised gains and losses for the year	**5,939**	5,111	2,216

Reconciliation of Movements in Consolidated Shareholders' Funds for the Year Ended 31 December 2000

	2000 **US$m**	1999 US$m	1998 US$m
Profit for the financial year attributable to shareholders	**6,628**	5,408	4,318
Dividends	**(4,010)**	(2,872)	(2,495)
	2,618	2,536	1,823
Other recognised gains and losses relating to the year	**(689)**	(297)	(2,102)
New share capital subscribed, net of costs	**488**	3,273	17
New share capital issued in connection with the acquisition of CCF	**8,629**	—	—
Reserve in respect of obligations under CCF share options	**496**	—	—
Amounts arising on shares issued in lieu of dividends	**944**	679	584
Capitalised reserves arising on issue of shares to a qualifying employee share ownership trust ('QUEST')	**(324)**	(185)	—
Net addition to shareholders' funds	**12,162**	6,006	322
Shareholders' funds at 1 January	**33,408**	27,402	27,080
Shareholders' funds at 31 December	**45,570**	33,408	27,402

No note of historical cost profits and losses has been presented as there is no material difference between HSBC's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement for the Year Ended 31 December 2000

	Note	**2000 US$m**	1999 US$m	1998 US$m
Net cash inflow from operating activities	*40*	**15,223**	21,544	9,687
Dividends received from associates		**88**	86	82
Returns on investments and servicing of finance:				
Interest paid on finance leases and similar hire purchase contracts		**(26)**	(25)	(25)
Interest paid on subordinated loan capital		**(1,217)**	(809)	(813)
Dividends paid to minority interests				
— equity		**(443)**	(668)	(339)
— non-equity		**(105)**	(76)	(65)
Net cash outflow from returns on investments and servicing of finance		**(1,791)**	(1,578)	(1,242)
Taxation paid		**(2,290)**	(1,575)	(1,893)
Capital expenditure and financial investments:				
Purchase of investment securities		**(175,176)**	(108,376)	(59,814)
Proceeds from sale and maturities of investment securities		**180,044**	91,385	50,568
Purchase of tangible fixed assets		**(1,663)**	(1,169)	(2,537)
Proceeds from sale of tangible fixed assets		**383**	209	266
Net cash inflow/(outflow) from capital expenditure and financial investments		**3,588**	(17,951)	(11,517)
Acquisitions and disposals:				
Net cash inflow/(outflow) from acquisition of and increase in stake in subsidiary undertakings		**687**	725	(176)
Net cash inflow from disposal of subsidiary undertakings		**333**	—	—
Payment to Republic and Safra Republic shareholders		**(9,733)**	—	—
Purchase of interest in associates and other participating interests		**(54)**	(123)	(55)
Proceeds from disposal of associates and other participating interests		**138**	28	18
Net cash (outflow)/inflow from acquisitions and disposals		**(8,629)**	630	(213)
Equity dividends paid		**(2,193)**	(1,938)	(1,744)
Net cash inflow/(outflow) before financing		**3,996**	(782)	(6,840)
Financing:				
Issue of ordinary share capital		**164**	3,088	17
Issue of perpetual preferred securities		**3,626**	—	—
Own shares acquired by employee share ownership trust		**(556)**	—	—
Subordinated loan capital issued		**948**	2,101	443
Subordinated loan capital repaid		**(708)**	(599)	(215)
Net cash inflow from financing	*41*	**3,474**	4,590	245
Increase/(decrease) in cash	*42*	**7,470**	3,808	(6,595)

The accompanying notes are an integral part of the Consolidated Financial Statements.

1 Basis of preparation

(a) The financial statements 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 financial statements are prepared in accordance with the special provisions of Part VII Chapter II of the UK Companies Act 1985 (‘the Act’) relating to banking groups. The consolidated financial statements comply with Schedule 9 and the financial statements of HSBC Holdings comply with Schedule 4 to the Act.

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

HSBC has adopted the provisions of the UK Financial Reporting Standards (‘FRSs’): FRS 15, ‘Tangible fixed assets’ and FRS 16, ‘Current tax’.

(b) The preparation of financial information requires the use of estimates and assumptions about future conditions. This is particularly so in the development of provisions for bad and doubtful debts. Making reliable estimates of the ability of customers and other counterparties to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic volatility such as exists in several of HSBC’s markets. Therefore, while management believes it has employed all available information to estimate adequate allowances for all identifiable risks in the current portfolios, there can be no assurance that the provisions for bad and doubtful debts or other provisions will prove adequate for all losses ultimately realised.

(c) The consolidated financial statements of HSBC comprise the financial statements of HSBC Holdings and its subsidiary undertakings. Financial statements of subsidiary undertakings are made up to 31 December. For HSBC Bank Canada, which until 1998 had a 31 October year-end, financial statements for a period of 14 months were used in the 1998 consolidated financial statements. In the case of the principal banking and insurance subsidiaries of HSBC Bank Argentina, whose financial statements are made up to 30 June annually to comply with local regulations, HSBC uses audited interim financial statements, drawn up to 31 December annually. The consolidated financial statements include the attributable share of the results and reserves of joint ventures and associates, based on financial statements made up to dates not earlier than six months prior to 31 December.

All significant intra-HSBC transactions are eliminated on consolidation.

(d) HSBC’s financial statements are prepared in accordance with UK generally accepted accounting principles (‘UK GAAP’), which differ in certain respects from US generally accepted accounting principles (‘US GAAP’). For a discussion of significant differences between UK GAAP and US GAAP and a reconciliation to US GAAP of certain amounts see Note 49. In addition, certain disclosures in the Notes on the Financial Statements have been made to comply with US reporting requirements.

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 2 (b)).

Fee and commission income is accounted for in the period when receivable, except where it 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, it is recognised on an appropriate basis over the relevant period.

(b) *Loans and advances and doubtful debts*

It is HSBC’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 collectibility 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 of 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.

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 HSBC'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, among other things, 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 HSBC'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 this 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. HSBC 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 HSBC'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.

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.

(c) *Treasury bills, debt securities and equity shares*

Treasury bills, 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 treasury bills, debt securities, equity shares and short positions in securities are included in the balance sheet at market value. Changes in the market value of such assets and liabilities 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'.

(d) *Subsidiary undertakings, joint ventures, associates and other participating interests*

(i) HSBC Holdings' 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 joint ventures are stated at HSBC's share of gross assets, including attributable goodwill, less HSBC's share of gross liabilities.

(iii) Interests in associates are stated at HSBC's share of net assets, including attributable goodwill.

(iv) 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 HSBC's business, other than subsidiary undertakings, joint ventures or associates. Other participating interests are stated at cost less any permanent diminution in value.

(v) Goodwill arises on the acquisition of subsidiary undertakings, joint ventures or associates when the cost of acquisition exceeds the fair value of HSBC'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, in 'Interests in joint ventures' in respect of joint ventures and in 'Interests in associates' in respect of associates. 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 undertakings, joint ventures or associates, any unamortised goodwill or goodwill charged directly to reserves is included in HSBC's share of net assets of the undertaking in the calculation of the gain or loss on disposal of the undertaking.

(e) *Tangible fixed assets*

(i) Land and buildings are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:

— freehold land and land held on leases with more than 50 years to expiry are not depreciated;

— land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases; 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.

(ii) Equipment, fixtures and fittings are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 5 years and 20 years.

(iii) HSBC 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 HSBC 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 HSBC 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 HSBC 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*

HSBC operates a number of pension and other post-retirement benefit schemes throughout the world.

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.

Since 1 January 1993, the cost of providing post-retirement health-care benefits, which is assessed in accordance with the advice of qualified actuaries, has been 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 which is being charged to the profit and loss account in equal instalments over 20 years.

(i) *Foreign currencies*

(i) Assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the year-end. The results of branches, subsidiary undertakings, joint ventures and associates 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.

(j) *Off-balance-sheet financial instruments*

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by HSBC in the foreign exchange, interest rate and equity markets. Netting is applied where a legal right of set-off exists. Mark-to-market assets and liabilities are presented gross, with netting shown separately. In prior years, mark-to-market assets and liabilities were presented net, without netting being shown separately.

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 which are held for hedging purposes as part of HSBC'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, a 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'.

3 Dividend income

	2000	1999	1998
	US$m	US$m	US$m
Income from equity shares	**195**	145	138
Income from participating interests other than joint ventures and associates	**2**	12	10
	197	157	148

4 Analysis of income from dealing in financial instruments

	2000			1999			1998		
	Dealing profits	**Dividend and net interest income**	**Total**	Dealing profits	Dividend and net interest income	Total	Dealing profits	Dividend and net interest income	Total
	US$m	**US$m**	**US$m**	US$m	US$m	US$m	US$m	US$m	US$m
Foreign exchange	**965**	**18**	**983**	797	21	818	953	24	977
Interest rate derivatives	**57**	**16**	**73**	67	7	74	67	2	69
Debt securities	**281**	**161**	**442**	197	81	278	116	84	200
Equities and other trading	**323**	**52**	**375**	238	66	304	13	77	90
	1,626	**247**	**1,873**	1,299	175	1,474	1,149	187	1,336

5 Administrative expenses

(a)

	2000	1999	1998
	US$m	US$m	US$m
Staff costs			
— wages and salaries	**7,139**	5,845	5,440
— social security costs	**454**	355	398
— other pension costs (Note 5(b) below)	**464**	492	483
	8,057	6,692	6,321
Premises and equipment (excluding depreciation)	**1,480**	1,329	1,454
Other administrative expenses	**2,959**	2,329	2,315
	12,496	10,350	10,090

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

	2000	1999	1998
	Number	Number	Number
Commercial banking	**157,734**	138,543	136,331
Investment banking	**12,124**	8,354	8,190
	169,858	146,897	144,521

(b) *Retirement benefits*

HSBC operates some 138 pension schemes throughout the world, covering 79% of HSBC's employees, with a total pension cost of US$464 million (1999: US$492 million; 1998: US$483 million), of which US$235 million (1999: US$223 million; 1998: US$223 million) relates to overseas schemes. Of the overseas schemes, US$49 million (1999: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 55% of HSBC's employees, with assets, in the case of most of the larger schemes, held in trust or similar funds separate from HSBC. The pension cost relating to these schemes was US$341 million (1999: 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 HSBC's pension schemes vary according to the economic conditions of the countries in which they are situated.

In the United Kingdom, the HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc and certain other employees of HSBC. This scheme comprises a funded defined benefit 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 1999 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$10,888 million. The actuarial value of the assets represented 104 % of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to US$346 million. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 6.85% per annum, salary increases of 4.0% per annum, equity dividend increases and rental growth of 3.5 % per annum, and post-retirement pension increases of 2.5% per annum.

In consultation with the actuary, the surplus has been used to reduce the employers' long-term contribution rate of 19.9% to 16.9% of pensionable salaries (1999:16.1%). This is based on spreading the surplus over the expected future working lifetime of current members. The next actuarial valuation is due as at 31 December 2002.

In Hong Kong, the HSBC Group Hong Kong Local Staff Retirement Benefit Scheme covers employees of the Hongkong and Shanghai Banking Corporation Limited and certain other employees of HSBC. The scheme comprises a funded defined benefit scheme and a defined contribution scheme. The latter was established on 1 January 1999 for new employees. The latest valuation of the defined benefit scheme was made at 31 December 2000 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 HSBC Holdings. At that date, the market value of the defined benefit scheme's assets was HK$6,219 million. On an ongoing basis, the actuarial value of the scheme's assets represented 116% of the benefits accrued to members, after allowing for expected future increases in salaries, and the resulting surplus amounted to HK$847 million. On a wind-up basis, the actuarial value of the scheme's assets represents 124% of the members' vested benefits, based on current salaries, and the resulting surplus amounted to HK$1,203 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 the United States, the HSBC Bank USA Pension Plan (the 'principal scheme') covers employees of HSBC Bank USA and certain other employees of HSBC. The latest valuation of the principal scheme was made at 1 January 2000 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$917 million. The actuarial value of the assets represented 140% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to US$242 million. The method employed for this valuation was the projected unit credit method and the main assumptions used were a discount rate of 8.00% per annum and average salary increases of 5.15% per annum.

The HSBC Bank (UK) Pension Scheme, The Hongkong and Shanghai Banking Corporation Limited Local Staff Retirement Benefits Scheme and the HSBC Bank USA Pension Plan cover 45% (1999: 46%; 1998: 46%) of HSBC's employees.

The pension cost for defined contribution schemes, which cover 24% (1999: 26%; 1998: 16%) of HSBC's employees, was US$81 million (1999: US$87 million; 1998: US$52 million).

HSBC also provides post-retirement health-care benefits under schemes, mainly in the United Kingdom and also in the United States, Canada and Brazil. The charge relating to these schemes, which are unfunded, is US$42 million for the year (1999: US$37 million; 1998: US$30 million). The latest actuarial review estimated the present value of the accumulated post-retirement benefit obligation at US$411 million (1999: US$379 million; 1998: US$357 million), of which US$253 million (1999: 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 1999 are price inflation at 2.5% per annum, health-care claims cost escalation of 7.5% per annum and a discount rate of 6% per annum.

(c) *Directors' emoluments*

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

	2000	1999	1998
	US$000	US$000	US$000
Fees	**1,362**	1,076	1,063
Salaries and other emoluments	**6,525**	5,024	5,275
Discretionary bonuses	**3,854**	1,107	965
	11,741	7,207	7,303
Gains on the exercise of share options	**4,187**	460	—

In addition, there were payments under retirement benefit agreements with former Directors of US$483,000 (1999: US$435,000; 1998: US$303,000). The provision as at 31 December 2000 in respect of unfunded pension obligations to former Directors amounted to US$6,535,000 (1999: US$5,627,000; 1998: US$5,856,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$798,000 (1999: 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, share options and conditional awards under the Restricted Share Plan are included in the 'Report of the Directors' on pages 113 to 122.

(d) *Auditors' remuneration*

Auditors' remuneration amounted to US$25.8 million (1999: US$19.9 million; 1998: US$17.3 million). In addition, US$15.0 million (1999: US$17.7 million; 1998: US$8.3 million) was paid by HSBC companies to the HSBC Holdings' auditor and its associates for non-audit work analysed as follows:

	2000	1999	1998
	US$m	US$m	US$m
Regulatory work	**3.8**	4.0	3.5
Tax services	**2.0**	3.3	1.4
Consultancy	**2.4**	1.2	1.5
Acquisition due diligence and related services	**5.6**	7.5	—
US registration	—	1.1	0.4
Other	**1.2**	0.6	1.5
	15.0	17.7	8.3

Of fees paid to auditors for non-audit work, US$4.8 million were capitalised (1999: US$0.7 million; 1998: US$ nil).

6 Profit on ordinary activities before tax

(a) Profit on ordinary activities before tax is stated after:

	2000 US$m	1999 US$m	1998 US$m
(i) Income			
Aggregate rentals receivable, including capital repayments, under			
— finance leases and hire purchase contracts	**2,956**	3,260	3,458
— operating leases	**481**	511	501
Income from listed investments	**4,534**	2,187	1,987
Profits less losses on debt securities and equities dealing	**456**	442	190
Gains on disposal of investment securities	**324**	439	210
(ii) Charges			
Charges incurred with respect to subordinated liabilities	**1,216**	826	814
Finance charges in respect of finance leases and similar hire Purchase contracts	**26**	26	26
Hire of plant and machinery	**92**	75	92
Rentals payable on premises held under operating leases	**467**	442	429

In 2000, US$121 million has been charged in respect of restructuring costs arising from the acquisition of Crédit Commercial de France ("CCF"), Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('SRH'). In 1999, US$164 million was charged in respect of restructuring costs arising from the acquisition of RNYC and SRH.

Gains on the disposal of investments and tangible fixed assets attracted a tax charge of US$82 million (1999: US$93 million; 1998: US$45 million). Of the after-tax amount, US$11 million (1999: US$6 million; 1998: US$3 million) is attributable to minority interests.

(b) The impact of acquisitions in 2000 on operating profit was as follows:

	US$m
Operating income	**877**
Administrative expenses	**(664)**
Depreciation	**(51)**
Amortisation of goodwill	**(171)**
Operating profit before provisions	**(9)**
Provisions	
— provisions for bad and doubtful debts	**(5)**
— provisions for contingent liabilities and commitments	**1**
Amounts written off fixed asset investments	**(2)**
Operating profit	**(15)**

7 Tax on profit on ordinary activities

The charge for taxation comprises:

	2000	1999	1998
	US$m	US$m	US$m
United Kingdom corporation tax charge	**1,826**	883	745
Relief for overseas taxation	**(970)**	(287)	(13)
	856	596	732
Overseas taxation	**1,468**	1,313	1,118
Deferred taxation (Note 31)	**(78)**	129	(71)
	2,246	2,038	1,779
Joint ventures	**(7)**	—	—
Associates	**(1)**	—	10
	2,238	2,038	1,789

HSBC Holdings and its subsidiary undertakings in the United Kingdom provide for UK corporation tax at 30.0% (1999: 30.25%; 1998: 31.0%). Overseas tax includes Hong Kong profits tax of US$478 million (1999: US$367 million; 1998: US$293 million). Subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 16.0% (1999: 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.

Analysis of overall tax charge:

	2000	1999	1998
	US$m	US$m	US$m
Taxation at UK corporation tax rate of 30.0% (1999: 30.25%; 1998: 31.0%)	**2,932**	2,415	2,037
Impact of differently taxed overseas profits in principal locations	**(498)**	(418)	(339)
(Utilised)/unrecognised tax benefits	**(137)**	35	71
Other items	**(59)**	6	20
Overall tax charge	**2,238**	2,038	1,789

8 Profit of HSBC Holdings

	2000	1999	1998
	US$m	US$m	US$m
Profit on ordinary activities before tax	**4,224**	2,478	1,055
Tax credit on profit on ordinary activities	**227**	87	17
Profit for the financial year attributable to shareholders	**4,451**	2,565	1,072

Profit on ordinary activities before tax includes dividend income from subsidiary undertakings for the years ended 31 December as follows:

	2000	1999	1998
	US$m	US$m	US$m
Bank	**1,727**	1,776	1,079
Non-bank	**2,598**	742	72

9 Dividends

	2000		1999		1998	
	US$ per share	**US$m**	US$ per share	US$m	US$ per share	US$m
First interim	**0.150**	**1,383**	0.133	1,118	0.123	996
Second interim	**0.285**	**2,627**	0.207	1,754	0.185	1,499
	0.435	**4,010**	0.340	2,872	0.308	2,495

Of the first interim dividend for 2000, US$476 million (1999: US$229 million; 1998: US$107 million) was settled by the issue of shares. Of the second interim dividend for 1999, US$468 million (1998: US$450 million; 1997: US$477 million) was settled by the issue of shares in 2000.

10 Earnings per ordinary share

Basic earnings per ordinary share was calculated by dividing the earnings of US$6,628 million (1999: US$5,408 million; 1998: US$4,318 million) by the weighted average number of ordinary shares, excluding own shares held, outstanding in 2000 of 8,777 million (1999: 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 ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on ordinary conversion of dilutive potential ordinary shares (being share options outstanding not yet exercised) in 2000 of 8,865 million (1999: 8,374 million; 1998: 8,124 million).

The effect of dilutive share options on the weighted average number of ordinary shares in issue is as follows:

	Number of shares (millions)		
	2000	1999	1998
Average number of shares in issue	**8,777**	8,296	8,067
Savings-Related Share Option Plan	**57**	63	48
Executive Share Option Scheme	**5**	5	6
Restricted Share Plan	**17**	10	—
HSBC Bank plc Savings-Related and Executive Share Option Schemes	**—**	—	3
CCF share options	**9**	—	—
Average number of shares in issue assuming dilution	**8,865**	8,374	8,124

Of the total number of employee share options existing at year-end, the following were not included in the dilution calculation above because they were antidilutive:

	Number of shares (millions)		
	2000	1999	1998
Antidilutive share options	**—**	79	27

The cash earnings per share was calculated by dividing the basic earnings, after adding back the amortisation of goodwill, by the weighted average number of ordinary shares outstanding, excluding own shares held. The Directors consider that this supplementary figure provides a useful additional indication of performance.

	2000	1999	1998
	US$	US$	US$
Basic earnings per ordinary share	**0.76**	0.65	0.54
Adjustments:			
Amortisation of goodwill	**0.05**	0.01	—
Cash earnings per ordinary share	**0.81**	0.66	0.54

11 Treasury bills and other eligible bills

	2000	1999
	US$m	US$m
Treasury bills and similar securities	**19,373**	20,500
Other eligible bills	**3,758**	2,713
	23,131	23,213

Of the total treasury and other eligible bills, US$15,862 million (1999: US$18,601 million) are non-trading book items; these are mainly short-term in maturity and are analysed below.

Investment securities:

	Cost and book value
	US$m
At 1 January 2000	**18,601**
Additions	**66,329**
Disposals and amounts repaid	**(69,436)**
Amortisation of discounts and premiums	**557**
Exchange and other movements	**(189)**
At 31 December 2000	**15,862**

The book value of treasury bills and other eligible bills, analysed by type of borrower, is as follows:

Available for sale

	2000	1999
	US$m	US$m
US Treasury and Government agencies	**2,165**	2,299
UK Government	**2,716**	1,341
Hong Kong SAR Government	**2,007**	2,927
Other governments	**7,416**	9,155
Corporate debt and other securities	**1,558**	2,879
	15,862	18,601

The following table provides an analysis of gross unrealised gains and losses for available for sale treasury bills and other eligible bills as at 31 December 2000:

	Carrying value	*Gross unrealised gains*	*Gross unrealised losses*	*Market valuation*
	US$m	**US$m**	**US$m**	**US$m**
US Treasury and Government agencies	**2,165**	**1**	**—**	**2,166**
UK Government	**2,716**	**—**	**(15)**	**2,701**
Hong Kong SAR Government	**2,007**	**—**	**—**	**2,007**
Other governments	**7,416**	**13**	**(6)**	**7,423**
Corporate debt and other securities	**1,558**	**—**	**(24)**	**1,534**
	15,862	**14**	**(45)**	**15,831**

As 31 December 1999, the book value was not materially different from the market value.

The maturities of available for sale treasury bills and other eligible bills at 31 December 2000 are analysed as follows:

	Carrying value	*Market valuation*
	US$m	**US$m**
1 year or less	**15,630**	**15,598**
5 years or less but over 1 year	**224**	**225**
10 years or less but over 5 years	**8**	**8**
	15,862	**15,831**

The following table provides an analysis of contractual maturities and weighted average yields of available for sale treasury bills and other eligible bills as at 31 December 2000.

	Within one year		*After one but within five years*		*After five but within ten years*	
	Amount	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
	US$m	**%**	**US$m**	**%**	**US$m**	**%**
US Treasury and Government agencies	**2,165**	**6.1**	**—**	**—**	**—**	
UK Government	**2,613**	**5.0**	**103**	**7.0**	**—**	
Hong Kong SAR Government	**2,007**	**5.7**	**—**	**—**	**—**	
Other governments	**7,290**	**5.2**	**118**	**6.7**	**8**	**5.2**
Corporate debt and other securities	**1,555**	**6.3**	**3**	**6.8**	**—**	
	15,630		**224**		**8**	

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 risk management

HSBC's credit risk management process is discussed in the 'Financial Review' section in the paragraph headed 'Credit risk management' on pages 73 and 74.

14 Loans and advances to banks

	2000 US$m	1999 US$m
Remaining maturity		
— repayable on demand	**19,332**	11,526
— 3 months or less but not repayable on demand	**90,546**	78,900
— 1 year or less but over 3 months	**13,650**	7,836
— 5 years or less but over 1 year	**1,797**	1,314
— over 5 years	**737**	525
Specific bad and doubtful debt provisions (Note 16)	**(30)**	(24)
	126,032	100,077
Amounts include:		
Due from joint ventures		
—unsubordinated	—	—
Due from associates		
— unsubordinated	**66**	74

15 Loans and advances to customers

	2000 US$m	1999 US$m
Remaining maturity		
— repayable on demand or at short notice	**45,726**	40,437
— 3 months or less but not repayable on demand or at short notice	**58,556**	42,245
— 1 year or less but over 3 months	**37,123**	32,779
— 5 years or less but over 1 year	**77,201**	71,896
— over 5 years	**79,398**	74,206
General and specific bad and doubtful debt provisions (Note 16)	**(8,167)**	(7,996)
	289,837	253,567
Amounts include:		
Subordinated advances	**170**	107
Securitised advances not qualifying for linked presentation under FRS 5 (‘Reporting the Substance of Transactions’)	**1,835**	1,679
Due from joint ventures		
— unsubordinated	**85**	—
Due from associates		
— unsubordinated	**239**	272

16 Provisions for bad and doubtful debts

	Provisions against advances			
	Specific	*General*	*Total*	*Suspended interest*
	US$m	**US$m**	**US$m**	**US$m**
At 1 January 2000	**5,716**	**2,304**	**8,020**	**1,073**
Amounts written off	**(1,811)**	**—**	**(1,811)**	**(370)**
Recoveries of advances written off in previous years	**160**	**—**	**160**	**—**
Charge/(credit) to profit and loss account	**1,212**	**(280)**	**932**	**—**
Interest suspended during the year	**—**	**—**	**—**	**689**
Suspended interest recovered	**—**	**—**	**—**	**(291)**
Acquisition of subsidiaries	**941**	**146**	**1,087**	**2**
Exchange and other movements	**(123)**	**(68)**	**(191)**	**(87)**
At 31 December 2000	**6,095**	**2,102**	**8,197**	**1,016**
Included in:				
Loans and advances to banks (Note 14)			**30**	
Loans and advances to customers (Note 15)			**8,167**	
			8,197	

	Provisions against advances			
	Specific	*General*	*Total*	*Suspended 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)
Acquisition of subsidiaries	37	329	366	—
Exchange and other movements	(59)	3	(56)	(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	

	Provisions against advances			
	Specific	*General*	*Total*	*Suspended interest*
	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			31	
Loans and advances to customers			6,627	
			6,658	

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

	2000	1999	1998
	US$m	US$m	US$m
Gross	**6,464**	7,666	6,435
Net of specific provisions	**2,964**	3,571	3,148

17 Concentrations of exposure

HSBC has the following concentrations of gross loans and advances to customers:

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	US$m	US$m	US$m	US$m	US$m
Total gross advances to customers:						
Residential mortgages	**24,822**	**23,121**	**3,723**	**19,641**	**1,099**	**72,406**
Hong Kong SAR Government Home Ownership Scheme	**—**	**7,353**	**—**	**—**	**—**	**7,353**
Other personal	**19,763**	**4,923**	**3,860**	**6,694**	**1,517**	**36,757**
Total personal	**44,585**	**35,397**	**7,583**	**26,335**	**2,616**	**116,516**
Commercial, industrial and international trade	**38,012**	**9,584**	**11,644**	**8,831**	**3,246**	**71,317**
Commercial real estate	**10,053**	**8,293**	**2,773**	**6,865**	**127**	**28,111**
Other property related	**3,121**	**3,850**	**1,816**	**4,053**	**175**	**13,015**
Government	**2,572**	**130**	**574**	**710**	**55**	**4,041**
Other commercial*	**19,570**	**7,459**	**5,516**	**3,710**	**980**	**37,235**
Total corporate and commercial	**73,328**	**29,316**	**22,323**	**24,169**	**4,583**	**153,719**
Non-bank financial institutions	**10,374**	**1,664**	**683**	**8,593**	**188**	**21,502**
Settlement accounts	**3,946**	**142**	**361**	**2,464**	**41**	**6,954**
Total financial	**14,320**	**1,806**	**1,044**	**11,057**	**229**	**28,456**
At 31 December 2000	**132,233**	**66,519**	**30,950**	**61,561**	**7,428**	**298,691**
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
Total personal	38,715	34,588	6,776	22,799	1,790	104,668
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	4,097	168	10,412
Government	3,405	140	749	726	153	5,173
Other commercial*	17,982	6,874	5,349	4,466	867	35,538
Total corporate and commercial	57,306	27,856	23,802	23,912	3,913	136,789
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
Total financial	10,054	2,376	1,247	6,999	218	20,894
At 31 December 1999	106,075	64,820	31,825	53,710	5,921	262,351

* *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, CCF, HSBC Bank Middle East and HSBC Bank USA, by location of the branch responsible for advancing the funds.

18 Debt securities

	2000		1999	
	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	**37,955**	**38,535**	46,843	46,792
— other public sector securities	**3,261**	**3,337**	2,737	2,736
	41,216	**41,872**	49,580	49,528
Other securities				
— government securities and US government agencies	**22,134**		11,740	
— other public sector securities	**545**		274	
	63,895		61,594	
Issued by other bodies				
Investment securities				
— bank and building society certificates of deposit	**13,745**	**13,759**	16,465	16,475
— other debt securities	**31,993**	**32,113**	22,295	22,249
	45,738	**45,872**	38,760	38,724
Other securities				
— bank and building society certificates of deposit	**852**		810	
— other debt securities	**22,333**		8,904	
	68,923		48,474	
	132,818		110,068	
Due within 1 year	**44,731**		48,168	
Due 1 year and over	**88,087**		61,900	
	132,818		110,068	
Amounts include:				
Subordinated debt securities	**584**		101	
Unamortised net discounts on investment securities	**(761)**		(765)	

	2000		1999	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	**US$m**	US$m	US$m
Investment securities				
— listed on a recognised UK exchange	**9,514**	**9,564**	11,195	11,152
— listed in Hong Kong	**795**	**830**	966	984
— listed elsewhere	**40,884**	**41,392**	46,985	46,762
— unlisted	**35,761**	**35,958**	29,194	29,354
	86,954	**87,744**	88,340	88,252
Other securities				
— listed on a recognised UK exchange	**5,309**		2,795	
— listed in Hong Kong	**1,788**		1,072	
— listed elsewhere	**26,923**		13,665	
— unlisted	**11,844**		4,196	
	132,818		110,068	

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

The above market valuations do not take account of transactions entered into to hedge the value of HSBC's investment securities. If the effect of these transactions was included, the market valuation of investment securities would be US$87,665 million (1999: US$88,230 million).

Investment securities:

	Cost	*Provisions*	*Book value*
	US$m	**US$m**	**US$m**
At 1 January 2000	**88,409**	**(69)**	**88,340**
Additions	**107,025**	**—**	**107,025**
Acquisition of subsidiaries	**6,758**	**—**	**6,758**
Disposals and amounts repaid	**(109,235)**	**—**	**(109,235)**
Provisions made	**—**	**(1)**	**(1)**
Amortisation of discounts and premiums	**170**	**—**	**170**
Exchange and other movements	**(6,093)**	**(10)**	**(6,103)**
At 31 December 2000	**87,034**	**(80)**	**86,954**

The book value of investment securities, analysed by type of borrower, is as follows:

Available for sale	**2000**	1999
	US$m	US$m
US Treasury and Government agencies	**18,381**	27,339
UK Government	**3,276**	7,222
Hong Kong SAR Government	**306**	424
Other governments	**12,302**	7,724
Asset-backed securities	**4,497**	4,105
Corporate debt and other securities	**43,754**	36,714
	82,516	83,528

Held-to-maturity	**2000**	1999
	US$m	US$m
US Treasury and Government agencies	**3,690**	4,122
Obligations of US state and political sub-divisions	**718**	678
Corporate debt and other securities	**30**	12
	4,438	4,812

The following table provides an analysis of gross unrealised gains and losses for investment securities by instrument type as at 31 December for the past two years:

Available for sale	*Carrying value*	*Gross unrealised gains*	*Gross unrealised losses*	*Market valuation*
	US$m	**US$m**	**US$m**	**US$m**
31 December 2000				
US Treasury and Government agencies	**18,381**	**347**	**(79)**	**18,649**
UK Government	**3,276**	**7**	**(1)**	**3,282**
Hong Kong SAR Government	**306**	**30**	**—**	**336**
Other governments	**12,302**	**187**	**(46)**	**12,443**
Asset-backed securities	**4,497**	**38**	**(10)**	**4,525**
Corporate debt and other securities	**43,754**	**323**	**(172)**	**43,905**
	82,516	**932**	**(308)**	**83,140**
31 December 1999				
US Treasury and Government agencies	27,339	5	(126)	27,218
UK Government	7,222	2	(34)	7,190
Hong Kong SAR Government	424	20	—	444
Other governments	7,724	99	(17)	7,806
Asset-backed securities	4,105	3	(20)	4,088
Corporate debt and other securities	36,714	74	(94)	36,694
	83,528	203	(291)	83,440
Held-to-maturity				
31 December 2000				
US Treasury and Government agencies	**3,690**	**136**	—	**3,826**
Obligations of US state and political sub-divisions	**718**	**31**	**(1)**	**748**
Corporate debt and other securities	**30**	—	**—**	**30**
	4,438	**167**	**(1)**	**4,604**
31 December 1999				
US Treasury and Government agencies	4,122	—	—	4,122
Obligations of US state and political sub-divisions	678	—	—	678
Corporate debt and other securities	12	—	—	12
	4,812	—	—	4,812

The maturities of investment securities at 31 December 2000 are analysed as follows:

Available for sale	*Book value*	*Market valuation*
	US$m	**US$m**
1 year or less	**32,607**	**32,583**
5 years or less but over 1 year	**28,019**	**28,301**
10 years or less but over 5 years	**6,046**	**6,154**
Over 10 years	**14,923**	**15,181**
No fixed maturity	**921**	**921**
	82,516	**83,140**

Held-to-maturity	*Book value*	*Market valuation*
	US$m	**US$m**
1 year or less	**33**	**33**
5 years or less but over 1 year	**128**	**129**
10 years or less but over 5 years	**801**	**831**
Over 10 years	**3,476**	**3,611**
	4,438	**4,604**

The following table provides an analysis of contractual maturities and weighted average yields of investment debt securities as at 31 December 2000:

	Within one year		*After one but within five years*		*After five but within ten years*		*After ten years*		*No fixed maturity*	
	Amount	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
Available for sale	**US$m**	**%**	**US$m**	**%**	**US$m**	**%**	**US$m**	**%**	**US$m**	**%**
US Treasury and Government agencies	**2,592**	**6.4**	**4,181**	**5.9**	**613**	**6.3**	**10,995**	**7.2**	—	—
UK Government	**2,795**	**4.2**	**481**	**4.6**	—	—	—	—	—	—
Hong Kong SAR Government	**107**	**7.6**	**38**	**6.7**	**161**	**9.4**	—	—	—	—
Other governments	**5,960**	**6.5**	**5,034**	**9.3**	**1,046**	**7.7**	**262**	**9.0**	—	—
Asset-backed securities	**283**	**6.3**	**1,686**	**6.8**	**1,120**	**6.8**	**1,408**	**6.9**	—	—
Corporate debt and other securities	**20,870**	**6.0**	**16,599**	**6.2**	**3,106**	**4.5**	**2,258**	**6.0**	**921**	**5.0**
	32,607		**28,019**		**6,046**		**14,923**		**921**	
Held to maturity										
US Treasury and Government agencies	**11**	**6.8**	**70**	**8.3**	**679**	**7.7**	**2,930**	**7.9**	—	—
Corporate debt and other securities	**22**	**3.5**	**58**	**5.9**	**122**	**5.5**	**546**	**5.9**	—	—
	33		**128**		**801**		**3,476**		—	

The maturity distributions of asset-backed securities are presented in the above table based upon contractual maturity dates. The weighted average yield for each range of maturities in the above table is calculated by dividing the annualised interest income for the year ended 31 December 2000 by the book amount of available for sale debt securities at that date. The yields do not include the effect of related derivatives.

Proceeds from the sale and redemption of investment securities were US$109,300 million (1999: US$90,782 million). Gross realised gains of US$123 million (1999: US$108 million) and gross realised losses of US$58 million (1999: US$55 million) were recorded on those sales. Realised gains and losses are computed using the weighted average cost method. There were no gains or losses recorded on securities transferred from the investment book to the trading book.

The cost of investment securities purchased during the year ended 31 December 2000 was US$107,025 million (1999: US$108,166 million).

19 Equity shares

	2000		1999	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	**US$m**	US$m	US$m
Investment securities				
— listed on a recognised UK exchange	**722**	**1,005**	43	92
— listed in Hong Kong	**270**	**742**	282	915
— listed elsewhere	**1,247**	**1,382**	417	475
— unlisted	**2,399**	**2,644**	779	950
	4,638	**5,773**	1,521	2,432
Other securities				
— listed on a recognised UK exchange	**1,071**		1,515	
— listed in Hong Kong	**228**		138	
— listed elsewhere	**1,953**		1,188	
— unlisted	**214**		116	
	8,104		4,478	

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 within 'Investment securities – listed on a recognised UK exchange' are US$564 million (1999: US$6 million) shares in HSBC Holdings as explained in note 25(a).

Included in the above are 5,871,062 (1999: 3,671,507) shares in HSBC Holdings held by subsidiary undertakings as equity market-makers.

Investment securities:

	Cost	*Provisions*	*Book value*
	US$m	**US$m**	**US$m**
At 1 January 2000	**1,664**	**(143)**	**1,521**
Additions	**1,822**	**—**	**1,822**
Acquisition of subsidiaries	**2,150**	**—**	**2,150**
Disposals	**(1,065)**	**11**	**(1,054)**
Provisions made	**—**	**(14)**	**(14)**
Provisions written off	**(1)**	**1**	**—**
Exchange and other movements	**217**	**(4)**	**213**
At 31 December 2000	**4,787**	**(149)**	**4,638**

The following table provides an analysis of gross unrealised gains and losses as at 31 December for the past two years:

	Carrying value	*Gross unrealised gains*	*Gross unrealised losses*	*Market Valuation*
	US$m	US$m	US$m	US$m
31 December 2000	**4,638**	**1,183**	**(48)**	**5,773**
31 December 1999	1,521	921	(10)	2,432

Proceeds from the sale of investment securities were US$1,259 million (1999: US$586 million). Gross realised gains of US$225 million (1999: US$381 million) and gross realised losses of US$20 million (1999: US$3 million) were recorded on those sales. Realised gains and losses are computed using the weighted average cost method. There were no gains recorded on securities transferred from the investment book to the trading book.

The cost of investment securities purchased during the year ended 31 December 2000 was US$1,822 million (1999: US$210 million).

20 Interests in joint ventures

	2000
	US$m
At 1 January 2000	**—**
Additions	**80**
Acquisition of subsidiaries	**253**
Retained profits and losses (Note 35)	**(41)**
Exchange and other movements	**(9)**
At 31 December 2000	**283**

	2000	1999
	US$m	US$m
(a) Shares in banks	**—**	—
Other	**283**	—
	283	—

All shares are unlisted.

(b) The principal joint ventures of HSBC are:

	Country of incorporation	*Principal activity*	*HSBC's interest in equity capital*	*Issued equity capital*
Merrill Lynch HSBC Limited	England	Commercial banking	50%	US$155m
Framlington Group Limited	England	Asset management	51%	£3m
Loxxia Slibail	France	Leasing	50%	€31m

All of the above interests in joint ventures are owned by subsidiaries of HSBC Holdings. All of the above make their financial statements up to 31 December.

The principal countries of operation are the same as the countries for incorporation, except for Merrill Lynch HSBC Limited which operates in the UK, Australia and Canada.

(c) HSBC's share of total operating income in joint ventures is US$29 million (1999: nil).

HSBC's share of contingent liabilities in joint ventures is US$37million (1999:US$ nil). HSBC's share of commitments by joint ventures is US$98million (1999: US$ nil).

(d) Included within HSBC's share of gross assets of joint ventures is goodwill as follows:

	Cost
	US$m
Goodwill	
As at 1 January 2000	—
Acquisition of subsidiaries	**188**
Exchange and other movements	**2**
Cost at 31 December 2000	**190**

	Accumulated amortisation
	US$m
Accumulated amortisation at 1 January 2000	—
Charge to the profit and loss account	**(4)**
Accumulated amortisation at 31 December 2000	**(4)**
Net book value at 31 December 2000	**186**
Net book value at 31 December 1999	—

Additions represent goodwill arising on the acquisition of Framlington Holdings Limited and Loxxia as part of the acquisition of CCF (Note 25(c)). The goodwill will be amortised over 20 years reflecting its expected useful life.

21 Interests in associates

	2000 US$m
At 1 January 2000	**926**
Additions	**2,628**
Acquisition of subsidiaries	**176**
Transfer to subsidiary status	**(2,606)**
Retained profits and losses (Note 35)	**5**
Amortisation of goodwill	**(11)**
Exchange and other movements	**(33)**
At 31 December 2000	**1,085**

There was no goodwill included in the interests in associates at either 31 December 2000 or 1999.

An interest in 24.3% of CCF's issued share capital was acquired for cash prior to completion of HSBC's offer for all the shares of CCF (Note 25(c)). This was recorded as an interest in associates and transferred to investments in subsidiaries on the successful completion of the offer.

	2000 US$m	1999 US$m
(a) Shares in banks	**820**	669
Other	**265**	257
	1,085	926

	2000 US$m	1999 US$m
Listed shares (all listed outside the United Kingdom and Hong Kong)	**517**	490
Unlisted shares	**568**	436
	1,085	926

(b) The principal associates of HSBC are:

	Financial Statements made up to	*Country of incorporation*	*Principal activity*	*HSBC's interest in equity capital*	*Issued equity capital*
Barrowgate Limited	31.12.00	Hong Kong	Property Investment	25%	*
British Arab Commercial Bank Limited	31.12.00	England	Banking	47%	US$81m £32m fully paid, £5m nil paid
The Cyprus Popular Bank Limited#	31.12.00	Cyprus	Banking	22%	C£90m
Erisa	31.12.00	France	Insurance	50%	FRF400m
Mondex Holdings Limited	31.12.00	England	Electronic cash	50%	†
The Saudi British Bank	31.12.00	Saudi Arabia	Banking	40%	SR1,600m
Wells Fargo HSBC Trade Bank, N.A.	31.12.00	United States	Trade finance	20%	¶
World Finance International Limited	30.6.00	Bermuda	Shipping	50%	US$58m

trading as Laiki Group
* 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 associates are owned by subsidiaries of HSBC Holdings.

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.

(c) The associates 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 HSBC has a 34.62% interest; Barrowgate Limited which has HK$845 million of loan capital in which HSBC has a 25% interest; and The Cyprus Popular Bank Limited which has issued C£15 million of convertible debentures in which HSBC has a 43.5% interest. HSBC also has a 100% interest in the issued preferred stock (less than US$1 million) of Wells Fargo HSBC Trade Bank, N.A. HSBC has a 40% economic interest in Wells Fargo HSBC Trade Bank, N.A. by virtue of the joint agreement under which HSBC's equity capital and preferred stock interests are held.

22 Other participating interests

	2000	1999
	US$m	US$m
Listed other than on a recognised UK exchange or in Hong Kong	**3**	3
Unlisted	**123**	277
	126	280
Market value of listed securities	**8**	6
Other participating interests in banks	**104**	257

	Cost	*Provisions*	*Carrying Value*
	US$m	**US$m**	**US$m**
At 1 January 2000	**311**	**(31)**	**280**
Additions	**2**	**—**	**2**
Disposals	**(152)**	**—**	**(152)**
Provisions made	**—**	**—**	**—**
Exchange and other movements	**(4)**	**—**	**(4)**
At 31 December 2000	**157**	**(31)**	**126**

23 Intangible fixed assets

	Cost
Goodwill	**US$m**
At 1 January 2000	**6,587**
Additions	**9,085**
Exchange and other movements	**(27)**
Cost at 31 December 2000	**15,645**

	Accumulated amortisation
	US$m
Accumulated amortisation at 1 January 2000	**(46)**
Charge to the profit and loss account	**(510)**
Exchange and other movements	**—**
Accumulated amortisation at 31 December 2000	**(556)**

Net book value at 31 December 2000	**15,089**
Net book value at 31 December 1999	6,541

Fair values in respect of the acquisition of Republic New York Corporation and Safra Republic Holdings in 1999 have been revised, resulting in a net increase of US$1 million in goodwill. An increase in provisions in connection with the Princeton Notes matter (Note 43) of US$79 million was offset by the release of deferred tax liabilities no longer required and a number of minor revisions to the valuation of assets and liabilities.

Additions represent goodwill arising on acquisitions of subsidiaries during 2000, and is being amortised over periods of between 5 and 20 years. The goodwill arising on the acquisition of CCF, which took place on 28 July 2000, is being amortised over 20 years (Note 25(c)) reflecting its expected useful life.

24 Tangible fixed assets

(a) *HSBC*

	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 2000	**2,723**	**3,443**	**2,938**	**3,962**	**3,594**	**16,660**
Additions	**110**	**84**	**138**	**862**	**469**	**1,663**
Acquisition of subsidiaries	**614**	**95**	**77**	**223**	**—**	**1,009**
Disposals	**(187)**	**(16)**	**(29)**	**(375)**	**(244)**	**(851)**
Reclassification	**—**	**(3)**	**3**			**—**
Transfer of accumulated depreciation arising on revaluation	**(51)**	**(49)**	**(54)**	**—**	**—**	**(154)**
Impairment of land and buildings	**(8)**	**—**	**—**	**—**	**—**	**(8)**
Surplus on revaluation	**55**	**212**	**130**	**—**	**—**	**397**
Exchange and other movements	**(148)**	**(74)**	**(31)**	**(156)**	**(264)**	**(673)**
Cost or valuation at 31 December 2000	**3,108**	**3,692**	**3,172**	**4,516**	**3,555**	**18,043**
Accumulated depreciation at 1 January 2000	**(32)**	**(1)**	**(482)**	**(2,436)**	**(841)**	**(3,792)**
Disposals	**5**	**—**	**16**	**263**	**186**	**470**
Transfer of accumulated depreciation arising on revaluation	**51**	**49**	**54**	**—**	**—**	**154**
Charge to the profit and loss account	**(60)**	**(51)**	**(118)**	**(599)**	**(245)**	**(1,073)**
Exchange and other movements	**(7)**	**3**	**24**	**133**	**66**	**219**
Accumulated depreciation at 31 December 2000	**(43)**	**—**	**(506)**	**(2,639)**	**(834)**	**(4,022)**
Net book value at 31 December 2000	**3,065**	**3,692**	**2,666**	**1,877**	**2,721**	**14,021**
Net book value at 31 December 1999	2,691	3,442	2,456	1,526	2,753	12,868

* *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$742 million (1999: US$710 million).*

(b) *HSBC Holdings*

	Freehold land and buildings	*Equipment, fixtures and fittings*	*Total*
	US$m	**US$m**	**US$m**
Cost or valuation at 1 January 2000	**7**	**4**	**11**
Additions	**—**	**1**	**1**
Disposals	**—**	**(1)**	**(1)**
Surplus on revaluation	**1**	**—**	**1**
Exchange and other movements	**(1)**	**—**	**(1)**
Cost or valuation at 31 December 2000	**7**	**4**	**11**
Accumulated depreciation at 1 January 2000	**—**	**(1)**	**(1)**
Disposals	**—**	**1**	**1**
Charge to the profit and loss account	**—**	**(1)**	**(1)**
Accumulated depreciation at 31 December 2000	**—**	**(1)**	**(1)**
Net book value at 31 December 2000	**7**	**3**	**10**
Net book value at 31 December 1999	7	3	10

(c) *Valuations*

	HSBC		*HSBC Holdings*	
	2000	1999	**2000**	1999
	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 2000 valuation (1999: at 1999 valuation)	**6,783**	6,513	**7**	7
At cost	**2,630**	2,068	**—**	—
	9,413	8,581	**7**	7
On the historical cost basis, freehold and long and short leasehold land and buildings would have been included as follows (excluding investment properties):				
Cost	**7,671**	6,933	**—**	—
Accumulated depreciation	**(1,356)**	(1,219)	**—**	—
	6,315	5,714	**—**	—

HSBC values its non-investment properties on an annual basis. In November 2000, except as noted below, HSBC'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. 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$385 million (1999: increase US$393 million). A surplus of US$357 million (net of minority interest of US$28 million) (1999: surplus of US$371 million, net of minority interest of US$22 million) was credited to reserves at 31 December 2000.

The property of HSBC Holdings was also valued by an independent, professionally qualified valuer on an existing use basis. The surplus on revaluation of US$1 million has been credited to reserves at 31 December 2000 (1999: surplus US$2 million).

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 2000	**749**	**(442)**
Additions	**22**	**—**
Acquisition of subsidiaries	**1**	**—**
Disposals	**(1)**	**—**
Charge for the year	**—**	**(16)**
Exchange and other movements	**(144)**	**—**
At 31 December 2000	**627**	**(458)**
Net book value at 31 December 2000 (1999: US$307 million)	**169**	

(d) *Investment properties*

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

	2000		1999	
	At valuation	*At cost*	*At valuation*	*At cost*
	US$m	**US$m**	US$m	US$m
Freehold land and buildings	**53**	**53**	43	43
Short and long leasehold land and buildings	**506**	**154**	480	154
	559	**207**	523	197

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 HSBC's properties subject to revaluation, were valued by HSBC Property (Asia) Limited, a subsidiary of HSBC. 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 increased by US$12 million (1999: deficit of US$70 million). A surplus of US$6 million, net of minority interests of US$6 million, has been credited to reserves at 31 December 2000.

HSBC Holdings had no investment properties at 31 December 2000 or 1999.

(e) *HSBC properties leased to customers*

HSBC properties leased to customers, none of which was held by HSBC Holdings, included US$518 million at 31 December 2000 (1999: US$484 million) let under operating leases, net of accumulated depreciation of US$32 million (1999: US$18 million).

(f) *Land and buildings occupied for own activities*

	2000	1999
	US$m	US$m
Net book value	**7,961**	7,155

The property owned by HSBC Holdings was occupied by another HSBC company at 31 December 2000 and 1999.

25 Investments

(a) HSBC Holdings

	Shares in HSBC undertakings	*Loans to HSBC undertakings*	*Other investments other than loans*	*Own shares*	*Total*
	US$m	**US$m**	**US$m**	**US$m**	**US$m**
At 1 January 2000	**32,079**	**7,033**	**—**	**6**	**39,118**
Additions	**20,432**	**1,913**	**253**	**566**	**23,164**
Repayments and redemptions	**—**	**(3,540)**	**—**	**(2)**	**(3,542)**
Amortisation	**—**	**—**	**—**	**(4)**	**(4)**
Transfers (to)/from other HSBC companies	**(15,937)**	**—**	**36**	**(2)**	**(15,903)**
Write-up of subsidiary undertakings to net asset value, including attributable goodwill (Note 35)	**9,821**	**—**	**—**	**—**	**9,821**
At 31 December 2000	**46,395**	**5,406**	**289**	**564**	**52,654**

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

Included within 'Own shares' are:

(i) US$10 million, after amortisation, of HSBC Holdings' own shares (1999: US$6 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 116 and 117. At 31 December 2000, the trust held 2,030,652 ordinary shares (1999: 1,315,989 ordinary shares) of US$0.50 each with a market value at that date of US$29,840,868 (1999: US$18,356,295) in respect of these conditional awards.

(ii) US$554 million of HSBC Holdings' own shares (1999: US$ nil) held in trust which may be used in respect of the exercise of share options. At 31 December 2000, the trust held 39,838,800 ordinary shares (1999: nil ordinary shares) of US$0.50 each with a market value of US$585,439,731 (1999: US$ nil) in respect of these option holders.

In addition, HSBC Holdings' own shares were held in trust by other HSBC group companies for the purposes of conditional awards under the Restricted Share Plan. At 31 December 2000, such trusts held 1,890,733 shares (1999:768,942) of nominal value US$0.50 with a market value at that date of US$27,784,727 (1999: US$10,720,467).

HSBC Holdings' own shares are included within 'Equity Shares' (Note 19) in the Consolidated Balance Sheet.

	2000	1999
	US$m	US$m
On the historical cost basis, shares in HSBC undertakings would have been included as follows:		
Cost less provisions of US$170 million (1999: US$170 million)	**37,929**	26,270

(b) The principal subsidiary undertakings of HSBC Holdings are:

	Country of incorporation or registration	*Principal activity*	*Issued equity capital*
Europe			
Crédit Commercial de France S.A. (99.98% owned)	France	Banking	€374m
HSBC Asset Finance (UK) Limited	England	Finance	£265m
HSBC Bank Malta p.l.c. (70.03% owned)	Malta	Banking	Lm9m
HSBC Bank Middle East	England	Banking	US$331m
HSBC Bank plc (directly owned)	England	Banking	£797m
HSBC Guyerzeller Bank AG (95.81% owned)[1]	Switzerland	Banking	SFr5m
HSBC Insurance Brokers Limited	England	Insurance	£3m
HSBC Investment Bank plc	England	Investment banking	£205m
HSBC Life (UK) Limited[2]	England	Insurance	£14m
HSBC Republic Bank (Guernsey) Limited[2]	Guernsey	Private banking	US$5m[3]
HSBC Republic Bank (Suisse) S.A	Switzerland	Private banking	SFr437m
HSBC Republic Bank (UK) Limited (formerly Samuel Montagu & Co. Limited)	England	Private banking	£112m
HSBC Trinkaus & Burkhardt KgaA (partnership limited by shares, 73.47% owned)	Germany	Banking	€67m
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 Insurance (Asia) Limited	Hong Kong	Insurance	HK$125m
HSBC Investment Bank Asia Limited	Hong Kong	Investment banking	HK$770m
HSBC Life (International) Limited	Bermuda	Retirement benefits and life assurance	HK$27m
Wayfoong Finance Limited	Hong Kong	Finance	HK$300m
Rest of Asia-Pacific			
Egyptian British Bank S.A.E (90.56% owned)	Egypt	Banking	E£101m
HSBC Bank Australia Limited	Australia	Banking	A$560m
HSBC Bank Malaysia Berhad	Malaysia	Banking	RM$114m

1 Indirect minority interest through HSBC Trinkaus & Burkhardt KgaA
2 Negligible minority interest of less than 0.01%
3 HSBC also owns 100% of the issued redeemable preference share capital of US$17 million

	Country of incorporation or registration	*Principal activity*	*Issued equity capital*
North America			
HSBC Bank Canada (99.99% owned)	Canada	Banking	C$935m
HSBC Bank USA	United States	Banking	US$205m
HSBC Securities (USA) Inc	United States	Investment banking	—[4]
HSBC USA Inc	United States	Holding company	—[4]
Latin America			
HSBC Bank Argentina S.A (99.92% owned)	Argentina	Banking	ARS237m
HSBC Bank Brasil S.A. – Banco Múltiplo	Brazil	Banking	BRL912m
HSBC Seguros (Brasil) S.A. (99.75% owned)	Brazil	Insurance	BRL244m
La Buenos Aires Compañia Argentina de Seguros S.A. (99.32% owned)	Argentina	Insurance	ARS43m
Máxima S.A. AFJP (55.74% owned)	Argentina	Pension fund management	ARS87m[5]

4 *issued equity capital is less than US$1 million*
5 *HSBC has a 60% economic interest in Maxima S.A. AFJP .*

Details of all HSBC companies will be annexed to the next Annual Return of HSBC Holdings filed with the UK Registrar of Companies.

Except where indicated otherwise, the issued equity capital of the above undertakings is wholly-owned by HSBC and is held by subsidiaries of HSBC Holdings. All the above make their financial statements up to 31 December except for HSBC Bank Argentina S.A., La Buenos Aires Compañia Argentina de Seguros S.A. and Maxima S.A. AFJP, whose financial statements 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*

HSBC made the following acquisitions of subsidiary undertakings or net assets and operations in 2000, which were accounted for on an acquisition basis:

CCF

On 10 October 2000, HSBC Holdings plc completed its acquisition of 100 per cent of the issued share capital of Crédit Commercial de France (‘CCF’), having acquired 20.65 per cent on 6 June 2000, 3.61 per cent on 13 June 2000, and subsequently increasing its stake to 98.59 per cent on 28 July 2000. The total consideration of US$12,509 million comprised cash of US$3,319 million, shares of US$8,629 million, deferred consideration amounting to US$498 million and contingent consideration amounting to US$63 million. The deferred consideration relates to outstanding CCF share options under which one CCF share is exchangeable for 13 HSBC ordinary shares. The contingent consideration relates to options over 445,000 CCF shares granted in 1996, under which any CCF shares issued will be sold to HSBC on 28 September 2001 for a price consistent with the basis of the cash price paid to acquire other CCF shares, to be determined in accordance with a formula which will take into account an average of CCF’s gross operating profits over the last eight consecutive quarters to 30 June 2001. Following the exercise of CCF share options in respect of shares which have not yet been exchanged for HSBC ordinary shares, HSBC has an effective interest of 99.98 per cent. Goodwill of US$9,084 million arose on this acquisition. The fair values of the assets and liabilities acquired have been determined only on a provisional basis at 31 December 2000 pending completion of the fair value appraisal process.

Pre-acquisition profit after tax and minority interests for CCF for the period ended 28 July 2000 was US$317 million (full year 1999: US$478 million), determined under French generally accepted accounting principles.

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

CCF	*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	**2,869**	—	**—**	**2,869**
Items in course of collection from other banks	**1,490**	—	**—**	**1,490**
Treasury bills and other eligible bills	**1,831**	—	**—**	**1,831**
Loans and advances to banks	**15,492**	**(26)**	**1,166**	**16,632**
Loans and advances to customers	**26,069**	**(45)**	**(1,976)**	**24,048**
Debt securities	**14,026**	**1**	**212**	**14,239**
Equity shares	**2,878**	**340**	**(2)**	**3,216**
Intangible fixed assets	**199**	**(199)**	**—**	—
Tangible fixed assets	**774**	**194**	**(6)**	**962**
Interests in joint ventures	—	**139**	**114**	**253**
Interest in associates	**135**	**34**	—	**169**
Other asset categories	**5,453**	**410**	**(105)**	**5,758**
Deposits by banks	**(23,892)**	—	**47**	**(23,845)**
Customer accounts	**(23,688)**	—	**2**	**(23,686)**
Items in the course of transmission to other banks	**(1,179)**	—	**—**	**(1,179)**
Debt securities in issue	**(11,516)**	—	**348**	**(11,168)**
Negative goodwill	**(47)**	**47**	—	—
Provisions for liabilities and charges	**(463)**	**(168)**	**58**	**(573)**
Subordinated liabilities	**(860)**	—	**—**	**(860)**
Other liability categories	**(6,281)**	**(453)**	**86**	**(6,648)**
	3,290	**274**	**(56)**	**3,508**
Less: minority interests – equity	**(126)**	—	**43**	**(83)**
Net assets acquired	**3,164**	**274**	**(13)**	**3,425**
Goodwill attributable:				
— subsidiaries (Note 23)				**8,896**
— joint ventures (Note 20(d))				**188**
				9,084
Total consideration including costs of acquisition				**12,509**

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

(a) Revaluations, reflecting the recognition of:

- the fair value of financial instruments acquired;
- additional taxation and other liabilities;
- the market value of acquired properties; and
- write-off of goodwill previously recognised on the acquired companies' balance sheets.

(b) Accounting policy alignments reflecting:

- certain entities are treated as subsidiaries under French GAAP but treated as joint ventures under UK GAAP;
- certain other entities are equity accounted under French GAAP but fully consolidated under UK GAAP; and
- HSBC's criteria for recognising deferred tax.

Other acquisitions

i. On 1 August 2000, HSBC Bank USA, a wholly owned subsidiary of HSBC, acquired the branch operations in Panama of The Chase Manhattan Bank for a cash consideration of US$115 million. Goodwill of US$60 million arose on this acquisition.

ii. On 5 October 2000, HSBC Bank Argentina S.A., a 99.92 per cent owned subsidiary of HSBC, acquired the credit card portfolio of Banco Liniers Sudamericano for cash consideration of US$18 million. Goodwill of US$2 million arose on this acquisition.

iii. On 25 October 2000, HSBC Holdings BV increased its stake in Egyptian British Bank S.A.E. from 39.67 per cent to 90.56 per cent for cash consideration of US$140 million. Goodwill of US$106 million arose on this acquisition.

iv On 29 December 2000, The Hongkong and Shanghai Banking Corporation Limited, a 100 per cent owned subsidiary of HSBC, acquired 100 per cent of the share capital of PCIB Savings Bank for cash consideration of US$22 million. Goodwill of US$8 million arose on this acquisition.

v On 7 December 2000, HSBC Bank Brasil - Banco Múltiplo increased its stake in HSBC Seguros (Brasil) S.A.'s issued ordinary share capital from 99.66 per cent to 99.75 per cent, and its stake in preference share capital from 81.63 per cent to 93.80 per cent, for a cash consideration of US$9 million, on which goodwill of US$1 million arose. This acquisition is not included in the table below because it represents an increase in stake in an existing subsidiary undertaking.

vi During the first half of the year, HSBC Holdings plc increased its stake in HSBC Republic Holdings (Luxembourg) S.A. from 99.38% to 99.99% for a cash consideration of US$32 million on which goodwill of US$22 million arose. This acquisition is not included in the table below because it represented an increase in stake in an existing subsidiary undertaking.

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	**244**	**—**	—	**244**
Items in course of collection from other banks	**8**	**—**	—	**8**
Treasury bills and other eligible bills	**151**	**(1)**	—	**150**
Loans and advances to banks	**281**	**—**	—	**281**
Loans and advances to customers	**1,062**	**4**	—	**1,066**
Debt securities	**94**	**(3)**	—	**91**
Interests in associated undertakings	**7**	**—**	—	**7**
Tangible fixed assets	**36**	**11**	—	**47**
Other asset categories	**34**	**—**	**(3)**	**31**
Deposits by banks	**(437)**	**—**	—	**(437)**
Customer accounts	**(1,257)**	**—**	—	**(1,257)**
Debt securities in issue	**(27)**	**—**	—	**(27)**
Provisions for liabilities and charges	**(13)**	**(1)**	—	**(14)**
Subordinated liabilities	—	**—**	—	—
Other liability categories	**(39)**	**—**	—	**(39)**
	144	**10**	**(3)**	**151**
Less: minority interests – equity	**(6)**	—	—	**(6)**
Less: carrying value of HSBC's existing interest in Egyptian British Bank S.A.E. (note iii above)	**(26)**	—	—	**(26)**
Net assets acquired	**112**	**10**	**(3)**	**119**
Goodwill (Note 23)				**176**
Total consideration including costs of acquisition				**295**

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

(a) Revaluations, reflecting the recognition of:

- — the fair value of financial instruments acquired; and
- — the market value of acquired properties.

(b) Accounting policy alignments reflecting HSBC's criteria for the recognition of capitalised costs.

26 Other assets

	2000	1999
	US$m	US$m
Bullion	**837**	865
Assets, including gains, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked to market	**16,106**	13,168
Current taxation recoverable	**80**	130
Deferred taxation (Note 31)	**340**	299
Long-term assurance assets attributable to policyholders (Note 30)	**8,963**	9,362
Other accounts	**9,236**	5,539
	35,562	29,363

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

	2000	1999
	US$m	US$m
Loans and advances to banks — with HSBC companies	**458**	251
Debt securities	**3,245**	3,036
Equity shares	**3,569**	4,002
Other assets	**1,965**	2,188
Prepayments and accrued income	**55**	49
Other liabilities	**(329)**	(164)
	8,963	9,362

Included in the above are 7,913,880 (1999: 7,687,531) shares in HSBC Holdings held by subsidiary undertakings, as part of their long-term assurance and retirement funds for the benefit of the policyholders.

27 Deposits by banks

	2000	1999
	US$m	US$m
Repayable on demand	**16,154**	13,353
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**36,909**	19,972
— 1 year or less but over 3 months	**4,992**	3,769
— 5 years or less but over 1 year	**1,433**	771
— over 5 years	**565**	238
	60,053	38,103
Due to associates	**123**	96
Due to other participating interests	**—**	4

The composition of deposits by banks on a geographical basis is set out below:

	2000			1999		
	Interest-bearing	*Non interest-bearing*	*Total*	*Interest-bearing*	*Non interest-bearing*	*Total*
	US$m	**US$m**	**US$m**	US$m	US$m	US$m
Europe	**36,490**	**7,398**	**43,888**	19,472	3,970	23,442
Hong Kong	**1,880**	**340**	**2,220**	3,658	188	3,846
Rest of Asia-Pacific	**3,576**	**504**	**4,080**	3,009	8	3,017
North America	**6,370**	**851**	**7,221**	4,745	1,714	6,459
Latin America	**2,300**	**344**	**2,644**	1,312	27	1,339
	50,616	**9,437**	**60,053**	32,196	5,907	38,103

The geographical analysis of deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies.

28 Customer accounts

	2000	1999
	US$m	US$m
Repayable on demand	**182,582**	158,953
With agreed maturity dates or periods of notice, by remaining maturity:		
— 3 months or less but not repayable on demand	**207,101**	175,803
— 1 year or less but over 3 months	**27,867**	17,580
— 5 years or less but over 1 year	**8,229**	6,218
— over 5 years	**1,290**	1,418
	427, 069	359, 972
Amounts include:		
Due to joint ventures	**869**	—
Due to associates	**31**	21

The composition of customer accounts on a geographical basis is set out below:

	2000			1999		
	Interest-bearing	*Non interest-bearing*	*Total*	*Interest-bearing*	*Non interest-bearing*	*Total*
	US$m	**US$m**	**US$m**	US$m	US$m	US$m
Europe	**133,557**	**25,948**	**159,505**	113,208	16,029	129,237
Hong Kong	**140,754**	**5,640**	**146,394**	125,973	5,111	131,084
Rest of Asia-Pacific	**37,883**	**4,633**	**42,516**	33,379	3,623	37,002
North America	**60,638**	**7,751**	**68,389**	48,268	6,732	55,000
Latin America	**8,523**	**1,742**	**10,265**	6,831	818	7,649
	381,355	**45,714**	**427,069**	327,659	32,313	359,972

The geographical analysis of deposits is based on the location of the office in which the deposits are recorded and excludes balances with HSBC companies.

29 Debt securities in issue

	2000 US$m	1999 US$m
Bonds and medium-term notes, by remaining maturity:		
— within 1 year	**3,196**	2,750
— between 1 and 2 years	**2,259**	1,490
— between 2 and 5 years	**3,611**	2,830
— over 5 years	**1,530**	401
	10,596	7,471
Other debt securities in issue, by remaining maturity:		
— 3 months or less	**8,818**	11,614
— 1 year or less but over 3 months	**3,062**	9,686
— 5 years or less but over 1 year	**4,443**	3,451
— over 5 years	**1,037**	1,558
	27,956	33,780

30 Other liabilities

	2000 US$m	1999 US$m
Short positions in securities:		
Treasury bills and other eligible bills	**1,718**	2,821
Debt securities		
— government securities	**17,102**	10,419
— other public sector securities	**617**	111
— other debt securities	**2,030**	575
Equity shares	**1,573**	1,011
	23,040	14,937
Liabilities, including losses, resulting from off-balance-sheet interest rate, exchange rate and equities contracts which are marked-to-market	**17,201**	14,055
Current taxation	**1,448**	1,461
Obligations under finance leases	**364**	325
Dividend payable by HSBC Holdings	**2,627**	1,754
Long-term assurance liabilities attributable to policyholders (Note 26)	**8,963**	9,362
Other liabilities	**9,471**	17,690
	63,114	59,584
Obligations under finance leases fall due as follows:		
— within 1 year	**39**	27
— between 1 and 5 years	**46**	23
— over 5 years	**279**	275
	364	325

31 Provisions for liabilities and charges

(a) *Deferred taxation*

	HSBC US$m	*HSBC Holdings* US$m
At 1 January 2000	**1,089**	**289**
Credit to profit and loss account (Note 7)	**(78)**	**(92)**
Exchange and other movements	**(100)**	**(24)**
At 31 December 2000	**911**	**173**

	HSBC		*HSBC Holdings*	
	2000 US$m	1999 US$m	**2000** US$m	1999 US$m
Included in 'Provisions for liabilities and charges'	**1,251**	1,388	**173**	289
Included in 'Other assets' (Note 26)	**(340)**	(299)	**—**	—
Net deferred taxation provision	**911**	1,089	**173**	289
Comprising:				
Short-term timing differences	**155**	12	**—**	—
Leasing transactions	**965**	1,068	**—**	—
Relief for tax losses	**(64)**	(32)	**—**	—
Provision for additional UK tax on profit remittances from overseas	**120**	204	**120**	204
Other items	**(265)**	(163)	**53**	85
	911	1,089	**173**	289

There is no material deferred taxation liability not provided for.

(i) The distribution of the reserves of certain subsidiary undertakings, joint ventures and associates 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$120 million remained at 31 December 2000 (1999: US$204 million).

(ii) 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 HSBC'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.

(iii) At 31 December 2000, there were potential future tax benefits of approximately US$350 million (1999: US$520 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 sufficiently certain.

(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 2000	**672**	**387**	**1,067**	**794**	**2,920**
Additional provisions/increase in provisions *	**60**	**71**	**365**	**227**	**723**
Acquisition of subsidiaries	**183**	**—**	**—**	**112**	**295**
Provisions utilised	**(43)**	**(50)**	**(204)**	**(213)**	**(510)**
Exchange and other movements	**(40)**	**120**	**(65)**	**(111)**	**(96)**
At 31 December 2000	**832**	**528**	**1,163**	**809**	**3,332**

* *The increase in 'other provisions' includes unwinding of discounts of US$7 million(1999: US$11 million) in relation to vacant space provisions and US$27 million(1999: 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$143 million (1999: 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. This caption also includes US$79 million in connection with the Princeton Notes matter (Note 43) (1999: nil).

Included within 'Other provisions' are:

(i) Provisions for onerous property contracts of US$225 million (1999: US$298 million), of which US$127 million (1999: US$184 million) relates to discounted future costs associated with leasehold properties that will become vacant as a consequence of HSBC'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$331 million (1999: 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.

32 Subordinated liabilities

	2000 US$m	1999 US$m
Undated subordinated loan capital:		
— HSBC Holdings	—	—
— Other HSBC	3,546	3,235
	3,546	3,235
Dated subordinated loan capital:		
— HSBC Holdings	2,860	2,615
— Other HSBC	9,816	9,573
	12,676	12,188
Total subordinated liabilities:		
— HSBC Holdings	2,860	2,615
— Other HSBC	13,362	12,808
	16,222	15,423
Dated subordinated loan capital is repayable:		
— Within 1 year	953	487
— Between 1 and 2 years	1,401	819
— Between 2 and 5 years	2,263	3,011
— Over 5 years	8,059	7,871
	12,676	12,188

The total subordinated borrowings of HSBC Holdings are as follows:		**2000 US$m**	1999 US$m
Amounts owed to third parties:			
US$1,000m	7.5% subordinated notes 2009	**999**	999
£413m	11.69% subordinated bonds 2002	**617**	668
£250m	9.875% subordinated bonds 2018	**367**	397
US$350m	Subordinated step-up coupon floating rate notes 2010[1]	**348**	—
€300m	5.5% subordinated notes 2009	**279**	301
US$250m	Subordinated collared floating rate notes 2008	**250**	250
		2,860	2,615
Amounts owed to HSBC undertakings:			
US$1,350m	9.547% subordinated step-up cumulative notes 2040 — HSBC Capital Funding (Dollar 1) LP[2]	**1,350**	—
US$900m	10.176% subordinated step-up cumulative notes 2040 — HSBC Capital Funding (Dollar 1) LP[2]	**900**	—
£500m	8.208% subordinated step-up cumulative notes 2040 — HSBC Capital Funding (Sterling 1) LP[2]	**746**	—
€600m	8.03% subordinated step-up cumulative notes 2040 — HSBC Capital Funding (Euro 1) LP[2]	**558**	—
US$350m	7.525% subordinated loan 2003 — HSBC Finance Nederland B.V.	**349**	349
		3,903	349
		6,763	2,964
HSBC Holdings' dated subordinated loan capital is repayable:			
— between 1 and 2 years		**617**	—
— between 2 and 5 years		**349**	1,017
— over 5 years		**5,797**	1,947
		6,763	2,964

1 *The proceeds of the issue were used in connection with the acquisition of Safra Republic Holdings*

2 *The proceeds of the issue were for the purpose of financing the purchase of Republic New York Corporation, Safra Republic Holdings and Crédit Commercial de France, and otherwise for general corporate purposes and augmenting the capital base of HSBC.*

At 31 December 2000, the other HSBC subordinated borrowings were as follows:

		2000 US$m	1999 US$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
£300m	6.5% subordinated notes 2023[3]	**448**	319
US$400m	8.625% subordinated notes 2004	**400**	398
HK$3,000m	Subordinated collared (7% to 9%) floating rate notes 2003	**385**	386
US$375m	Subordinated step-up coupon floating rate notes 2009	**375**	372
£250m	Subordinated unsecured floating rate notes 2001	**373**	404
US$350m	7.4% subordinated guaranteed notes 2003	**350**	350
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
£200m	9% subordinated notes 2005	**298**	323
US$300m	7% fixed rate subordinated notes 2006	**298**	298
US$250m	7.25% subordinated notes 2002	**249**	249
£150m	9.25% step-up undated subordinated notes	**224**	242
£150m	8.625% step-up undated subordinated notes	**224**	242
£150m	Subordinated step-up coupon floating rate notes 2007	**224**	242
£150m	6.25% subordinated notes 2041[3]	**224**	—
¥24.8bn	Fixed rate (5.0% to 5.5%) subordinated loans 2004	**216**	242
US$250m	7.125% subordinated debentures 2997	**—**	220
US$250m	5.875% subordinated notes 2008	**223**	219
US$250m	7.20% subordinated debentures 2097	**214**	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	**200**	200
US$200m	Floating rate subordinated notes 2000	**—**	200
Other subordinated liabilities less than US$200m		**4,187**	3,438
		13,362	12,808

[3] *The proceeds from the issue of new notes by HSBC Bank plc were used in connection with its acquisition of CCF and its increased holding in HSBC Private Banking Holdings (Suisse) S.A.*

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%.

33 Minority interests — non-equity

Preference shares issued by subsidiaries:

		2000 US$m	1999 US$m
US$1,350m	9.547% Non-cumulative Step-up Perpetual Preferred Securities, Series 1	**1,335**	—
US$900m	10.176% Non-cumulative Step-up Perpetual Preferred Securities, Series 2	**889**	—
£500m	8.208% Non-cumulative Step-up Perpetual Preferred Securities	**737**	—
€600m	8.03% Non-cumulative Step-up Perpetual Preferred Securities	**552**	—
US$1m	Non-cumulative preference shares[1]	**873**	870
US$150m	Depositary shares each representing 25% interest in a share of adjustable rate cumulative preferred stock, Series D[2]	**150**	150
US$150m	Cumulative preferred stock[3]	**150**	150
US$125m	Dutch auction rate transferable securities preferred stock, Series A and B[4]	**125**	125
US$125m	7.20% Series A cumulative preference shares[5]	**125**	125
CAD125m	Non-cumulative redeemable class 1 preferred shares, Series A	**81**	—
DM105m	6.35% Series B cumulative preference shares	**71**	77
US$75m	Cumulative preferred stock	**75**	75
	Other issues	**8**	11
		5,171	1,583

Step-up Perpetual Preferred Securities

The four issues of Non-cumulative Step-up Perpetual Preferred Securities were issued by Jersey limited partnerships and are guaranteed, on a subordinated basis, by HSBC Holdings. The proceeds of the issue were on-lent to HSBC Holdings by the limited partnerships by issue of subordinated notes. The Preferred Securities qualify as innovative tier 1 capital for HSBC. The Preferred Securities, together with the guarantee, are intended to provide investors with rights to income and capital distributions and distributions upon liquidation of HSBC Holdings that are equivalent to the rights they would have had if they had purchased non-cumulative perpetual preference shares of HSBC Holdings.

The Preferred Securities are perpetual, but redeemable in 2010, 2030, 2015 and 2012, respectively, at the option of the general partners of the limited partnerships. If not redeemed the distributions payable step-up and become floating rate. There are limitations on the payment of distributions if prohibited under UK banking regulations or other requirements, if a payment would cause a breach of HSBC's capital adequacy requirements, or if HSBC Holdings has insufficient distributable reserves (as defined).

HSBC Holdings has covenanted that if it has been prevented under certain circumstances from paying distributions on the Preferred Securities in full, it will not pay dividends or other distributions in respect of its ordinary shares, or effect repurchase or redemption of its ordinary shares, until after a distribution has been paid in full.

If i) HSBC's total capital ratio falls below the regulatory minimum ratio required, or ii) in view of the deteriorating financial condition of HSBC Holdings, the Directors expect i) to occur in the near term, then the Preferred Securities will be substituted by Preference Shares of HSBC Holdings having economic terms which are in all material respects equivalent to those of the Preference Securities and the guarantee taken together.

1 Non-cumulative preference shares

The preference shares are redeemable at the option of HSBC Bank plc at an aggregate amount of US$875 million plus, for redemptions of certain series of shares at various dates prior to 26 October 2005, an additional premium not exceeding US$25 million.

2 Adjustable rate cumulative preferred stock, Series D

The preferred stock is redeemable, at the option of HSBC USA Inc, in whole or in part on or after 1 July 1999 at par.

3 Cumulative preferred stock

The preferred stock is redeemable at the option of HSBC USA Inc., in whole or in part, at any time on or after 1 October 2007 at par.

4 Dutch auction rate transferable securities preferred stock, Series A and B

The preferred stock of each series is redeemable at the option of HSBC USA Inc., in whole or in part, on any dividend payment date at par.

5 7.20% Series A cumulative preference shares

The preference shares are redeemable at the option of HSBC Republic Holdings (Luxembourg) S.A. in whole but not in part on any dividend date falling on or after 30 April 2003 at an aggregate amount of US$125 million.

The redemption of all preference shares is subject to the prior consent of the FSA and the relevant local banking regulator.

34 Called up share capital

Authorised:

The authorised ordinary share capital of HSBC Holdings at 31 December 2000 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 HSBC Holdings 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 HSBC Holdings 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.

At 31 December 2000, the authorised preference share capital of HSBC Holdings was 10 million non-cumulative preference shares of £0.01 each,10 million non-cumulative preference shares of US$0.01 each, and 10 million non-cumulative preference shares of euro 0.01 each.

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

	Number of US$0.50 shares	US$m
Issued:		
At 1 January 2000	**8,458,101,569**	**4,230**
Shares issued to QUEST	**33,749,569**	**16**
Shares issued under other option schemes	**22,307,960**	**11**
Shares issued in lieu of dividends	**75,867,497**	**38**
Shares issued on acquisition of CCF	**678,173,769**	**339**
At 31 December 2000	**9,268,200,364**	**4,634**

	Number of HK$10 shares	*Number of 75p shares*	*Number of US$0.50 shares*	US$m
Issued:				
At 1 January 1999	1,816,108,390	882,949,598	—	3,443
Shares issued to QUEST	—	—	19,564,285	10
Shares issued under other option schemes	—	842,995	12,199,762	7
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
Issued:				
At 1 January 1998	1,801,612,569	874,130,350	—	3,406
Shares issued under option schemes	—	2,427,043	—	3
Shares issued in lieu of dividends	14,495,821	6,392,205	—	27
Exchange movements	—	—	—	7
At 31 December 1998	1,816,108,390	882,949,598	—	3,443

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

Options outstanding to subscribe for HSBC Holdings' ordinary shares under HSBC's Group, Executive, and Savings-Related Share Option Schemes and in respect of 1998 and 1997, HSBC Bank plc's Executive and Savings-Related Share Option Schemes are as follows:

	Number of shares			
	US$0.50	*75p*	*Period of exercise*	*Exercise price*
31 December 2000	**231,746,943**	**—**	**2001 to 2010**	**£1.806 to £9.642**
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

Following the acquisition of Crédit Commercial de France S.A., outstanding options over Crédit Commercial de France S.A. shares granted to employees between 1994 and 1999 (at nil consideration) have vested. Options granted over Crédit Commercial de France S.A. shares in 2000 (for nil consideration) will, subject to continued employment with Crédit Commercial de France S.A., vest on 1 January 2002. On exercise of the options, the Crédit Commercial de France S.A. shares are exchangeable for HSBC Holdings plc ordinary shares of US$0.50 each in the same ratio as for the acquisition of Crédit Commercial de France S.A. (13 HSBC Holdings shares for each Crédit Commercial de France S.A. share). A total of 12,400 Crédit Commercial de France S.A. employee share options were exercised and exchanged for 161,200 ordinary shares of US$0.50 each during 2000. A further 15,500 Crédit Commercial de France S.A. employee share options were exercised during the year and will be exchanged for ordinary shares of US$0.50 each on the fifth anniversary of the award of the options. 3,645,625 Crédit Commercial de France S.A. employee share options remained outstanding at 31 December 2000. HSBC Holdings General Employee Benefit Trust held 39,838,800 ordinary shares of US$0.50 each which may be exchanged for Crédit Commercial de France S.A. shares arising from the exercise of options.

CCF options, effectively outstanding on HSBC shares under this arrangement, and the effective exercise period and price are as follows:

	Number of CCF shares	*Period of exercise*	*Exercise price*
31 December 2000	**3,645,625**	**2001 to 2010**	**€32.78 - €142.5**

35 Reserves

	HSBC US$m	*HSBC Holdings* US$m	*Associates* US$m
Share premium account:			
— At 1 January 2000	**2,882**	**2,882**	—
Shares issued to QUEST	**372**	**372**	**—**
Shares issued under other option schemes	**89**	**89**	**—**
Shares issued in lieu of dividends	**(38)**	**(38)**	**—**
At 31 December 2000	**3,305**	**3,305**	**—**
Other reserves:			
— Reserve in respect of obligations under CCF share options:			
At 1 January 2000	**—**	**—**	**—**
On acquisition of CCF	**498**	**498**	**—**
On exercise of CCF share options	**(2)**	**(2)**	
At 31 December 2000	**496**	**496**	
— Merger reserve:			
At 1 January 2000	**—**	**—**	**—**
On acquisition of CCF	**8,290**	**—**	**—**
At 31 December 2000	**8,290**	**—**	**—**
Total other reserves	**8,786**	**496**	**—**
Revaluation reserves:			
— Investment property revaluation reserve:			
At 1 January 2000	**273**	**—**	**46**
Unrealised surplus on revaluation of land and buildings	**14**	**—**	**8**
Transfer from revaluation reserve	**8**	**—**	**—**
Realisation on disposal of properties	**(4)**	**—**	**—**
Exchange and other movements	**(2)**	**—**	**(1)**
At 31 December 2000	**289**	**—**	**53**
— Revaluation reserve:			
At 1 January 2000	**2,069**	**21,874**	**5**
Realisation on disposal of properties	**(36)**	**—**	**—**
Unrealised surplus on revaluation of properties	**361**	**1**	**4**
Transfer of depreciation from profit and loss account reserve	**(21)**	**—**	**—**
Transfer to investment property revaluation reserve	**(8)**	**—**	**—**
Net increase in attributable net assets of subsidiary undertakings (Note 25(a))	**—**	**9,821**	**—**
Exchange and other movements	**(43)**	**(44)**	**1**
At 31 December 2000	**2,322**	**31,652**	**10**
Total revaluation reserves	**2,611**	**31,652**	**63**

	HSBC	*HSBC Holdings*	*Associates*
	US$m	**US$m**	**US$m**
Profit and loss account:			
At 1 January 2000	**23,954**	**4,422**	**225**
Retained profit for the year	**2,618**	**441**	**5**
Revaluation reserve realised on disposal of properties	**40**	**—**	**—**
Arising on shares issued in lieu of dividends	**944**	**944**	**—**
Capitalised on issue of shares to QUEST	**(324)**	**(324)**	**—**
Transfer of depreciation to revaluation reserve	**21**	**—**	**—**
Exchange and other movements	**(1,019)**	**—**	**(41)**
At 31 December 2000	**26,234**	**5,483**	**189**

Included within the HSBC profit and loss account balance at 31 December 2000 are retained losses of US$41million (1999: US$nil) attributable to interests in joint ventures.

	HSBC	*HSBC Holdings*	*Associates*
	US$m	US$m	US$m
Share premium account:			
— At 1 January 1999	480	480	—
Shares issued to QUEST	247	247	—
Shares issued under other option schemes	41	41	—
Shares issued in lieu of dividends	(28)	(28)	—
Capitalised in share reorganisation	(689)	(689)	—
Shares issued in the 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

	HSBC US$m	*HSBC Holdings* US$m	*Associates* US$m
— Revaluation reserve:			
At 1 January 1999	1,792	19,566	8
Realisation on disposal of properties	(7)	—	—
Unrealised surplus on revaluation of properties	371	2	—
Transfer arising on redenomination of share capital	—	(271)	—
Transfer to profit and loss account reserve on disposal of subsidiary undertakings	—	(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	—	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
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 subsidiary undertakings	—	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 issue of shares to QUEST	(185)	(185)	—
Exchange and other movements	(465)	—	(145)
At 31 December 1999	23,954	4,422	225

	HSBC	*HSBC Holdings*	*Associates*
	US$m	US$m	US$m
Share premium account:			
At 1 January 1998	489	489	—
Shares issued under option schemes	14	14	—
Shares issued in lieu of dividends	(27)	(27)	—
Exchange movements	4	4	—
At 31 December 1998	480	480	—
Revaluation reserves:			
— Investment property revaluation reserve:			
At 1 January 1998	516	—	104
Unrealised deficit on revaluation of land and buildings	(246)	—	(56)
Transfer from revaluation reserve	59	—	—
Realisation on disposal of properties	(1)	—	—
Exchange and other movements	—	—	—
At 31 December 1998	328	—	48
— Revaluation reserve:			
At 1 January 1998	3,746	18,432	8
Realisation on disposal of properties	(12)	—	—
Impairment of land and buildings	(38)	—	—
Unrealised (deficit)/surplus on revaluation of properties	(1,787)	1	—
Transfer of depreciation from profit and loss account reserve	(52)	—	—
Transfer to investment property revaluation reserve	(59)	—	—
Net increase in attributable net assets of subsidiary undertakings	—	1,142	—
Exchange and other movements	(6)	(9)	—
At 31 December 1998	1,792	19,566	8
Total revaluation reserves	2,120	19,566	56
Profit and loss account:			
At 1 January 1998	18,923	4,753	163
Retained profit/(deficit) for the year	1,823	(1,423)	126
Transfer of depreciation to revaluation reserve	52	—	—
Revaluation reserve realised on disposal of properties	13	—	—
Arising on shares issued in lieu of dividends	584	584	—
Exchange and other movements	(36)	(1)	(42)
At 31 December 1998	21,359	3,913	247

The accumulated foreign exchange translation adjustment as at 31 December 2000 reduced HSBC's reserves by US$2,073 million (1999: US$1,009 million; 1998: US$448 million).

Cumulative goodwill amounting to US$5,138 million (1999: US$5,138 million) has been charged against reserves in respect of acquisitions of subsidiary undertakings prior to 1 January 1998.

Statutory share premium relief under Section 131 of the Companies Act 1985 has been taken in respect of the acquisition of CCF (Note 25(c)); in HSBC's consolidated accounts the fair value difference of US$8,290 million has been transferred to a merger reserve.

Many of HSBC's banking subsidiary undertakings, joint ventures and associates operate under local regulatory jurisdictions which could potentially restrict the amount of reserves which can be remitted to HSBC Holdings plc in order to maintain local regulatory capital ratios. In addition, as stated in Note 31(a) above, the remittance of reserves may result in further taxation liabilities.

In 1999, HSBC established a qualifying employee share ownership trust (QUEST) to operate in conjunction with the Savings-Related Share Option Plan by acquiring shares in HSBC Holdings and using them to satisfy share options.

The QUEST has subscribed at market value for ordinary shares at a total cost of US$388 million (1999: US$257 million). HSBC provided US$324 million (1999:US$185 million) for this purpose. HSBC's contribution to the QUEST has been included in HSBC's financial statements as a capitalisation of reserves.

23,412,488 shares (1999:19,564,285 shares) were transferred by the QUEST to participants in HSBC's Savings-Related Share Option Plan in the UK in satisfaction of their options. US$64 million (1999: US$72 million) was received from the share option scheme participants. The price paid by option holders, ranged from £1.806 to £6.0299 (1999: £1.806 to £5.398) per ordinary share of US$0.50.

At 31 December 2000, the trust held 10,337,081 shares (1999: nil shares) of nominal value US$0.50 with a market value of US$151,905,628 (1999: US$ nil) in respect of these awards. Dividends on these shares are waived by the trust.

HSBC has taken advantage of the exemptions applicable to Inland Revenue approved SAYE share option schemes and equivalent overseas schemes under Urgent Issues Task Force Abstract 17 (revised 2000) 'Employee share schemes'.

36 Analysis of total assets and total liabilities

(a) *Assets subject to sale and repurchase transactions*

	2000	1999
	US$m	US$m
Total assets subject to sale and repurchase transactions	**18,352**	15,558

(b) *Assets leased to customers*

	2000	1999
	US$m	US$m
Loans and advances to customers	**6,934**	6,918
Tangible fixed assets — equipment on operating leases (Note 24(a))	**2,721**	2,753
	9,655	9,671

The cost of assets acquired during 2000 for letting to customers under finance leases and hire purchase contracts by HSBC amounted to US$3,203 million (1999: US$2,647 million).

(c) *Assets charged as security for liabilities*

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

	Amount of liability secured	
	2000	1999
	US$m	US$m
Deposits by banks	**260**	304
Customer accounts	**4,903**	2,822
Debt securities in issue	**3,090**	4,290
Other liabilities	**3,544**	3,038
	11,797	10,454

The amount of assets pledged to secure these amounts is US$30,432 million (1999: US$23,030 million). This is mainly made up of items included in 'Debt securities' and 'Treasury bills and other eligible bills' of US$26,466 million (1999: US$19,224 million).

(d) *HSBC Holdings*

HSBC Holdings' investment in and indebtedness of and to subsidiary undertakings at 31 December is as follows:

	2000			1999		
	Bank	*Non-bank*	*Total*	*Bank*	*Non-bank*	*Total*
	US$m	**US$m**	**US$m**	US$m	US$m	US$m
Investments in subsidiary undertakings*	**43,489**	**2,906**	**46,395**	29,009	3,070	32,079
Amounts owed by HSBC undertakings	**6,495**	**3,492**	**9,987**	4,664	5,775	10,439
Subordinated liabilities to HSBC undertakings	**—**	**3,903**	**3,903**	—	349	349
Other amounts owed to HSBC undertakings	**21**	**1,908**	**1,929**	58	1,633	1,691

* *Investments in subsidiary undertakings have been analysed on the basis of the business of the principal operating sub-group, i.e. banking sub-groups which include insurance companies have been categorised as banks.*

37 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 the 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 HSBC acting as a counterparty, or can be dealt through exchanges.

Nature and terms of derivatives

The following outlines the nature and terms of the most common types of derivatives used by HSBC.

Exchange rate contracts

Forward foreign exchange contracts are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

Cross currency swaps are agreements to exchange, and on termination of the swap re-exchange, principal amounts denominated in different currencies. Cross currency swaps may involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period.

Currency futures are typically exchange-traded agreements to buy or sell standard amounts of a specified currency at an agreed exchange rate on a standard future date.

Currency options give the buyer on payment of a premium the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

Interest rate contracts

Interest rate swaps involve the exchange of interest rate obligations with a counterparty for a specified period without exchanging the underlying (or notional) principal. HSBC may enter a swap transaction either as an intermediary or as a direct counterparty.

Interest rate futures are typically exchange-traded agreements to buy or sell a standard amount of a specified fixed income security or time deposit at an agreed interest rate on a standard future date.

Forward rate agreements give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the 'settlement date'). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contract rate and the market rate prevailing on the settlement date.

Interest rate options give the buyer on payment of a premium the right, but not the obligation, to fix the rate of interest on a future deposit or loan, for a specified period and commencing on a specified future date.

Interest rate caps and floors give the buyer the ability to fix the maximum or minimum rate of interest. There is no facility to deposit or draw down funds; instead the writer pays to the buyer the amount by which the market rate exceeds or is less than the cap rate or the floor rate respectively. A combination of an interest rate cap and floor is known as an interest rate collar.

Equities contracts

Equities options give the buyer on payment of a premium the right, but not the obligation, to buy or sell a specified amount of equities or a basket of equities in the form of published indices.

Equities futures are typically exchange-traded agreements to buy or sell a standard quantity of a specific equity at a future date, at a price decided at the time the contract is made, and may be settled in cash or through delivery.

Uses of derivatives

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.

HSBC, 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, HSBC 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, HSBC also uses derivatives (principally interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

Risks associated with derivatives

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

Market 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 39).

Credit risk

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 HSBC has executed close-out netting agreements with the majority of its counterparties, notwithstanding the fact that HSBC deals only with the most creditworthy counterparties.

Derivatives used for trading purposes

The following tables summarise the contract amount, replacement cost, mark-to-market values and average 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 HSBC 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 and include netted internal positions, except where otherwise indicated.

Comparative data have been restated in accordance with the accounting policy change to netting described in Note 2(j).

	2000		1999	
	Contract amount	*Replacement cost**	*Contract amount*	*Replacement cost**
	US$m	**US$m**	US$m	US$m
Spot and forward foreign exchange	**644,169**	**10,149**	548,436	6,401
Currency swaps, futures and options purchased	**90,278**	**2,342**	72,650	2,112
Currency options written	**21,165**	**—**	23,552	—
Other contracts	**3,935**	**108**	27,177	561
Total exchange rate contracts	**759,547**	**12,599**	671,815	9,074
Interest rate swaps	**839,671**	**8,748**	519,697	5,367
Interest rate futures, forward rate agreements, collars and options purchased	**363,737**	**863**	388,116	776
Interest rate options written	**63,037**	**—**	63,266	—
Total interest rate contracts	**1,266,445**	**9,611**	971,079	6,143
Equities, futures and options purchased	**22,203**	**2,094**	15,676	2,687
Equities options written	**20,920**	**—**	16,933	—
Other contracts	**2,361**	**51**	1,474	8
Total equities contracts	**45,484**	**2,145**	34,083	2,695
Netting		**(8,468)**		(5,046)
Total	**2,071,476**	**15,887**	1,676,977	12,866

* *third party contracts only*

		2000		1999	
		Mark-to-market values at year end	*Average mark-to-market values for the year*	*Mark-to-market values at year end*	*Average mark-to-market values for the year*
		US$m	**US$m**	US$m	US$m
Exchange rate	— assets	**12,824**	**11,214**	9,374	9,143
	— liabilities	**(13,309)**	**(13,973)**	(9,559)	(9,369)
Interest rate	— assets	**9,623**	**5,046**	6,144	8,308
	— liabilities	**(10,013)**	**(6,551)**	(6,565)	(7,920)
Equities	— assets	**2,145**	**2,170**	2,696	2,272
	— liabilities	**(2,347)**	**(2,674)**	(2,977)	(2,750)
Total	— assets	**24,592**	**18,430**	18,214	19,723
	— liabilities	**(25,669)**	**(23,198)**	(19,101)	(20,039)
Netting		**8,468**	**4,562**	5,046	5,987

Derivatives used for risk management purposes

The majority of the transactions undertaken for risk management purposes are between business units within HSBC, 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 HSBC'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 HSBC 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.

	2000		1999	
	Contract amount	*Replacement cost**	*Contract amount*	*Replacement cost**
	US$m	**US$m**	US$m	US$m
Spot and forward foreign exchange	**73,668**	**67**	69,070	153
Currency swaps, futures and options purchased	**6,474**	**43**	4,314	35
Total exchange rate contracts	**80,142**	**110**	73,384	188
Interest rate swaps	**155,389**	**475**	78,629	411
Interest rate futures, forward rate agreements, collars and options purchased	**26,654**	**13**	23,034	155
Total interest rate contracts	**182,043**	**488**	101,663	566
Equities, futures and options purchased	**571**	—	731	—
Other contracts	**19**	—	—	—
Total equities contracts	**590**	—	731	—

* *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, including internal positions.

		2000		1999	
		Carrying value	*Mark-to-market values*	*Carrying value*	*Mark-to-market values*
		US$m	**US$m**	US$m	US$m
Exchange rate	— assets	**374**	**566**	388	437
	— liabilities	**(510)**	**(631)**	(599)	(656)
Interest rate	— assets	**1,398**	**2,728**	1,281	1,736
	— liabilities	**(608)**	**(1,594)**	(424)	(880)
Equities	— assets	**32**	**96**	33	134
	— liabilities	**—**	**—**	—	(1)

Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same region or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

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 2000 and 31 December 1999. The table shows that the replacement cost of derivatives is predominantly with banks and under five years.

	Residual maturity						
	Less than 1 year	*1-5 years*	*Over 5 years*	*Netting*	**2000 Total Net**	**2000 Total**	1999 *Total*
	US$m	US$m	US$m	US$m	**US$m**	**US$m**	US$m
Governments	16	18	112	(3)	**143**	**146**	167
Banks	9,803	5,961	2,359	(7,388)	**10,735**	**18,123**	13,363
Non-bank financial institutions							
— exchanges*	442	33	1	(7)	**469**	**476**	432
— other	1,926	1,143	524	(722)	**2,871**	**3,593**	2,539
Other sectors	1,730	585	300	(348)	**2,267**	**2,615**	2,165
Netting						**(8,468)**	(5,046)
Total 2000	13,917	7,740	3,296	(8,468)	**16,485**	**16,485**	
Total 1999	10,222	6,156	2,288	(5,046)			13,620

* *Exchanges with margining requirements.*

The following maturity profile of the notional principal values of third party derivative contracts outstanding as at 31 December 2000 and 31 December 1999 shows that the majority of contracts are executed over the counter and mature within one year.

	Residual maturity				
	Less than 1 year	*1-5 years*	*Over 5 years*	**2000** *Total*	1999 *Total*
	US$m	**US$m**	**US$m**	**US$m**	US$m
Exchange rate, interest rate and equities contracts					
— exchanges*	**215,025**	**54,296**	**1,296**	**270,617**	278,116
— other contracts	**1,038,635**	**482,765**	**148,939**	**1,670,339**	1,319,225
Total 2000	**1,253,660**	**537,061**	**150,235**	**1,940,956**	
Total 1999	1,123,401	378,599	95,341		1,597,341

* *Exchanges with margining requirements.*

(b) *Other financial instruments*

(i) *Financial instruments held for trading purposes*

	2000	1999
	Mark-to-market values	*Mark-to-market values*
Assets:	**US$m**	US$m
Treasury bills and other eligible bills	**7,269**	4,612
Loans and advances to banks and customers	**28,830**	18,432
Debt securities	**45,864**	21,728
Equity shares	**3,466**	2,957
	85,429	47,729
Liabilities:		
Short positions in securities	**23,040**	14,937
Debt securities in issue	**477**	292
Deposits by banks and customer accounts	**22,561**	14,266
	46,078	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*

	2000		1999	
	Carrying value	*Mark-to-market values*	*Carrying value*	*Mark-to-market values*
Assets:	**US$m**	**US$m**	US$m	US$m
Treasury bills and other eligible bills	**15,862**	**15,862**	18,601	18,601
Debt securities	**86,954**	**87,744**	88,340	88,252
Equity shares	**4,638**	**5,773**	1,521	2,432
	107,454	**109,379**	108,462	109,285
Liabilities:				
Debt securities in issue	**27,479**	**27,630**	33,488	33,546
Subordinated liabilities	**16,222**	**16,168**	15,423	15,295
Non-equity minority interests	**5,171**	**5,535**	1,583	1,513
	48,872	**49,333**	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.

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 2000 were US$1,797 million (1999: US$650 million) and the unrecognised losses were US$1,318 million (1999: US$559 million).

Unrecognised gains of US$887 million and unrecognised losses of US$603 million are expected to be recognised in 2001.

Of the gains and losses included in the profit and loss account in 2000, US$164 million gains and US$150 million losses were unrecognised at 1 January 2000.

(d) *Liquidity management*

HSBC's liquidity management process is discussed in the 'Financial Review' section on page 91 from the paragraph under the heading Liquidity management to the bullet point 'maintenance of liquidity contingency plans'.

38 Memorandum Items

(a) *HSBC*

	2000			1999		
	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	**5,160**	**3,171**	**3,119**	4,482	3,288	3,215
Guarantees and assets pledged as collateral security:						
– guarantees and irrevocable letters of credit	**33,968**	**26,110**	**23,298**	27,319	22,201	19,880
Other contingent liabilities	**14**	**14**	**12**	39	39	39
	39,142	**29,295**	**26,429**	31,840	25,528	23,134
Commitments:						
Documentary credits and short-term trade-related transactions	**6,513**	**2,183**	**1,323**	6,310	2,015	1,316
Forward asset purchases and forward forward deposits placed	**655**	**655**	**294**	487	487	341
Undrawn note issuing and revolving underwriting facilities	**302**	**152**	**151**	82	41	41
Undrawn formal standby facilities, credit lines and other commitments to lend:						
— over 1 year	**36,567**	**18,284**	**17,070**	33,246	16,612	15,739
— 1 year and under	**138,679**	**—**	**—**	128,613	—	—
	182,716	**21,274**	**18,838**	168,738	19,155	17,437

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.

(b) *HSBC Holdings*

HSBC Holdings had no contingent liabilities (1999: US$ nil). In addition, HSBC Holdings enters into guarantees and letters of support on behalf of other HSBC undertakings in the normal course of business.

(c) *Concentration of contingent liabilities and commitments*

HSBC has the following concentrations of exposure to contingent liabilities and commitments and these are determined on the basis set out in Note 46(a):

Contract amounts

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	US$m	US$m	US$m	US$m	US$m
Contingent Liabilities						
2000	**19,534**	**6,827**	**5,728**	**6,410**	**643**	**39,142**
1999	14,939	5,242	5,756	5,479	424	31,840
Commitments						
2000	**68,750**	**47,888**	**24,498**	**38,300**	**3,280**	**182,716**
1999	64,977	43,672	21,379	35,933	2,777	168,738

39 Market risk management

HSBC's market risk management process is discussed in the 'Financial Review' section on pages 92 and 93 from the paragraph under the heading Market risk to the paragraph ended 'impact of extreme events on the market risk exposures of HSBC'.

(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.

Trading VAR for HSBC for 2000 was:

	Combined HSBC	Excluding former Republic operations			
	At 31 December 2000	**At 31 December 2000**	Minimum during the year	Maximum during the year	Average for the year
	US$m	**US$m**	**US$m**	**US$m**	**US$m**
Total trading activities	**75.0**	**64.8**	**44.5**	**83.7**	**63.1**
Foreign exchange trading positions	**19.1**	**17.2**	**8.9**	**26.8**	**16.6**
Interest rate trading positions	**58.9**	**45.0**	**32.2**	**66.4**	**46.9**
Equities trading positions	**39.9**	**39.9**	**23.6**	**53.4**	**36.1**

Trading VAR for HSBC for 1999 was:

	Excluding former Republic operations			
	At 31 December 1999	Minimum during the year	Maximum during the year	Average for the year
	US$m	US$m	US$m	US$m
Total trading activities	46.1	42.7	101.9	66.7
Foreign exchange trading positions	12.8	10.2	58.5	25.0
Interest rate trading positions	39.4	32.2	82.1	54.1
Equities trading positions*	16.2	11.1	26.8	16.4

* *In 2000, the basis of computing equities VAR included a refinement in respect of non–linear risk. Non-linear risk was not a significant component of equities VAR in 1999 and it is not practicable retrospectively to amend the comparative figures for this refinement.*

Trading VAR for CCF is included in the above table from the date of acquisition.

Trading VAR for the former Republic operations at 31 December 2000 was US$23.2 million on a variance/co-variance basis. On a historical simulation approach, trading VAR for the former Republic operations at 31 December 2000 was US$11.7 million (31 December 1999:US$14.5 million), the maximum during 2000 was US$37.1 million, the minimum US$9.3 million and the average US$18.8 million. The scope of calculation of VAR on a historical simulation approach was refined at 30 June 2000, following a review of its basis, to be more consistent with that of the rest of HSBC. The maximum, minimum and average on a historical simulation approach for each half year are set out below:

	Former Republic operations Total trading	
	First half 2000	Second half 2000
	US$m	**US$m**
Maximum for the half-year	**37.1**	**19.1**
Minimum for the half-year	**12.5**	**9.3**
Average for the half-year	**22.7**	**13.6**

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

(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, HSBC 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.

31 December 2000	*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	**11,107**	**2,603**	**1,969**	**175**	**8**	**—**	**15,862**
Loans and advances to banks	**97,675**	**6,652**	**4,364**	**440**	**107**	**4,203**	**113,441**
Loans and advances to customers	**189,088**	**16,310**	**11,975**	**33,056**	**15,587**	**7,582**	**273,598**
Debt securities and equity shares	**36,574**	**5,114**	**11,145**	**20,502**	**13,479**	**4,778**	**91,592**
Other assets	**51,593**	**518**	**412**	**338**	**197**	**74,114**	**127,172**
Total assets	**386,037**	**31,197**	**29,865**	**54,511**	**29,378**	**90,677**	**621,665**
Liabilities							
Deposits by banks	**(41,447)**	**(2,598)**	**(1,189)**	**(602)**	**(55)**	**(4,416)**	**(50,307)**
Customer accounts	**(342,611)**	**(13,551)**	**(11,947)**	**(4,443)**	**(673)**	**(41,029)**	**(414,254)**
Debt securities in issue	**(16,955)**	**(2,050)**	**(2,748)**	**(3,534)**	**(2,192)**	**—**	**(27,479)**
Other liabilities	**(10,787)**	**(829)**	**(524)**	**(1,658)**	**(353)**	**(49,150)**	**(63,301)**
Loan capital and other subordinated liabilities	**(5,171)**	**(1,415)**	**(261)**	**(3,140)**	**(6,233)**	**(2)**	**(16,222)**
Minority interests and shareholders' funds	**—**	**—**	**—**	**—**	**—**	**(50,102)**	**(50,102)**
Total liabilities	**(416,971)**	**(20,443)**	**(16,669)**	**(13,377)**	**(9,506)**	**(144,699)**	**(621,665)**
Off-balance-sheet items	**(9,352)**	**4,588**	**(1,094)**	**5,364**	**494**	**—**	**—**
Interest rate sensitivity gap	**(40,286)**	**15,342**	**12,102**	**46,498**	**20,366**	**(54,022)**	**—**
Cumulative interest rate sensitivity gap	**(40,286)**	**(24,944)**	**(12,842)**	**33,656**	**54,022**	**—**	**—**

31 December 1999	*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.

(c) *Assets and liabilities denominated in foreign currency*

	2000	1999
	US$m	US$m
Denominated in US dollars	**232,918**	228,969
Denominated in currencies other than US dollars	**440,896**	340,170
Total assets	**673,814**	569,139
Denominated in US dollars	**260,551**	244,501
Denominated in currencies other than US dollars	**413,263**	324,638
Total liabilities	**673,814**	569,139

(d) *Structural currency exposures*

HSBC's structural foreign currency exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches, joint ventures and associates. Gains or losses on structural foreign currency exposures are taken to reserves.

HSBC's management of structural foreign currency exposures is discussed in the 'Financial Review' section on pages 95 and 96.

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

2000 *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**
Euros	**14,363**	**—**	**—**	**14,363**
Hong Kong dollars	**9,808**	**—**	**(3)**	**9,805**
Sterling	**7,993**	**(97)**	**(40)**	**7,856**
Swiss francs	**1,024**	**—**	**(136)**	**888**
Canadian dollars	**889**	**—**	**(10)**	**879**
Singapore dollars	**544**	**—**	**—**	**544**
UAE dirham	**454**	**—**	**—**	**454**
Brazilian reais	**449**	**—**	**—**	**449**
Argentine pesos	**448**	**—**	**—**	**448**
Malaysian ringgit	**378**	**—**	**—**	**378**
Saudi riyals	**360**	**—**	**—**	**360**
Australian dollars	**280**	**—**	**(46)**	**234**
Indian rupees	**232**	**—**	**—**	**232**
Korean won	**206**	**—**	**—**	**206**
Chilean pesos	**203**	**—**	**—**	**203**
Maltese lira	**144**	**—**	**—**	**144**
Cyprus pounds	**130**	**—**	**—**	**130**
Thai baht	**109**	**—**	**—**	**109**
Others, less than US$100 million	**416**	**(61)**	**—**	**355**
Total	**38,430**	**(158)**	**(235)**	**38,037**

1999 *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

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

	2000	1999	1998
	US$m	US$m	US$m
Operating profit	**9,447**	7,409	6,185
Change in prepayments and accrued income	**(772)**	359	(667)
Change in accruals and deferred income	**1,863**	249	220
Interest on finance leases and similar hire purchase contracts	**26**	26	26
Interest on subordinated loan capital	**1,216**	826	814
Depreciation and amortisation	**1,591**	999	914
Amortisation of discounts and premiums	**(727)**	(112)	(53)
Provisions for bad and doubtful debts	**932**	2,073	2,637
Loans written off net of recoveries	**(1,653)**	(1,021)	(1,226)
Provisions for liabilities and charges	**723**	765	1,290
Provisions utilised	**(510)**	(478)	(974)
Provisions assumed	**—**	—	377
Amounts written off fixed asset investments	**36**	28	85
Net cash inflow from trading activities	**12,172**	11,123	9,628
Change in items in the course of collection from other banks	**656**	304	(242)
Change in treasury bills and other eligible bills	**(826)**	(2,007)	(4,797)
Change in loans and advances to banks	**838**	(5,832)	(5,418)
Change in loans and advances to customers	**(10,265)**	1,126	3,731
Change in other securities	**(16,006)**	11,293	(4,442)
Change in other assets	**(1,858)**	7,669	1,027
Change in deposits by banks	**(2,333)**	(4,700)	(4,804)
Change in customer accounts	**42,153**	10,269	14,721
Change in items in the course of transmission to other banks	**(1,576)**	559	161
Change in debt securities in issue	**(17,019)**	(2,324)	1,445
Change in other liabilities*	**7,004**	(4,618)	(295)
Elimination of exchange differences**	**2,283**	(1,318)	(1,028)
Net cash inflow from operating activities	**15,223**	21,544	9,687

* *The change in other liabilities excludes the creditor of US$9,733 million at 31 December 1999 in respect of the acquisitions of the former Republic and Safra Republic businesses, as this was a non-operating item. The settlement of this creditor was in January 2000 and is recorded under 'Acquisitions and disposals' in the Consolidated Cash Flow Statement.*

** *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.*

41 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 2000	**15,423**	**1,583**	**4,230**	**2,882**
Shares issued in lieu of dividends	**—**	**—**	**38**	**(38)**
Acquisition of subsidiaries	**860**	**—**	**—**	**—**
Shares issued on the acquisition of CCF	**—**	**—**	**339**	**—**
Issued during the year	**948**	**3,626**	**13**	**151**
Costs incurred with share issue	**—**	**—**	**—**	**—**
Repaid during the year	**(708)**	**—**	**—**	**—**
Own shares acquired by employee share ownership trust**	**—**	**—**	**(20)**	**(536)**
Net cash inflow from financing	**240**	**3,626**	**(7)**	**(385)**
Capitalised on issue of shares to/or to QUEST	**—**	**—**	**14**	**309**
Own shares acquired by employee share ownership trust**	**—**	**—**	**20**	**536**
Exchange and other movements	**(301)**	**(38)**	**—**	**1**
Balance as at 31 December 2000	**16,222**	**5,171**	**4,634**	**3,305**

** Preference shares in issue are in subsidiary undertakings. (Note 33)*

** * See Note 25(a).*

	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 issue of shares to QUEST	—	—	—	185
Shares cancelled on reorganisation	—	—	(3,515)	—
Shares issued on reorganisation	—	—	4,204	—
Exchange and other movements	(125)	11	(58)	(715)
Balance as at 31 December 1999	15,423	1,583	4,230	2,882
Balance at 1 January 1998	10,526	850	3,406	489
Shares issued in lieu of dividends	—	—	27	(27)
Issued during the year	443	—	3	14
Repaid during the year	(215)	—	—	—
Net cash flow from financing	228	—	3	14
Exchange and other movements	90	20	7	4
Balance at 31 December 1998	10,844	870	3,443	480

** Preference shares in issue are in subsidiary undertakings (Note 33).*

42 Analysis of cash

(a) HSBC 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 2000, these amounted to US$1,604 million (1999: US$1,842 million; 1998: US$2,557 million).

(b) *Changes in cash during the year*

	2000	1999	1998
	US$m	US$m	US$m
Balance at 1 January	**17,705**	14,203	20,756
Net cash inflow/(outflow) before the effect of foreign exchange movements	**7,470**	3,808	(6,595)
Effect of foreign exchange movements	**(837)**	(306)	42
Balance at 31 December	**24,338**	17,705	14,203

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

	2000	1999	1998
	US$m	US$m	US$m
Cash and balances at central banks	**5,006**	6,179	3,048
Loans and advances to banks	**19,332**	11,526	11,155
	24,338	17,705	14,203

43 Litigation

HSBC, 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, Republic New York Corporation ('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').

Regulatory and law enforcement agencies, including the US Attorney for the Southern District of New York, the Securities and Exchange Commission and the Commodity Futures Trading Commission, are continuing to investigate the Princeton Note Matter, including the activities of RNYC and RNYSC with respect to the Princeton Note Matter. HSBC understands that RNYSC is a target of the federal grand jury investigation being conducted by the US Attorney for the Southern District of New York.

At the core of both the investigations described above and the civil actions described below 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.

Eighteen separate civil actions have been brought to date against RNYSC by Japanese entities in connection with the Princeton Note Matter. All eighteen actions 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 eighteen complaints allege that employees of RNYSC issued letters concerning the Princeton accounts that contained material misstatements. All but one of these 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').

The eighteen civil proceedings against one or more of the Republic Parties are *Amada Co. v Republic New York Securities Corporation,* filed 29 November 1999*, Gun-ei Chemical Industry Co., Ltd. v Princeton Economics International Ltd., et al,* filed 22 December 1999*, Chudenko Corp., v Republic New York Securities Corporation, et al,* filed 20 January 2000, *Alps Electric Co., Ltd. v Republic New York Securities Corporation, et al,* filed 7 February 2000, *Itoki Crebio Corp. v HSBC USA Inc., et al, Kissei Pharmaceutical Co., Ltd. v HSBC USA Inc., et al, 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 14 February 2000, *Starzen Co., Ltd. v Republic New York Securities Corporation, et al,* filed 23 February 2000, *Yakult Honsha Co., Ltd. v Republic New York Securities Corporation,* filed 25 February 2000, *Nichimen Europe, PLC v Republic New York Securities Corporation, et al,* filed 10 April 2000*, Kita-Hyogo Shinyo-Kumiai v Republic New York Securities Corporation, et al,* filed 1 June 2000*, Ozawa Denki Koji Co., et al, v Republic New York Securities Corporation, et al*, filed 16 June 2000*, Kofuku Bank Ltd. and Namihaya Bank Ltd. v Republic New York Securities Corporation, et al,* filed 28 April 2000*, Eichi Takagi and Koei Shoji, Ltd v HSBC USA Inc., et al*, filed 30 August 2000*, Akio Maruyama v HSBC USA Inc., et. al.,* filed 12 January 2001*, and Kunio Kanzawa v HSBC USA Inc., et al,* filed 12 January 2001.

The Amada action alleges unpaid notes in the amount of ¥12.5 billion (approximately US$109.8 million), the Gun-ei action alleges unpaid notes in the amount of ¥11.8 billion (approximately US$102.7 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, the Yakult 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, the Nichimen action alleges unpaid notes of US$15 million, the Kita-Hyogo action alleges unpaid notes of US$21.4 million, the Ozawa action alleges unpaid notes of US$29.6 million, the Kofuku action alleges unpaid notes of US$39.5 million, the Takagi action alleges unpaid notes of approximately US$2.1 million and US$1.21 million on behalf of an individual and corporation, the Maruyama action alleges an unpaid note of ¥200 million (approximately US$1.7 million), and the Kanzawa action alleges unpaid notes of US$1.6 million and ¥250 million (approximately US$2.2 million). All of the actions assert common law claims and claims under the federal securities laws and/or the federal commodities laws. All but the Amada and Gun-ei actions seek treble damages under the Racketeer Influenced and Corrupt Organization Act. Discovery proceedings are under way in all of these civil actions.

In addition to the eighteen actions arising out of the Princeton Note Matter described above, 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. On 16 October 2000, an amended complaint in the Ravens action was filed, alleging 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 amended complaint seeks unspecified damages on behalf of the class. On 16 January 2001, defendants filed a motion to dismiss the Ravens action.

At the present time it is not possible to assess the outcome of the civil proceedings described above relating to the Princeton Note Matter. The matter will be defended vigorously. In addition, in the light of a probable law enforcement proceeding against RNYSC in connection with the Princeton Note Matter, a matter that came to light before the acquisition of RNYC, a provision of US$79 million, the amount of shareholders' equity of RNYSC, has been taken as part of the goodwill cost of the acquisition. At the present time, it is not possible to estimate what additional cost may be incurred by HSBC as a result of the Princeton Note Matter.

44 Capital commitments

	2000 US$m	1999 US$m
Expenditure contracted for	**412**	634
Expenditure authorised by Directors but not contracted for	**110**	74
	522	708

In addition, HSBC Holdings has committed to provide a further US$523 million of capital to its joint venture Merrill Lynch HSBC Limited.

45 Lease commitments

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

	2000 US$m	1999 US$m
Leasehold land and buildings		
Operating leases which expire:		
– within 1 year	**33**	42
– between 1 and 5 years	**146**	155
– over 5 years	**136**	149
	315	346

	2000 US$m	1999 US$m
Equipment		
Operating leases which expire:		
– within 1 year	**1**	9
– between 1 and 5 years	**10**	4
	11	13

46 Segmental analysis

As HSBC 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 are actually allocated to businesses in the segment by way of intra-HSBC capital and funding structures. Common costs are included in segments on the basis of the actual recharges made.

(a) *By geographical 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, CCF, 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 HSBC's structure, the analysis of profits and net assets shown below includes intra-HSBC items between geographical regions. The 'Rest of Asia-Pacific' geographical segment includes the Middle East, India and Australasia.

Total assets:

	At 31 December 2000		At 31 December 1999		At 31 December 1998	
	US$m	**%**	US$m	%	US$m	%
Europe*	**295,274**	**44.4**	211,222	37.7	190,823	40.2
Hong Kong	**176,545**	**26.5**	165,420	29.6	149,127	31.3
Rest of Asia-Pacific	**56,676**	**8.5**	55,291	9.9	57,253	12.0
North America*	**118,053**	**17.7**	110,120	19.7	63,903	13.4
Latin America*	**19,073**	**2.9**	17,181	3.1	14,614	3.1
	665,621	**100.0**	559,234	100.0	475,720	100.0
Add: Hong Kong SAR	**8,193**		9,905		7,408	
Total assets	**673,814**		569,139		483,128	

* *Included within total assets in Europe, Latin America and rest of Asia-Pacific are amounts of US$67,484 million, US$2,967 million and US$1,130 million, respectively in relation to businesses acquired during the year. In 1999 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 that year.*

Net assets:

	At 31 December 2000		At 31 December 1999		At 31 December 1998	
	US$m	**%**	US$m	%	US$m	%
Europe	**28,073**	**61.6**	16,695	50.0	12,098	44.2
Hong Kong	**8,709**	**19.1**	8,960	26.8	9,427	34.4
Rest of Asia-Pacific	**3,133**	**6.9**	2,561	7.7	2,186	8.0
North America	**4,313**	**9.5**	3,730	11.1	2,494	9.1
Latin America	**1,342**	**2.9**	1,462	4.4	1,197	4.3
Total net assets	**45,570**	**100.0**	33,408	100.0	27,402	100.0

Profit on ordinary activities before tax:

	*Europe**	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Year ended 31 December 2000						
Interest receivable	**14,257**	**11,447**	**3,930**	**7,290**	**2,480**	**39,404**
Interest payable	**(9,269)**	**(7,450)**	**(2,563)**	**(5,138)**	**(1,261)**	**(25,681)**
Net interest income	**4,988**	**3,997**	**1,367**	**2,152**	**1,219**	**13,723**
Dividend income	**84**	**34**	**3**	**68**	**8**	**197**
Fees and commissions receivable	**4,909**	**1,359**	**840**	**981**	**624**	**8,713**
Fees and commissions payable	**(809)**	**(191)**	**(130)**	**(128)**	**(144)**	**(1,402)**
Dealing profits	**787**	**229**	**324**	**218**	**68**	**1,626**
Other operating income	**951**	**359**	**48**	**178**	**397**	**1,933**
Operating income	**10,910**	**5,787**	**2,452**	**3,469**	**2,172**	**24,790**
Operating expenses	**(6,866)**	**(1,987)**	**(1,297)**	**(2,506)**	**(1,648)**	**(14,304)**
Operating profit before provisions	**4,044**	**3,800**	**1,155**	**963**	**524**	**10,486**
Provisions for bad and doubtful debts	**(348)**	**(248)**	**15**	**(147)**	**(204)**	**(932)**
Provisions for contingent liabilities and commitments	**(67)**	**(10)**	**5**	**1**	**—**	**(71)**
Amounts written off fixed asset investments	**(23)**	**(9)**	**(3)**	**—**	**(1)**	**(36)**
Operating profit	**3,606**	**3,533**	**1,172**	**817**	**319**	**9,447**
Share of operating loss in joint ventures	**(51)**	**—**	**—**	**—**	**—**	**(51)**
Share of operating (loss)/profit in associates	**(45)**	**21**	**100**	**(2)**	**1**	**75**
Gains on disposal of investments and tangible fixed assets	**148**	**137**	**(7)**	**35**	**(9)**	**304**
Profit on ordinary activities before tax	**3,658**	**3,691**	**1,265**	**850**	**311**	**9,775**

* *Included within profit on ordinary activities before tax and goodwill amortisation in Europe is US$169 million in relation to businesses acquired during the year. Management estimates the contribution from acquisitions made at the end of 1999 to profits on ordinary activities before tax, restructuring charges, costs of funding and goodwill amortised in the year, to be US$850 million (of which approximately US$500 million is estimated to relate to Europe).*

Profit on ordinary activities before tax:

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	US$m	US$m	US$m	US$m	US$m
Year ended 31 December 1999						
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 (loss)/profit in associates	(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

Profit on ordinary activities before tax:

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	US$m	US$m	US$m	US$m	US$m
Year ended 31 December 1998						
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 associates	—	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-HSBC interest of US$1,658 million (1999: US$1,154 million; 1998: US$1,232 million). Fees and commissions receivable and fees and commissions payable include intra-HSBC items of US$136 million (1999: US$131 million; 1998: US$94 million). Other operating income and operating expenses include intra-HSBC items of US$217 million (1999: US$198 million; 1998: US$231 million).

(b) *By country of domicile*

HSBC Holdings is registered and domiciled in the United Kingdom.

(i) Profit on ordinary activities before tax in the United Kingdom

	2000	1999	1998
	US$m	US$m	US$m
Operating income	**8,596**	8,111	7,620
Profit on ordinary activities before tax	**3,162**	2,707	2,542

Operating income includes intra-HSBC income of US$506 million (1999: US$221 million; 1998: US$270 million). Profit on ordinary activities before tax includes profit arising on intra-HSBC transactions of US$492 million (1999: US$192 million; 1998: US$235 million).

(ii) Geographical analysis of tangible fixed assets

	2000	1999	1998
	US$m	US$m	US$m
United Kingdom	**5,504**	5,469	5,529
Other	**8,517**	7,399	6,579
Total	**14,021**	12,868	12,108

Other includes assets held in Hong Kong amounting to US$4,954 million (1999: US$4,733 million; 1998: US$4,775 million).

(c) *By class of business*

	2000	1999*	1998*
	US$m	US$m	US$m
Commercial banking			
Gross income	**43,882**	36,337	40,363
Profit on ordinary activities before tax	**8,908**	7,229	6,127
Total assets	**578,489**	497,288	446,479
Net assets	**41,283**	29,367 **	25,274
Investment banking			
Gross income	**5,978**	3,469	3,413
Profit on ordinary activities before tax	**867**	753	444
Total assets	**95,325**	71,851	36,649
Net assets	**4,287**	4,041 **	2,128
Total			
Gross income	**49,860**	39,806	43,776
Profit on ordinary activities before tax	**9,775**	7,982	6,571
Total assets	**673,814**	569,139	483,128
Net assets	**45,570**	33,408	27,402

* *Comparative figures have been restated to exclude income from unit trust related business, management responsibility for which was transferred from HSBC Investment Banking on 1 January 2000. 1998 figures include HSBC Trinkaus & Burkhardt KGaA transferred to HSBC Investment Banking on 1 January 1999.*

** *Net assets attributable to investment banking at 31 December 1999 have been restated to exclude net assets in the former Republic businesses which do not relate to private banking business.*

Gross income includes intra-HSBC income of US$285 million (1999: US$458 million; 1998: US$414 million).

47 Related party transactions

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

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

	2000		1999	
	Number	**US$m**	Number	US$m
Directors and connected persons and companies controlled by them:				
Loans and credit card transactions (including US$319,000 in credit card transactions (1999: US$337,000) and US$6,706,000 in guarantees (1999: US$77,530,000))	**154**	**1,127**	128	1,022
Officers:				
Loans and credit card transactions (including US$140,000 in credit card transactions (1999: US$115,000) and US$ nil in guarantees (1999: US$ nil))	**24**	**7**	18	9

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

(b) Transactions with other related parties of HSBC

Joint ventures

Information relating to joint ventures can be found in the 'Notes on the Financial Statements' where the following are disclosed:

— Notes 14 and 15: amounts due from joint ventures;

— Note 20: investments in joint ventures; principal joint ventures and interests in loan capital; and

— Note 28: amount due to joint ventures.

During the year HSBC sold two wholly owned subsidiaries, HSBC InvestDirect (Canada) Inc. and HSBC InvestDirect (Australia) Limited, to HSBC Merrill Lynch Holdings BV in exchange for shares in that company. The aggregate market value of these subsidiaries was US$100 million.

Associates

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

— Notes 14 and 15: amounts due from associates;

— Note 21: investments in associates; principal associated undertakings and interests in loan capital; and

— Notes 27 and 28: amounts due to associates.

Pension funds

At 31 December 2000, US$14.0 billion (1999: US$15.4 billion) of HSBC pension fund assets were under management by HSBC companies of which US$1,195 million (1999: US$1,240 million) is included in HSBC's balance sheet under 'Other assets' in 'Long-term assurance assets attributable to policyholders'. Fees to HSBC companies in connection with such management amounted to US$27 million (1999: US$37 million). HSBC's pension funds had deposits of US$303 million (1999: US$296 million) with banking subsidiaries within HSBC.

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 HSBC properties that do not represent impairments. If HSBC had prepared its financial statements under Hong Kong Statement of Standard Accounting Practice 17 'Property, plant and equipment', there would have been a net charge to the profit and loss account of US$17 million (1999: US$68 million) in respect of valuations below depreciated historical cost (of which a credit of US$1.4 million (1999: charge of US$1 million) relates to minority interests).

If HSBC had prepared its financial statements under Hong Kong Statement of Standard Accounting Practice 24 'Accounting for Investments in Securities', US$968 million (1999: US$718 million) would have been credited to reserves in respect of changes in the fair value of its long-term equity investments.

49 Differences between UK GAAP and US GAAP

The consolidated financial statements of HSBC are prepared in accordance with UK generally accepted accounting principles ('GAAP') which differs in certain significant respects from US GAAP. The following is a summary of the significant differences applicable to HSBC:

UK GAAP	**US GAAP**
Leasing	
Finance lease income is recognised so as to give a constant rate of return on the net cash investment in the lease, taking into account tax payments and receipts associated with the lease.	Unearned income on finance leases is taken to income at a rate calculated to give a constant rate of return on the investment in the lease, but no account is taken of the tax flows generated by the lease.
Leases are categorised as finance leases when the substance of the agreement is that of a financing transaction and the lessee assumes substantially all of the risks and benefits relating to the asset. All other leases are categorised as operating leases.	Leases are classified as capital leases when any of the criteria outlined under Statement of Financial Accounting Standards ('SFAS') No. 13 'Accounting for Leases' are met.
Operating leased assets are depreciated over their useful lives such that, for each asset, rentals less depreciation are recognised at a constant periodic rate of return on the net cash invested in that asset. Rentals receivable under operating leases are accounted for on a straight-line basis over the lease term.	Operating leased assets are depreciated such that in each period the depreciation charge is at least equal to that which would have arisen on a straight-line basis.

UK GAAP	US GAAP
Debt swaps	
Assets acquired in exchange for other advances in order to achieve an orderly realisation are reported as advances. The assets acquired are recorded at the carrying value of the advances disposed of at the date of the exchange, with any provision having been duly updated. Any subsequent deterioration in their value will be recorded as an additional provision.	Under SFAS No. 15 'Accounting by Debtors and Creditors for Troubled Debt Restructurings', debt securities and equity shares acquired in exchange for advances in order to achieve an orderly realisation are required to be accounted for at their fair value, usually their secondary market value, at the date of exchange. Under SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities', certain of these debt swaps qualify as securities and accordingly are classified as available for sale.
Shareholders' interest in the long-term assurance fund	
The shareholders' interest in the in-force life assurance and fund pensions policies of the long-term assurance fund is valued at the net present value of the profits inherent in such policies.	The net present value of these profits is not recognised. An adjustment is made to amortise acquisition costs and fees in accordance with SFAS No. 97 'Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments'.
Pension costs	
Pension costs, based on actuarial assumptions and methods, are charged so as to allocate the cost of providing benefits over the average remaining service lives of employees.	SFAS No. 87 'Employers' Accounting for Pensions' prescribes a similar method of actuarial valuation but requires assets to be assessed at fair value and the assessment of liabilities to be based on current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining service lives of current employees.
Share compensation schemes	
For executive share option schemes, such options are granted at fair value and no compensation costs are recognised under the 'intrinsic value method'. For Save-As-You-Earn schemes, employees are granted shares at a 15 per cent discount to fair value at the date of grant. No compensation cost is recognised for such awards. For longer term and other restricted share award schemes, the fair value of the shares awarded is charged to compensation cost over the period in respect of which performance conditions apply. To the extent the award is adjusted by virtue of performance conditions being met or not, the compensation cost is adjusted in line with this.	SFAS No. 123 'Accounting for Stock Based Compensation' encourages a fair value based method of accounting for stock based compensation plans. However, entities are permitted to continue with the Accounting Principles Board opinion ('APB') No. 25 'Accounting for Stock Issued to Employees' intrinsic value method where compensation cost is based on the difference between the market value of the stock and any contribution made by the employee.

UK GAAP	**US GAAP**
Goodwill	
For acquisitions prior to 1998, goodwill arising on the acquisition of subsidiary undertakings, associates or joint ventures was charged against reserves in the year of acquisition. In 1998, HSBC adopted FRS 10, 'Goodwill and intangible assets'. For acquisitions made on or after 1 January 1998, goodwill is included in the balance sheet and amortised over its estimated useful life on a straight-line basis. FRS 10 allows goodwill previously eliminated against reserves to be reinstated, but does not require it. In common with many other UK companies, HSBC elected not to reinstate such goodwill. HSBC considered whether reinstatement would materially assist the understanding of readers of its accounts who were already familiar with UK GAAP and decided that it would not. At the date of disposal of subsidiary undertakings, associates or joint ventures, any unamortised goodwill or goodwill charged directly against reserves is included in HSBC's share of total net assets of the undertaking in the calculation of the profit on disposal of the undertaking.	Goodwill is capitalised and amortised over its estimated useful life but not more than 25 years. Goodwill is written off when judged to have no recoverable value.
Costs of software for internal use	
HSBC generally expenses costs of software developed for internal use. If it can be demonstrated that conditions for capitalisation are met under FRS 10 or FRS 15 'Tangible fixed assets', purchased software can be capitalised and amortised over its useful life.	The American Institute of Certified Public Accountants' ('AICPA') Statement of Position ('SOP') 98-1 'Accounting for the costs of computer software developed or obtained for internal use' was issued in March 1998, to be effective for fiscal years beginning after 15 December 1998. It requires that all costs incurred in the preliminary project and post implementation stages of internal software development be expensed. Costs incurred in the application development stage must be capitalised and amortised over the estimated useful life.
Property	
HSBC values its properties on an annual basis and adjustments arising from such revaluations are taken to reserves.	US GAAP does not permit revaluations of property although it requires recognition of asset impairment. Any realised surplus or deficit is therefore reflected in income on disposal of the property.
HSBC depreciates non-investment properties based on cost or the revalued amounts. No depreciation is charged on investment properties other than leaseholds with 20 years or less to expiry.	Depreciation is charged on all properties based on cost.

UK GAAP	**US GAAP**
Investment securities	
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. Other participating interests are accounted for on the same basis. Where dated investment securities are purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from date of purchase to date of maturity and included in 'interest income'. 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 investment securities'.	Under SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities' all debt securities and equity shares are classified and disclosed within one of the following three categories: held-to-maturity; available for sale; or trading. Held-to-maturity debt securities are measured at amortised cost. Available for sale securities are measured at fair value with unrealised holding gains and losses excluded from earnings and reported net of applicable taxes and minority interests in a separate component of shareholders' funds. Trading securities are measured at fair value with unrealised holding gains and losses included in earnings.
Other debt securities and equity shares held for trading purposes 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'.	
Own shares held	
UK GAAP allows for the inclusion of own shares held within equity shares.	US GAAP requires a reduction in shareholders' equity for own shares held.
Dividends payable	
Dividends declared after the period end are recorded in the period to which they relate.	Dividends are recorded in the period in which they are declared.
Deferred taxation	
Deferred taxation is provided on timing differences using the liability method to the extent that it is probable that an actual liability or asset will crystallise.	As provided by SFAS No. 109 'Accounting for Income Taxes', deferred tax liabilities and assets are recognised in respect of all temporary differences. A valuation allowance is raised against any deferred tax asset where it is more likely than not that the asset, or a part thereof, will not be realised.

UK GAAP	**US GAAP**
Sale and repurchase transactions ('repos') and reverse repos	
Repos and reverse repos are accounted for as if the collateral involved remains with the transferor. On the balance sheet, repos are included within 'Deposits by banks' and 'Customer accounts' and reverse repos are included within 'Loans and advances to banks' or 'Loans and advances to customers'.	In September 2000, SFAS No. 125 'Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities' was replaced by SFAS No. 140 'Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities'. Under SFAS No. 140, repos and reverse repos transacted under agreements that give the transferee the right by contract or custom to sell or repledge the collateral, give rise to the following adjustments and disclosures. For repos, where the transferee has the right to sell or repledge the collateral the transferor would report the securities separately in the Financial Statements from other securities not so encumbered. For reverse repos, where the transferee has the right to sell or repledge the collateral the transferee should not recognise the pledged asset but should disclose the fair value of the collateral and if the transferee sells collateral pledged to it, the proceeds from the sale and the transferee's obligation to return the collateral should be recognised.
Acceptances	
Acceptances outstanding are not included in the consolidated balance sheet.	Acceptances outstanding and the matching customer liabilities are included in the consolidated balance sheet.
Profit and loss presentation	
The following items are separately disclosed in the profit and loss account:	
Provisions for contingent liabilities and commitments.	Classified as 'Operating expenses'.
Amounts written off fixed asset investments.	Classified as 'Other operating income'.
Gains on disposal of investments and tangible fixed assets.	Classified as 'Other operating income'.

The following tables summarise the significant adjustments to consolidated net income and shareholders' equity which would result from the application of US GAAP.

		2000		1999		1998	
NET INCOME	*Note*	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Attributable profit of HSBC (UK GAAP)			**6,628**		5,408		4,318
Lease financing			**(53)**		(53)		(93)
Debt swaps	*a*		**97**		(44)		3
Shareholders' interest in long-term assurance fund			**(140)**		(101)		(93)
Pension costs	*b*		**(113)**		(199)		(47)
Stock-based compensation	*c*		**(234)**		(133)		(31)
Goodwill	*d*		**(363)**		(296)		(320)
Internal software costs			**185**		137		—
Revaluation of property			**69**		34		79
Purchase accounting adjustments	*e*		**68**		130		—
Accruals accounted derivatives	*f*		**116**		—		—
Taxation	*g*						
— US GAAP		**(8)**		(20)		68	
— on reconciling items		**(32)**		37		68	
			(40)		17		136
Minority interest in reconciling items			**16**		(11)		(18)
Estimated net income (US GAAP)			**6,236**		4,889		3,934
Per share amounts			**US$**		US$		US$
Basic earnings per ordinary share	*k*		**0.71**		0.59		0.49
Diluted earnings per ordinary share	*k*		**0.70**		0.58		0.48

		2000		1999	
SHAREHOLDERS' EQUITY	*Note*	**US$m**	**US$m**	US$m	US$m
Shareholders' funds (UK GAAP)			**45,570**		33,408
Lease financing			**(267)**		(233)
Debt swaps	*a*		**(4)**		(108)
Shareholders' interest in long-term assurance fund			**(662)**		(563)
Pension costs	*b*		**(1,151)**		(1,093)
Goodwill	*d*		**2,562**		3,173
Internal software costs			**313**		137
Revaluation of property			**(3,044)**		(2,752)
Purchase accounting adjustments			**198**		130
Accruals accounted derivatives			**116**		—
Fair value adjustment for securities available for sale	*i*		**1,316**		736
Own shares held (Notes 19 and 25(a))			**(650)**		—
Dividend payable			**2,627**		1,754
Taxation	*g*				
— US GAAP		**737**		714	
— on reconciling items		**119**		395	
			856		1,109
Minority interest in reconciling items			**292**		232
Estimated shareholders' equity (US GAAP)			**48,072**		35,930

The following table provides an estimated summarised balance sheet for HSBC, which incorporates the estimated adjustments arising from the application of US GAAP:

	2000	1999#
	US$m	US$m
Assets		
Cash and balances at central banks	**5,006**	6,179
Items in the course of collection from other banks	**6,668**	5,826
Treasury bills and other eligible bills	**23,100**	23,213
Hong Kong SAR Government certificates of indebtedness	**8,193**	9,905
Loans and advances to banks	**126,032**	100,077
Loans and advances to customers	**289,870**	253,562
Debt securities and equity shares	**141,550**	115,176
Interests in associated undertakings and other participating interests	**1,432**	1,130
Intangible and tangible fixed assets	**29,019**	19,974
Due from customers on acceptances	**5,160**	4,482
Other assets (including prepayments and accrued income)	**44,046**	35,064
Total assets	**680,076**	574,588
Liabilities		
Hong Kong SAR currency notes in circulation	**8,193**	9,905
Deposits by banks	**60,053**	38,103
Customer accounts	**427,069**	359,972
Items in the course of transmission to other banks	**4,475**	4,872
Debt securities in issue	**27,956**	33,780
Acceptances outstanding	**5,160**	4,482
Other liabilities (including accruals and deferred income)	**70,602**	63,965
Provisions for liabilities and charges		
– deferred taxation	**705**	720
– other provisions for liabilities and charges	**4,552**	4,013
Subordinated liabilities	**16,222**	15,423
Minority interests	**7,017**	3,423
Shareholders' funds	**48,072**	35,930
Total liabilities	**680,076**	574,588

\# *1999 has been restated to exclude the SFAS No. 125 adjustment to the balance sheet, which is not required under SFAS No. 140. The result of the exclusion is to reduce 'Debt securities and equity shares' and 'Other liabilities' by US$8,118 million.*

Net assets arising due to reverse repo transactions of US$12,341 million (1999: US$10,172 million) and US$12,158 million (1999: US$8,411million) are included under 'Loans and advances to banks' and 'Loans and advances to customers' respectively.

Net liabilities arising due to repo transactions of US$5,827 million (1999: US$6,669 million) and US$10,485 million (1999: US$6,470 million) are included in 'Deposits by banks' and 'Customer accounts' respectively. Average repo liabilities during the year were US$15,374 million (1999: US$14,669 million). The maximum quarter-end repo liability outstanding during the year was US$16,313 million (1999: US$13,139 million).

HSBC enters into repo and reverse repo transactions which are accounted for as secured borrowings. Under SFAS No. 140, securities pledged as collateral whereby the counterparty has the right to sell or repledge the collateral would be reclassified within 'Debt securities and equity shares' and 'Treasury bills and other eligible bills' as encumbered. As at 31 December 2000, the impact on 'Debt securities and equity shares' and 'Treasury bills and other eligible bills' would be to reclassify securities amounting to US$18,352 million as encumbered.

As at 31 December 2000, collateral received under reverse repo transactions where HSBC has the right to sell or repledge the security obtained amounted to US$30,832 million gross.

As at 31 December 2000, approximately US$26 billion of the collateral obtained from reverse repo transactions had been sold or pledged by HSBC in connection with repo transactions and securities sold not yet purchased. At 31 December 1999, reverse repo transactions which would have resulted in an adjustment to 'Debt Securities and equity shares' and Other liabilities' under SFAS No.125 amounted to US$ 8,118 million.

HSBC also enters into stock lending and borrowing transactions for which either cash or other securities may be received in exchange. Stock lending transactions where the securities lent are subject to sale or repledge amounted to US$3,958 million. Stock borrowing transactions where the securities borrowed are subject to sale or repledge amounted to US$6,718 million.

(a) *Debt swaps*

Under UK GAAP, assets acquired in exchange for advances in order to achieve an orderly realisation are included at the net book value of the advance disposed of at the date of exchange, with any provision having been duly updated. Under SFAS 15, such assets are included at the fair value at the date of acquisition. Under US GAAP, the adjustment to shareholders' funds, before tax, would be a decrease of US$4 million (1999: US$108 million) and profit before tax would increase by US$97 million (1999: decrease US$44 million; 1998: increase US$3 million) to show such assets at their fair value at the date of acquisition.

(b) *Pension costs*

For the purpose of the above reconciliations, the provisions of SFAS No. 87 'Employers' Accounting for Pensions', have been applied to HSBC's main pension plans, which make up approximately 93% of all HSBC's schemes in terms of plan assets. For non-US schemes, HSBC has applied SFAS No. 87 'Employers' Accounting for Pensions' with effect from 30 June 1992 as it was not feasible to apply it as of January 1989, the date specified in the standard.

The projected benefit obligation in excess of plan assets at 30 June 1992 for the HSBC Bank (UK) Pension Scheme has been recognised as a liability under the purchase accounting requirements of APB No. 16 'Business Combinations'. For other pension plans, the excess of the projected benefit obligation over plan assets at 30 June 1992 is recognised as a charge to pension expense over 15 years.

On 25 March 1998, HSBC Bank Brasil S.A. – Banco Múltiplo assumed liability for pension schemes which were previously the responsibility of Banco Bamerindus do Brasil. This transfer arose on completion of the intervention period. The projected benefit obligation in excess of plan assets at that date has been recognised as a liability under the purchase accounting adjustments of APB No. 16 'Business Combinations'.

Plan assets in excess of the projected benefit obligation at 31 December 1999 for Republic New York Corporation pension schemes have been recognised as assets under the purchase accounting requirements of APB No. 16 'Business Combinations'.

The projected benefit obligation in excess of plan assets at 28 July 2000 for Crédit Commercial de France has been recognised as a liability under the purchase accounting adjustments of APB No.16 'Business Combinations.'

Estimated pension costs for these plans computed under SFAS No. 87 are as follows:

	2000 **US$m**	1999 US$m	1998 US$m
Components of net periodic benefit cost			
Service cost	**445**	413	371
Interest cost	**736**	716	734
Expected return on plan assets	**(764)**	(633)	(739)
Amortisation of prior service cost	**4**	4	4
Amortisation of unrecognised net liability at 30 June 1992	**4**	4	3
Amortisation of recognised net actuarial (gain)	**(47)**	(13)	(15)
Net periodic pension cost	**378**	491	358
Employee contributions	**(2)**	(2)	(2)
Net periodic pension cost	**376**	489	356

The US GAAP pension cost of US$376 million (1999: US$489 million; 1998: US$356 million) compares with US$263 million for these plans under UK GAAP (1999: US$290 million; 1998: US$309 million) for the schemes included in the SFAS No. 87 calculation.

	2000 **US$m**	1999 US$m
Change in projected benefit obligation		
Projected benefit obligation as at 1 January	**13,238**	12,987
Service cost	**445**	413
Interest cost	**736**	716
Employee contributions	**2**	2
Net actuarial loss/(gain)	**278**	(310)
Acquisition	**227**	263
Transfers in[1]	**1,009**	—
Benefits paid	**(488)**	(447)
Exchange movements	**(966)**	(386)
Projected benefit obligation as at 31 December	**14,481**	13,238
Change in plan assets		
Plan assets at fair value as at 1 January	**12,971**	10,605
Actual return on plan assets	**904**	2,411
Acquisition	—	350
Transfers in[1]	**1,009**	—
Employer contributions	**299**	285
Employee contributions	**2**	2
Benefits paid	**(488)**	(447)
Exchange movements	**(869)**	(235)
Plan assets at fair value as at 31 December	**13,828**	12,971
Funded status	**(653)**	(267)
Unrecognised net obligation existing at 30 June 1992	**19**	24
Unrecognised net actuarial (gain)	**(809)**	(1,015)
Unrecognised prior service cost	**26**	32
Accrued pension cost	**(1,417)**	(1,226)
Amounts recognised under US GAAP:		
Prepaid benefit cost	**261**	217
Accrued benefit liability	**(1,678)**	(1,443)
Accrued pension cost	**(1,417)**	(1,226)

1 *During 2000 the schemes of certain other HSBC entities were collectively merged into the HSBC Bank (UK) Pension Scheme. None of these schemes were individually significant.*

US GAAP adjustment:

Accrued net pension cost under US GAAP	**(1,417)**	(1,226)
Pension liability recognised for these schemes under UK GAAP	**266**	133
	(1,151)	(1,093)

Plan asset valuations are as at 31 December with the exception of the HSBC Bank (UK) Pension Scheme plan assets which are valued as at 30 September.

In 2000, plans with an aggregate accumulated benefit obligation of US$411 million (1999: US$230 million) and assets with an aggregate fair value of US$nil (1999: US$ nil) had an accumulated benefit obligation in excess of plan assets.

Plans with an aggregate projected benefit obligation of US$12,949 million (1999: US$10,878 million) and assets with an aggregate fair value of US$12,210 million (1999: US$10,147 million) had a projected benefit obligation in excess of plan assets.

Plan assets are invested primarily in equities, fixed interest securities and property.

The projected benefit obligation at 30 September 2000 and 1999 for the HSBC Bank (UK) Pension Scheme and at 31 December 2000 and 1999 for the remainder of HSBC's main pension plans has been calculated using the following financial assumptions:

		2000	1999
		% per annum	% per annum
Discount rate	United Kingdom	**5.5**	5.5
	Hong Kong	**7.5**	8.5
	Jersey	**5.0**	5.5
	Brazil	**10.3**	11.3
	United States	**7.8**	8.0
	France	**5.0**	—
Return on assets	United Kingdom	**6.0**	5.5
	Hong Kong	**9.0**	10.0
	Jersey	**5.0**	5.5
	United States	**9.5**	9.5
Rate of pay increase	United Kingdom	**4.0**	4.5
	Hong Kong	**7.0**	7.5
	Jersey	**2.5**	3.0
	Brazil	**6.1**	8.1
	United States	**5.2**	5.2
	France	**2.5**	—

(c) *Stock-based compensation*

SFAS No. 123 encourages the adoption of accounting for share compensation schemes based on their estimated fair value at the date of grant. The disclosure requirements are only applicable to options and other awards granted from 1 January 1995 onwards and, in the initial phase-in period, the amounts reported will not be representative of the effect on reported net income for future years.

The SFAS No. 123 charge for the fair value of options granted since 1 January 1997 is US$234 million (1999: US$133 million; 1998: US$31 million).

The Executive Share Option Scheme, Group Share Option Plan, Savings-Related Share Option Scheme and Restricted Share Plan fall within the scope of SFAS No. 123. The disclosures of options outstanding only relate to those granted from 1995 onwards.

Analysis of the movement in the number and weighted average exercise price of options is set out below.

Executive Share Option Scheme

The Executive Share Option Scheme is a long-term incentive scheme available to certain HSBC employees with grants usually made each year. Options are granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions. No further grants will be made under the Scheme following the adoption of the Group Share Option Plan.

	2000		1999		1998	
	Number	*Weighted average exercise price*	*Number*	*Weighted average exercise price*	*Number*	*Weighted average exercise price*
	(000's)	**£**	(000's)	£	(000's)	£
Outstanding at beginning of year	**84,765**	**6.10**	15,093	4.45	12,303	3.51
Granted in the year	**32,789**	**7.46**	72,539	6.38	4,497	6.28
Exercised in the year	**(4,059)**	**4.11**	(1,207)	2.65	(1,539)	2.29
Less: Forfeited in the year	**(4,071)**	**6.65**	(1,660)	5.86	(168)	4.49
Outstanding at end of year	**109,424**	**6.56**	84,765	6.10	15,093	4.45

The weighted average fair value of options granted in the year as at the date of grant is £3.29 (1999: £2.57; 1998: £2.37).

The weighted average exercise price of options granted in 1997 was £5.04 (1996: £3.33; 1995: £2.17).

Group Share Option Plan

The Group Share Option Plan is a long-term incentive plan available to certain HSBC employees that was adopted by HSBC during the year. Options are granted at market value and are normally exercisable between the third and tenth anniversaries of the date of grant, subject to vesting conditions.

	2000	
	Number	*Weighted average exercise price*
	(000's)	**£**
Granted in the year	**460**	9.64
Less: Forfeited in the year	**(5)**	9.64
Outstanding at the end of year	**455**	9.64

The weighted average fair value of options granted in the year as at the date of grant is £3.10.

Savings-Related Share Option Schemes

The Savings-Related Share Option Schemes invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares. The options are exercisable within six months following the fifth anniversary of the commencement of the savings contract, at a 15 per cent discount to the market value at the date of grant.

	2000		1999		1998	
	Number	*Weighted average exercise price*	*Number*	*Weighted average exercise price*	*Number*	*Weighted average exercise price*
	(000's)	**£**	(000's)	£	(000's)	£
Outstanding at beginning of year	**115,664**	**3.81**	89,754	3.28	77,763	2.80
Granted in the year	**48,195**	**6.03**	31,261	5.44	20,808	5.22
Exercised in the year	**(37,595)**	**1.84**	(1,308)	2.23	(744)	2.11
Less: Forfeited in the year	**(4,952)**	**5.08**	(4,043)	4.28	(8,073)	3.79
Outstanding at end of year	**121,312**	**5.25**	115,664	3.81	89,754	3.28

The maximum term of options granted in the year is 5½ years from the date of grant (1999: 5½ years; 1998: 5½ years).

The options granted in 2000, 1999 and 1998 were granted at a 15 per cent discount to the market value at the date of grant.

The weighted average fair value of options granted in the year as at the date of grant is £2.72 (1999: £2.75; 1998: £2.27).

The weighted average exercise price of options granted in 1997 was £2.80 (1996: £3.06; 1995: £1.81).

For the schemes noted above, the range of exercise prices, weighted average fair values at the date of grant and the weighted average remaining contractual life for options outstanding at the balance sheet date are as follows:

	2000			1999		1998	
	Executive Share Option Scheme	*Group Share Option Plan*	*Savings-Related Share Option Schemes*	*Executive Share Option Scheme*	*Savings-Related Share Option Schemes*	*Executive Share Option Scheme*	*Savings-Related Share Option Schemes*
Exercise price range (£)	**2.17-7.87**	**9.64**	**1.81-6.52**	2.17-7.87	1.81-6.52	2.17-7.80	1.81-6.52
Fair value (£)	**2.71**	**3.10**	**2.42**	2.17	1.82	1.64	1.49
Weighted average remaining contractual life (years)	**8.37**	**9.76**	**2.95**	8.90	2.18	7.93	2.44

Fair values of share options are calculated at the date of grant using a binomial model which produces similar results to the Black-Scholes model. The significant weighted average assumptions used to estimate the fair value of the options granted in 2000 are as follows:

	Executive Share Option Scheme	*Group Share Option Plan*	*Savings-Related Share Option Schemes*
Risk-free interest rate	6.20%	6.15%	6.60%
Expected life (years)	10	10	5.5
Expected volatility	32%	29%	32%

Crédit Commercial de France

CCF granted share purchase and subscription offers to certain executives of CCF, directors and officers, as well as to certain senior executives of subsidiaries.

Options granted between 1994 and 1999 vested upon announcement of HSBC's intent to acquire CCF and were therefore included in the valuation of CCF.

CCF granted 908,000 options during the current year. These options were granted after the public announcement of the acquisition and did not vest as a result of the change in control. The options are subject to continued employment and vest on 1 January 2002. The CCF shares obtained on exercise of the options are exchangeable for HSBC's ordinary shares of US$0.50 each in the same ratio as the Exchange Offer for Crédit Commercial de France shares (13 ordinary shares of US$0.50 for each CCF share). Options are granted at market value and are exercisable within 10 years of the vesting date.

	Number	*Weighted average exercise price*
		£
Granted during the year	**909,000**	6.68
Less: Forfeited in the year	**(500)**	6.68
Outstanding at the end of the year	**908,500**	6.68

The weighted average exercise price of options granted during the year was £6.68, the fair value as at the date of grant was £41.88 and the weighted average remaining contractual life for options outstanding at the balance sheet date was 11 years.

Restricted Share Plan

Conditional awards under the Restricted Share Plan

Conditional awards under the Restricted Share Plan have been in operation since 1996. It is intended to align the interests of executives to the creation of shareholder value. This is achieved by setting certain Total Shareholder Return targets which must normally be attained in order for the awards to vest.

	2000 *Number* **(000's)**	1999 *Number* (000's)	1998 *Number* (000's)
Outstanding at beginning of year	**2,085**	412	208
Additions during the year	**2,085**	1,673	257
Less: Forfeited in the year	**(78)**	—	(53)
Outstanding at end of year	**4,092**	2,085	412

The weighted average purchase price for shares purchased by HSBC for conditional awards under the Restricted Share Plan is £7.06 (1999: £6.35; 1998: £5.92).

The weighted average remaining vesting period as at 31 December 2000 was 3.25 years (1999: 3.5 years; 1998: 2.74 years).

The 2001 conditional awards from the Restricted Share Plan in respect of 2000 will have an aggregate value at the date of award of £8.86 million.

Other awards made under the Restricted Share Plan

Other awards are made to key employees under the Restricted Share Plan as part of their annual bonus. The awards vest from one to three years from the date of award.

	2000 *Number* **(000's)**	1999 *Number* (000's)	1998 *Number* (000's)
Outstanding at beginning of year	**10,747**	8,601	2,742
Additions during the year	**13,580**	4,983	6,566
Less: Released in the year	**(4,964)**	(2,837)	(707)
Outstanding at end of year	**19,363**	10,747	8,601

The weighted average purchase price for shares purchased by HSBC for other awards under the Restricted Share Plan is £7.26 (1999: £6.29; 1998: £5.74).

The weighted average remaining vesting period as at 31 December 2000 was 2.35 years (1999: 1.57 years; 1998: 1.91 years).

(d) *Goodwill*

Goodwill arises on the acquisition of subsidiary or associated undertakings when the cost of acquisition exceeds the fair value of HSBC'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, in 'Interests in associated undertakings' in respect of associates and in 'Interests in joint ventures' in respect of joint ventures. 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.

Under US GAAP, goodwill on acquisition both pre and post 1 January 1998 would have been capitalised and amortised over its estimated useful life. At 31 December 2000, the cost of goodwill acquired both pre and post 1 January 1998 on a US GAAP basis was US$20,559 million (1999: US$11,587 million; 1998: US$5,316 million) and accumulated amortised goodwill was US$2,441 million (1999: US$1,762 million; 1998: US$1,530 million). Amortisation periods applied to purchased goodwill range from 5 to 20 years.

(e) *Purchase accounting adjustments*

Under UK GAAP certain costs which relate to either post acquisition management decisions or decisions made prior to the acquisition are required to be expensed to the profit and loss account and cannot be capitalised as goodwill.

(f) *Accruals accounted derivatives*

Under UK GAAP, internal derivatives used to hedge banking book transactions may be accruals accounted. Under US GAAP, any such derivatives entered into post 1 January 1999 must be marked-to-market unless there is a designated matching transaction entered into with a third party. In prior reporting periods, the difference between the book values and mark-to-market values of such derivatives was not significant and, therefore, there was no adjustment to net income. However, following movements in market rates in the latter part of 2000, together with the acquisition of CCF which has a significant portfolio of internal accruals accounted derivatives, the mark-to-market of derivatives entered into post 1 January 1999 has become significant. Accordingly, an adjustment has been made to net income for the full year 2000.

(g) *Taxation*

The components of the net deferred tax liability calculated under SFAS No. 109 'Accounting for Income Taxes', are as follows:

	2000	1999
	US$m	US$m
Deferred tax liabilities:		
Leasing transactions	**995**	1,097
Capital allowances	**38**	81
Provision for additional UK tax on overseas dividends	**120**	204
Reconciling items	**430**	102
Other	**471**	240
Total deferred tax liabilities	**2,054**	1,724
Deferred tax assets:		
Provisions for bad and doubtful debts	**902**	785
Tax losses	**578**	632
Reconciling items	**577**	472
Other	**652**	530
Total deferred tax assets before valuation allowance	**2,709**	2,419
Less: valuation allowance	**(682)**	(700)
Deferred tax assets less valuation allowance	**2,027**	1,719
Net deferred tax liability under SFAS No. 109	**27**	5
Included within 'other assets' under US GAAP	**(678)**	(715)
Included within 'deferred tax liabilities' under US GAAP	**705**	720

The valuation allowance against deferred tax assets principally relates to trading and capital losses carried forward which have not been recognised due to uncertainty as to when and if they will be utilised.

(h) *Loans and advances*

SFAS No. 114 'Accounting by Creditors for Impairment of a Loan' as amended by SFAS No. 118 'Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures' is effective for accounting periods beginning after 15 December 1994. SFAS No. 114 addresses accounting by creditors for impairment of a loan by specifying how allowances for credit losses for certain loans should be determined. A loan is impaired when it is probable that the creditor will be unable to collect all amounts in accordance with the contractual terms of the loan agreement. Impairment is measured based on the present value of expected future cash flows discounted at the loan's effective rate or, as an expedient, at the fair value of the loan's collateral. Leases, smaller-balance homogeneous loans and debt securities are excluded from the scope of SFAS No. 114.

At 31 December 2000, HSBC estimated that the difference between the carrying value of its loan portfolio on the basis of SFAS No. 114 and its value in HSBC's UK GAAP financial statements was such that no adjustment to net income or shareholders' equity was required.

Impaired loans are those reported by HSBC as non-performing; the value of such loans at 31 December 2000 amounted to US$10,395 million (1999: US$10,567 million). Of this total, loans which were included within the scope of SFAS No. 114 and for which a provision has been established amounted to US$9,180 million (1999: US$9,025 million). The impairment reserve in respect of these loans estimated in accordance with the provisions of SFAS No. 114 was US$5,108 million (1999: US$4,657 million). During the year ended 31 December 2000, impaired loans, including those excluded from SFAS No. 114, averaged US$9,099 million (1999: US$9,389 million) and interest income recognised on these loans was US$324 million (1999: US$328 million, 1998: US$192 million).

(i) *Investment securities*

Under UK GAAP, debt securities and equity shares intended to be held on a continuing basis are classified as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value. Other participating interests are accounted for on the same basis. 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 and included in 'interest income'. These securities are included in the balance sheet at cost adjusted for the amortisation of premium and discounts arising on acquisition. 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'.

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. Debt securities and listed equity shares which were acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances under UK GAAP.

Under SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities', all the above debt securities and equity shares, with the exception of equity investments without a readily determinable market value, are classified and disclosed within one of the following three categories: held-to-maturity; available for sale; or trading. Held-to-maturity securities are measured at amortised cost less provision for any permanent diminution in value. Available for sale securities are measured at fair value with unrealised holding gains and losses excluded from earnings and reported net of applicable taxes and minority interests in a separate component of shareholders' funds. Trading securities are measured at fair value with unrealised holding gains and losses included in earnings.

Under US GAAP, HSBC's investment securities, other participating interests, and debt securities and equity shares with a readily determinable market value acquired in exchange for advances are classified as available for sale securities except for certain securities held by RNYC at acquisition which were classified as held-to-maturity. All other debt and equity shares are categorised as trading securities.

The book and market values of these debt securities and equity shares with a readily determinable market value are analysed as follows:

	2000		1999	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	**US$m**	US$m	US$m
Trading	**56,586**	**56,586**	29,297	29,297
Available for sale	**100,560**	**101,876**	104,040	104,776
Held-to-maturity	**4,438**	**4,604**	4,812	4,812

Trading Assets

The following table provides an analysis of trading assets, which are valued at market value and the net gains/(losses) resulting from trading activities:

	2000		1999	
	Market valuation	*Gains/(losses)*	*Market valuation*	*Gains/(losses)*
	US$m	**US$m**	US$m	US$m
US Treasury and Government agencies	**11,565**	**84**	10,062	111
UK Government	**3,473**	**32**	1,525	28
Hong Kong SAR Government	**3,780**	**7**	1,638	2
Other government	**9,355**	**55**	3,046	68
Asset-backed securities	**1,611**	**24**	1,591	3
Corporate debt and other securities	**23,335**	**79**	8,478	(15)
Equities	**3,467**	**200**	2,957	245
	56,586	**481**	29,297	442

Trading assets are marked to market and all profits and losses are deemed realised.

Available for sale

The following table provides an analysis of available for sale securities:

	Book value	*Market valuation*	*Gross SFAS No. 115 adjustment*	*Tax and minority interests*	*Net SFAS No. 115 adjustment*
	US$m	US$m	US$m	US$m	US$m
As at 31 December 2000					
Investment securities (excluding investments with no readily determinable market value)	**100,053**	**101,332**	**1,279**	**(504)**	**775**
Other participating interests	**105**	**137**	**32**	**(5)**	**27**
Brady bonds[(i)]	**366**	**338**	**(28)**	**12**	**(16)**
Other debt securities and equity shares acquired in exchange for advances[(i)]	**36**	**101**	**65**	**(20)**	**45**
Derivatives used to hedge investment securities classified as available for sale[(ii)]	**—**	**(32)**	**(32)**	**6**	**(26)**
Securities available for sale at 31 December 2000	**100,560**	**101,876**	**1,316**	**(511)**	**805**
Securities available for sale at 31 December 1999	104,040	104,776	736	(300)	436
Movement in the year ended 31 December 2000			**580**	**(211)**	**369**

(i) Debt securities and equity shares with a readily determinable market value that have been acquired through debt swaps (which under UK GAAP are included as loans and advances) would qualify as available for sale securities. The book value of these securities already incorporates a SFAS No. 15 adjustment of US$4 million at 31 December 2000 (1999: US$108 million) as discussed in (a) above.

(ii) Unrealised gains and losses on financial instruments which hedge securities classified as available for sale under SFAS No. 115 should be reported in a separate component of shareholders' funds, consistent with the reporting of securities classified as available for sale. The market value of derivatives entered into to hedge the value of debt securities classified as available for sale, amounting to a negative mark-to-market value of US$32 million at 31 December 2000 (1999: US$21 million), has been included in the above table.

(j) *Fair value of financial instruments*

SFAS No. 107 'Disclosures about Fair Value of Financial Instruments' requires disclosure of the estimated fair values of certain financial instruments, both on-balance-sheet and off-balance-sheet, where it is practicable to do so.

Where possible, fair values have been estimated using market prices for the financial instruments. Where market prices are not available, fair 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. The fair value information presented represents HSBC's best estimate of those values and may be subject to certain assumptions and limitations.

The fair values presented in the table on page 228 are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date. In many cases, the estimated fair values could not be realised immediately and accordingly do not represent the value of these financial instruments to HSBC as a going concern.

HSBC has excluded the fair value of intangible assets, such as values placed on its portfolio of core deposits, credit card relationships and customer goodwill, as these are not considered to constitute financial instruments for the purposes of SFAS No. 107. HSBC believes such items to be significant and essential to the overall evaluation of HSBC's worth.

In view of the above, comparisons of fair values between financial institutions may not be meaningful and users are advised to exercise caution when using this data.

Financial instruments for which fair value is equal to carrying value

The following table lists those financial instruments, within the scope of SFAS No. 107, where carrying value is an approximation of fair value because they are either (i) carried at market value or (ii) short term in nature or reprice frequently. By definition, the fair value of trading account assets and liabilities, including derivative instruments, equals carrying value. Carrying values of these instruments are presented on the balance sheets and related notes on pages 128 to 231.

Assets	*Liabilities*
Cash and balances at central banks	Deposits by banks repayable on demand or that mature / reprice within six months
Items in the course of collection	Customer accounts repayable on demand or that mature / reprice within six months
Hong Kong SAR Government certificates of indebtedness	Hong Kong SAR currency notes in circulation
Trading debt securities and equity shares	Short-term positions in treasury bills, debt securities and equity shares
Treasury bills and other eligible bills	Items in the course of transmission
Other assets	Other liabilities
Prepayments and accrued income	Accruals and deferred income
Off-balance-sheet trading instruments	Provisions for liabilities and charges
	Off-balance-sheet trading instruments

Other financial instruments

The fair value of other financial instruments within the scope of SFAS No. 107 is set out in the table below. The valuation technique adopted for each major category is discussed below:

Loans and advances to banks and customers

For personal and commercial loans and advances which mature or reprice after six months, fair value is principally estimated by discounting anticipated cash flows (including interests at contractual rates).

Performing loans are grouped, to the extent possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and credit risk characteristics.

The fair value for residential mortgages may be treated differently where there is an established market value for asset-backed securities, such as in the United States. In such situations, the fair value is estimated by reference to quoted market prices for loans with similar characteristics and maturities.

For non-performing uncollateralised commercial loans, an estimate is made of the time period to realise these cash flows and the fair value is estimated by discounting these cash flows at a risk-free rate of interest. For non-performing commercial loans where collateral exists, the fair value is the lesser of the carrying value of the loans, net of specific provisions, or the fair value of the collateral, discounted where appropriate. General provisions are deducted from the fair values of these non-performing loans.

Debt securities and equity shares held for investment purposes, and other participating interests

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

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 remaining maturities.

Debt securities in issue and subordinated liabilities

Fair value is estimated using quoted market prices at the balance sheet date.

The following table presents the carrying value and fair value for those financial instruments whose fair value is derived using these various estimation techniques:

	2000		1999	
	Carrying value	*Fair value*	*Carrying value*	*Fair value*
	US$m	**US$m**	US$m	US$m
Assets				
Loans and advances to banks and customers…...	**415,869**	**417,721**	353,644	354,390
Debt securities — non-trading.............................	**86,954**	**87,742**	88,340	88,252
Equity shares — non-trading...............................	**4,638**	**5,773**	1,521	2,432
Other participating interests.................................	**126**	**212**	280	362
Liabilities				
Deposits by banks and customer accounts...........	**487,122**	**487,174**	398,075	398,117
Debt securities in issue	**27,956**	**28,107**	33,780	33,838
Subordinated liabilities...	**16,222**	**16,168**	15,423	15,295
Non-equity minority interests	**5,171**	**5,535**	1,583	1,513

The carrying and fair values of non-trading derivative financial instruments are disclosed on page 188.

(k) *Earnings per share*

Basic earnings per share under US GAAP, SFAS No. 128 ‘Earnings per share’, is calculated by dividing net income of US$6,236 million (1999: US$4,889 million; 1998: US$3,934 million) by the weighted average number of ordinary shares in issue in 2000 of 8,777 million (1999: 8,296 million; 1998: 8,067 million).

Diluted earnings per share under US GAAP is calculated by dividing net income, which requires 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 in 2000 of 8,865 million (1999: 8,374 million; 1998: 8,124 million), as shown in Note 10.

(l) *Consolidated cash flow statement*

HSBC prepares its cash flow in accordance with the UK Financial Reporting Standard 1 (Revised 1996) ‘Cash flow statements’. Its objectives and principles are similar to those set out in SFAS No. 95 ‘Statement of cash flows’, as amended by SFAS No. 104 ‘Statement of cash flows — Net reporting of certain cash receipts and cash payments and classification of cash flows from hedging transactions’.

FRS 1 (Revised) defines cash as cash and balances at central banks and advances to banks payable on demand. Under US GAAP, *Cash equivalents* are defined as short-term highly liquid investments that are both:

— convertible to known amounts of cash; and

— so near their maturity that they present insignificant risk of changes in value because of fluctuations in interest rates.

The other principal differences between US and UK GAAP are in respect of classification. Under UK GAAP, HSBC presents its cash flows by: (a) Operating activities; (b) Dividends received from associates; (c) Returns on investment and servicing of finance; (d) Taxation; (e) Capital expenditure and financial investment; (f) Acquisitions and disposals; (g) Equity dividends paid; and (h) Financing. Under US GAAP, only three categories are required. These are: (a) Operating; (b) Investing; and (c) Financing.

Cash Flow	*Classification Under FRS 1 (Revised)*	*Classification Under SFAS No. 95/104*
Taxation	Taxation	Operating activities
Dividends received from associates	Dividends received from associates	Operating activities
Equity dividends paid	Equity dividends paid	Financing activities
Non-equity dividends paid and dividends to minority interests	Returns on investments and servicing of finance	Financing activities
Capital expenditure and financial investment	Capital expenditure and financial investment	Investing activities
Transfers of subsidiary undertakings, joint ventures and associates	Acquisitions and disposals	Investing activities
Net changes in loans and advances including finance lease payables	Operating activities	Investing activities
Net changes in deposits	Operating activities	Financing activities

Under FRS 1 (Revised), hedges are reported under the same heading as the related assets or liabilities.

For the purposes of the following table, HSBC has defined cash and cash equivalents as the sum of the following balance sheet categories:

	2000	1999	1998
	US$m	US$m	US$m
Cash and balances at central banks	**5,006**	6,179	3,048
Items in the course of collection from other banks	**6,668**	5,826	5,911
Loans and advances to banks repayable on demand	**19,332**	11,526	11,155
Less:			
Items in the course of transmission to other banks	**(4,475)**	(4,872)	(4,206)
	26,531	18,659	15,908

Set out below is a summary combined statement of cash flows under US GAAP.

	Year ended 31 December		
	2000	1999	1998
	US$m	US$m	US$m
Cash flows from operating activities	**16,464**	10,559	6,601
Cash flows from investing activities	**(31,300)**	(12,655)	(22,574)
Cash flows from financing activities	**23,545**	5,153	9,459
Effect of exchange rate changes on cash and cash equivalents	**(837)**	(306)	42
Net movement in cash and cash equivalents under US GAAP	**7,872**	2,751	(6,472)
Cash and cash equivalents at beginning of year	**18,659**	15,908	22,380
Cash and cash equivalents at the end of the year	**26,531**	18,659	15,908

The total interest paid by HSBC during the year was US$21,844 million (1999: US$17,550 million; 1998: US$21,500 million).

(m) *Future developments*

SFAS No. 133 'Accounting for Derivative Instruments and for Hedging Activities'

SFAS No. 133 was issued in June 1998 and amended in June 2000 by SFAS No.138. It is effective for HSBC from 1 January 2001.

SFAS 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that all derivatives be recognised as either assets or liabilities in the balance sheet and that those instruments be measured at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation as described below:

- For a derivative designated as hedging the exposures to changes in the fair value of a recognised asset or liability or a firm commitment, the gain or loss is recognised in earnings in the period of change together with the associated loss or gain on the hedged item attributable to the risk being hedged.
- For a derivative designated as hedging the exposure to variable cash flows of a recognised asset or liability, or of a forecasted transaction, the derivatives gain or loss associated with the effective portion of the hedge is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion is reported in earnings immediately.
- For net investment hedges, in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the change in fair value of the derivative associated with the effective portion of the hedge is included as a component of other comprehensive income together with the associated loss or gain on the hedged item. The ineffective portion is reported in earnings immediately.
- For a derivative not designated as a hedging instrument, the gain or loss is recognised in earnings in the period of change in fair value.

At the date of initial application HSBC, in its US GAAP financial statements, will recognise all derivatives on the balance sheet at fair value and all hedging relationships will be designated anew. Certain of the derivative contracts which qualify for hedge accounting under UK GAAP will not meet the requirements of SFAS 133. These contracts will be carried at fair value with changes in value included in earnings under US GAAP. Transition adjustments resulting from adopting this Statement shall be reported in US GAAP net income or other comprehensive income, as appropriate based on the hedging relationship, if any, that had existed for that derivative.

SFAS No. 140 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'

SFAS 140, issued in September 2000, replaces SFAS No. 125 'Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities'. It revises the standards for accounting for securitisations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of SFAS 125's provisions without change.

SFAS 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities of HSBC occurring after 31 March 2001. However, the provisions of SFAS 140 concerning the recognition and reclassification of collateral and disclosures relating to securitisation transactions and collateral are effective for HSBC's US GAAP reporting for the year ended 31 December 2000 and have been reflected in this Annual Report. SFAS 140 is to be applied prospectively with certain exceptions. Adoption is not expected to have a material impact on HSBC's US GAAP financial statements.

50 Subsequent events

On 22 February 2001 the French Finance Ministry announced the sale of Banque Hervet to CCF for a consideration of FRF3,471 million.

51 Approval of accounts

These accounts were approved by the Board of Directors on 26 February 2001.

Taxation

Taxation of 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. Currently, the associated tax credit is equivalent to 10 per cent of the combined cash dividend and tax credit, i.e. one-ninth of the cash dividend.

For individual shareholders who are resident in the United Kingdom for taxation purposes and liable to UK income tax at the basic rate, no further UK income tax liability arises on the receipt of a dividend from HSBC Holdings. 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. The tax credit is available for set-off against the higher rate liability, leaving net higher rate tax to pay equal to 25 per cent of the cash dividend. From 6 April 1999, individual UK resident shareholders have not been 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 their 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 are generally not subject to tax in Hong Kong.

Information on the taxation consequences of the HSBC Holdings scrip dividends offered in lieu of the 1999 second interim dividend and the 2000 first interim dividend was set out in the Secretary’s letters to shareholders of 23 March 2000 and 25 August 2000. In both cases, the market value of the scrip dividend was not substantially different from the dividend forgone and, accordingly, the price of HSBC Holdings US$0.50 ordinary shares (the ‘Shares’) for UK tax purposes for both dividends was the cash dividend forgone.

Taxation of capital gains

The computation of the capital gains tax liability arising on disposals of shares in HSBC Holdings by shareholders subject to UK capital gains tax can be complex, partly dependent on whether, for example, the shares were purchased since April 1991, acquired in 1991 in exchange for shares in The Hongkong and Shanghai Banking Corporation Limited, or acquired in 1992 in exchange 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 following 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.

Stamp duty and stamp duty reserve tax

Transfers of Shares generally will be subject to UK stamp duty at the rate of 0.5 per cent of the consideration paid for the transfer, and such stamp duty is generally payable by the transferee.

An agreement to transfer Shares, or any interest therein, normally will give rise to a charge to stamp duty reserve tax at the rate of 0.5 per cent of the consideration. However, provided an instrument of transfer of the Shares is executed in pursuance of the agreement and duly stamped before the date on which the stamp duty reserve tax becomes payable, under current UK Inland Revenue practice it will not be necessary to pay the stamp duty reserve tax, nor to apply for such tax to be cancelled. Stamp duty reserve tax generally is payable by the transferee.

Paperless transfers of Shares within CREST, the United Kingdom’s paperless share transfer system, are liable to stamp duty reserve tax at the rate of 0.5 per cent of the consideration. In CREST transactions, the tax is calculated and payment made automatically. Deposits of Shares into CREST generally will not be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration.

Taxation - US residents

The following is a summary of the US Federal tax considerations that are likely to be material to the ownership and disposition of Shares or ADSs by a holder that is a resident of the United States for the purposes of the income tax convention between the United States and the United Kingdom (the 'Treaty'), and is fully eligible for benefits under the Treaty (an 'eligible US holder'). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of Shares or ADSs. In particular, the summary deals only with eligible US holders that hold Shares or ADSs as capital assets, and does not address the tax treatment of holders that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold Shares or ADSs as part of an integrated investment (including a 'straddle') comprised of a Share or ADS and one or more other positions, and persons that own, directly or indirectly, 10 per cent or more of the voting stock of HSBC Holdings. This summary is based on the Treaty and the tax laws of the United States and the United Kingdom in effect on the date hereof, which are subject to change. In this regard, the tax authorities of the United States and the United Kingdom have been engaged in negotiations concerning a new tax treaty. It is impossible to predict when any new treaty will become effective or how it will affect shareholders. Prospective purchasers should consult their own advisers regarding the tax consequences of an investment in Shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national laws.

In general, the beneficial owner of a Share or ADS will be entitled to benefits under the Treaty (and, therefore, will be an eligible US holder) if it is (i) an individual resident of the United States, a US corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States as the income of a resident, either in its hands or in the hands of its partners or beneficiaries; and (ii) not also resident in the United Kingdom for UK tax purposes. Special rules, including a limitation of benefits provision, may apply in limited circumstances to certain investment or holding companies and tax-exempt entities. The Treaty benefits discussed below generally are not available to US holders that hold Shares or ADSs in connection with the conduct of a business through a permanent establishment, or the performance of personal services through a fixed base, in the United Kingdom.

Taxation of dividends

The Treaty contains provisions that are intended to extend the benefits of the UK integrated tax system to eligible US holders. The UK tax credit available to persons who are resident for tax purposes in the United Kingdom in respect of dividends is currently equal to one-ninth of the cash dividend, or the equivalent of 10 per cent of the sum of the dividend and the UK tax credit. The Treaty provides that an eligible US holder is entitled to receive a payment from the UK Inland Revenue equal to the amount of the tax credit, reduced by any deduction withheld from the payment. As a result of the changes in UK law in April 1999, the UK withholding tax (which, under UK law, may not exceed the UK tax credit) fully offsets the UK tax credit, and eligible US holders are no longer entitled to receive a cash payment from the UK Inland Revenue.

Under new procedures recently announced by the Internal Revenue Service, an eligible US holder may elect to include the tax credit available to UK residents as an additional distribution made by HSBC Holdings by filing an election on IRS 8833 with the shareholder's income tax return for the relevant year. If an eligible US holder makes the election, the shareholder will be subject to US tax on the sum of the cash dividend paid by HSBC Holdings and the UK tax credit without deduction for UK withholding tax (the 'gross dividend'). The gross dividend will constitute foreign source dividend income, and will not be eligible for the dividends received deduction. Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day when the dividends are received by the eligible US holder (or by the Depositary, in the case of ADSs). If such dividends are converted into US dollars on the day they are received, eligible US holders generally should not be required to recognise any foreign currency gain or loss in respect of the dividend income.

If an eligible US holder makes the election discussed above, the shareholder will be treated as paying UK withholding tax equal to the UK tax credit that, subject to generally applicable limitations, is eligible for credit against the shareholder's US federal income tax liability or, at the shareholder's election, may be deducted in computing taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities or in respect of arrangements in which an eligible US holder's expected economic profit, after non–US taxes, is insubstantial.

Taxation of capital gains

Gains realised by an eligible US holder on the sale or other disposition of Shares or ADSs normally will not be subject to UK taxation. Such gains will be included in income for US tax purposes, and will be long-term capital gains if the Shares or ADSs were held for more than one year. A long-term capital gain realised by an individual holder generally is subject to US tax at a maximum rate of 20 per cent.

Stamp duty and stamp duty reserve tax – ADSs

If Shares are transferred into a clearance service or depositary receipt arrangement (which will include a transfer of Shares to the Depositary) UK stamp duty and/or stamp duty reserve tax will be payable. The stamp duty or stamp duty reserve tax is generally payable on the consideration for the transfer and is payable at the aggregate rate of 1.5 per cent.

No stamp duty will be payable on the transfer of, or agreement to transfer, an ADS, provided that the ADR and any separate instrument of transfer or written agreement to transfer remain at all times outside the United Kingdom, and provided further that any such transfer or written agreement to transfer is not executed in the United Kingdom. No stamp duty reserve tax will be payable on a transfer of, or agreement to transfer, an ADS effected by the transfer of an ADR.
On a transfer of Shares from the Depositary to a registered holder of an ADS upon cancellation of the ADS, a fixed stamp duty of £5 per instrument of transfer will be payable by the registered holder of the ADR cancelled.

US backup withholding tax and information reporting

Distributions made on Shares and proceeds from the sale of Shares or ADSs that are paid within the United States, or through certain US-related financial intermediaries to US holders, are subject to information reporting and may be subject to a US ‘backup’ withholding tax unless, in general, the US holder complies with certain certification procedures or is a corporation or other person exempt from such withholding. Holders that are not US persons generally are not subject to information reporting or backup withholding tax, but may be required to comply with applicable certification procedures to establish that they are not US persons in order to avoid the application of such information reporting requirements or backup withholding tax to payments received within the United States or through certain US-related financial intermediaries.

Financial Calendar 2001

Publication of *Annual Report and Accounts*	26 February
Second interim dividend payable	2 May
Annual General Meeting	25 May
Announcement of interim results	1 August

Annual General Meeting

The 2001 Annual General Meeting will be held at the Barbican Hall, Barbican Centre, London EC2 on Friday, 25 May 2001 at 11.00 am.

Dividends

The Directors have declared a second interim dividend of US$0.285 per ordinary share (in lieu of a final dividend) which, together with the first interim dividend of US$0.15 already paid, will make a total distribution for the year of US$0.435 per share, an increase of 28 per cent on 1999. Information on the HSBC scrip dividend scheme and currencies in which the cash dividend may be paid is contained in the form and circular which will be sent to shareholders on 26 March 2001.

Postal Share-Dealing Service

For shareholders on the UK register, a low-cost postal share-dealing service for buying and selling HSBC Holdings' 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, Hong Kong

Investor Relations

Enquiries may be directed to:

Senior Manager Investor Relations
HSBC Holdings plc
10 Lower Thames Street
London EC3R 6AE
UK
Telephone: 44 020 7260 7252
Facsimile: 44 020 7260 9041

Annual Report and Accounts 2000

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
London EC3R 6AE
UK

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 after 26 March 2001 from:
Central Registration Hong Kong Limited
Rooms 1901-1905, Hopewell Centre
183 Queen's Road East
Hong Kong

Where more information about HSBC is available

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

US Investors may read and copy this Annual Report, and other reports, statements or information that HSBC Holdings files at the Securities Exchange Commission's public reference room in Washington D.C., which is located at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. These documents will also be available at the Commission's regional offices located at Seven World

Trade Center, Suite 1300, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Investors should call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Investors can request copies of these documents upon payment of a duplicating fee, by writing to the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, the deposit agreement requires HSBC Holdings to deliver to ADS holders, or to the depositary for forwarding to ADS holders, copies of all reports that HSBC Holdings files with the Commission without charge to these holders. Investors may also obtain the reports and other information HSBC Holdings files at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Nature of trading market

HSBC Holdings has listings on the London Stock Exchange, the Hong Kong Stock Exchange, Euronext Paris and the New York Stock Exchange. HSBC Holdings maintains its principal share register in London and an overseas branch share register in Hong Kong (collectively, the 'share register').

As at 31 December 2000, there were a total of 180,224 holders of record of US$0.50 ordinary shares.

As at 31 December 2000, a total of 5,843,294 of the US$0.50 ordinary shares were registered in the HSBC Holdings share register in the name of 645 holders of record with addresses in the United States. These shares represented 0.06 per cent of the total US$0.50 ordinary shares in issue.

As at 31 December 2000, there were approximately 1,834 holders of record of ADSs holding approximately 26.98 million ADSs, representing 134.9 million US$0.50 ordinary shares. Approximately 1,775 of these holders had addresses in the United States, holding approximately 26.9 million ADSs representing 134.66 million US$0.50 ordinary shares. As at 31 December 2000, approximately 1.45 per cent of the US$0.50 ordinary shares were represented by ADSs held by holders of record with addresses in the United States.

The following table shows, for the years, calendar quarters and months indicated, the highest and lowest prices for the US$0.50 ordinary shares and ADSs. These are based on mid-market prices at close of business on the London Stock Exchange, the Hong Kong Stock Exchange, Euronext Paris and the New York Stock Exchange.

Share prices have not been given for the 75p ordinary shares listed on the Hong Kong Stock Exchange until 2 July 1999 since on many days, the 75p shares had little or no turnover in Hong Kong.

Past share price performance should not be regarded as a guide to future performance.

High and low mid-market closing prices

	London						Hong Kong				New York		Paris	
	US$0.50 shares		75p shares		HK$10 shares		US$0.50 shares		HK$10 shares		ADSs		US$0.50 shares	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
	(pence)	(pence)	(pence)	(pence)	(pence)	(pence)	(HK$)	(HK$)	(HK$)	(HK$)	(US$)	(US$)	(euro)	(euro)
2000............	1046	682					117.5	82.8			76.6	54.3	17.6	14.2
1999............	866	632	815	519	816	486	109.0	83.3	100.0	61.8	71.4	53.8		
1998............			675	327	638	322			82.3	44.0				
1997............			782	424	751	414			93.0	51.7				
1996............			441	311	430	310			55.3	36.8				

	London						Hong Kong				New York		Paris	
	US$0.50 shares		75p shares		HK$10 shares		US$0.50 shares		HK$10 shares		ADSs		US$0.50 shares	
	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low	High	Low
	(pence)	(pence)	(pence)	(pence)	(pence)	(pence)	(HK$)	(HK$)	(HK$)	(HK$)	(US$)	(US$)	(euro)	(euro)
2000														
4th Quarter ...	1046	910					117.5	102.5			76.6	66.5	17.6	15.1
3rd Quarter ...	1033	749					116.0	88.8			74.7	58.3	17.0	14.2
2nd Quarter...	792	694					93.5	82.8			60.1	54.3		
1st Quarter....	823	682					108.0	85.0			70.7	55.4		
1999														
4th Quarter ...	866	632					109.0	83.3			71.4	53.8		
3rd Quarter ...	839	689					101.0	88.8			64.8	57.1		
2nd Quarter...			815	679	816	674			100.0	82.3				
1st Quarter....			666	519	658	486			81.3	61.8				

	London		Hong Kong		New York		Paris	
	US$0.50 shares		US$0.50 shares		ADSs		US$0.50 shares	
	High	Low	High	Low	High	Low	High	Low
2000	(pence)	(pence)	(HK$)	(HK$)	(US$)	(US$)	(euro)	(euro)
December	1044	938	117.5	106.5	76.6	68.7	17.3	15.5
November.................	1046	929	117.0	104.5	75.8	67.4	17.6	15.1
October.....................	1015	910	112.0	102.5	74.7	66.5	17.1	15.4
September.................	1033	929	116.0	103.0	74.7	68.6	17.0	15.5
August	991	893	115.0	102.5	73.9	67.9	16.3	14.5
July...........................	904	749	105.0	88.8	69.3	58.3	14.6	14.2

Notes

(i) US$0.50 ordinary shares were issued after the share capital reorganisation in 1999.

(ii) Shares prices prior to 2 July 1999 have been restated to reflect the share capital reorganisation.

(iii) Shares were not listed on the New York Stock Exchange prior to 16 July 1999.

(iv) Shares were not listed on the Paris Bourse (now Euronext Paris) prior to 28 July 2000.

Dividends on the ordinary shares of HSBC Holdings

HSBC Holdings has paid dividends on its ordinary shares every year without interruption since it became the HSBC Group holding company by a scheme of arrangement in 1991. The 75p ordinary shares and HK$10 ordinary shares were entitled to equal rights, including the right to a dividend, and all dividends were declared and paid with respect to both classes of shares. The dividends declared, per ordinary share*, for each of the last five years were:

		First Interim	Second Interim	Total
2000	US$	0.15	0.285	0.435
	£..........	0.103	0.191	0.294
	HK$	1.170	2.223	3.393
1999	US$	0.133	0.207	0.340
	£..........	0.081	0.131	0.212
	HK$	1.033	1.612	2.645
1998	US$	0.123	0.185	0.308
	£..........	0.073	0.115	0.188
	HK$	0.956	1.434	2.390
1997	US$	0.108	0.169	0.277
	£..........	0.067	0.100	0.167
	HK$	0.832	1.308	2.140
1996	US$	0.078	0.142	0.220
	£..........	0.050	0.087	0.137
	HK$	0.603	1.097	1.700

- *The second interim dividend for 2000 of US$0.285 per share has been translated into pounds sterling and Hong Kong dollars at the closing rate on 31 December 2000. The dividend will be paid on 2 May 2001.*

For the years ended 31 December 1996 to 31 December 1997, dividends on the 75p ordinary shares and the HK$10 ordinary shares were declared in pounds sterling and, at the shareholder's election, paid in either pounds sterling or Hong Kong dollars, or satisfied by the issue of new shares in lieu of a cash dividend. Dividends for such years expressed in US dollars have been translated into US dollars at the noon buying rates in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York for the dates on which dividends were paid.

For the year ended 31 December 1998 and onwards, dividends on the 75p ordinary shares, the HK$10 ordinary shares and the US$0.50 ordinary shares following the share reorganisation in 1999 have been declared in US dollars and, at the election of the shareholder, paid in cash in one of, or in a combination of, US dollars, pounds sterling and Hong Kong dollars, or satisfied in whole or in part by the issue of new shares in lieu of a cash dividend.

Memorandum and Articles of Association

The following information is a summary of the material terms of the HSBC Holdings' Memorandum of Association (the 'Memorandum') and Articles of Association as in effect at 31 December 2000 (the 'Articles') and certain relevant provisions of the Companies Act 1985, as amended (the 'Companies Act') as relevant to the holders of the ordinary shares of nominal value US$0.50 each (the 'Shares'). The Memorandum and Articles are registered with the Registrar of Companies of England and Wales with registered number 617987. Holders of the Shares are encouraged to read the full HSBC Holdings Memorandum and Articles, which are filed as an exhibit to this Annual Report.

Purpose and objects

HSBC Holdings was established to act as a holding company for conducting banking business of all kinds in all parts of the world and transacting and doing all matters and things incidental thereto. The specific objects for which HSBC Holdings was established are set forth in paragraphs 4.1 through 4.33 of the Memorandum.

Authorised capital

The authorised share capital of HSBC Holdings is:

- US$5,250,100,000, divided into 10,500,000,000 ordinary shares of nominal value US$0.50 each (the 'Shares') and 10,000,000 Dollar Preference Shares of US$0.01 each;
- £401,500, divided into 10,000,000 Sterling Preference Shares of £0.01 each and 301,500 Non-voting Deferred Shares of £1.00 each; and
- €100,000 divided into 10,000,000 Euro Preference Shares of €0.01 each.

HSBC Holdings maintains two share registers, a principal share register in London and an overseas branch share register in Hong Kong.

Description of Shares

Voting

Unless otherwise required by the Companies Act or the Articles, holders of Shares vote by ordinary resolution at general meetings for the election of directors, the declaration of dividends, the appointment of auditors, an increase of authorised share capital or the grant of authority to allot shares.

Subject to the restrictions referred to under 'Restrictions on voting' below and any special voting rights or restrictions attached to any class of shares, ordinary resolutions will be decided on a show of hands by a simple majority of shareholders present and voting at the meeting where each shareholder has one vote, regardless of the number of Shares held, unless a poll is demanded. On a poll, every holder who is present in person or by proxy and entitled to vote shall have one vote for every Share held. Holders of record of Shares may appoint a proxy to attend and vote on their behalf.

The chairman of the meeting has the casting vote in the event of a tie in either a show of hands or poll vote, in addition to any other vote he may have.

HSBC Holdings will send out written notice at least 21 clear days before an annual general meeting or an extraordinary general meeting convened to consider a special or extraordinary resolution, and at least 14 clear days before all other extraordinary general meetings. For general meetings to be valid, at least three holders of Shares entitled to vote must be present in person or by proxy.

Disclosure of interests in Shares

The Companies Act gives HSBC Holdings the power to require persons who it believes to be, or to have been within the previous three years, interested in its Shares, to disclose prescribed particulars of those interests. Failure to supply the information required may lead to disenfranchisement of the relevant Shares and, where those Shares represent at least 0.25 per cent of the Shares in issue of a class, a prohibition on their transfer and receipt of dividends and other payments in respect of those Shares. In this context, the term 'interest' is broadly defined and will generally include an interest of any kind whatsoever in Shares, including the interest of a holder of an HSBC Holdings ADS.

Restrictions on voting

Any holder of Shares (or any other person appearing to be interested in the Shares) who has been served with a notice pursuant to the Companies Act as described above, and has not given HSBC Holdings the information required by the notice within the prescribed period from the date of receiving the notice, will not be entitled to be present or to vote either personally or by proxy at a general meeting unless the Directors determine that this restriction should not apply.

A holder of Shares can vote (whether in person or by proxy) and exercise other rights or privileges as a holder of Shares only if he has paid all calls or other amounts presently due unless the board otherwise determines.

There are no limitations imposed by UK law or the Articles on the rights of holders of Shares who are not UK residents or citizens, due to their status as such, to hold or exercise voting rights on the Shares.

Dividends and other distributions

HSBC Holdings may, by ordinary resolution, declare dividends, but it may not pay dividends in excess of the amount recommended by the Directors. Except as otherwise provided by the terms of issue or special rights of any Shares, dividends are declared and paid according to the amounts paid on the Shares. HSBC Holdings may pay interim dividends. Dividends declared but not yet paid do not bear interest. The Board may deduct from any dividend declared but not yet paid to any person any amounts due from that person to HSBC Holdings on account of calls or otherwise in relation to the Shares. The Directors may, if authorised by an ordinary resolution, offer holders of Shares the right to elect to receive Shares instead of cash for the whole or any part of any dividend specified by the ordinary resolution. The Board can forfeit the right of a holder of Shares to a dividend that remains unclaimed for 12 years. Dividends with respect to HSBC Holdings' ADSs will be paid in US dollars and the depositary will distribute them to the holders of HSBC Holdings' ADSs.

The right of the holders of Shares to the payment of a dividend from the profits of HSBC Holdings is subject to the prior right to the payment of a dividend from the profits of HSBC Holdings of the holders, if any, of the Sterling Preference Shares, the Dollar Preference Shares and the Euro Preference Shares (together, the 'Preference Shares').

Liquidation

If HSBC Holdings is wound up, after payment of all liabilities, including the payment to any holders of HSBC Holdings Preference Shares of their rights in liquidation and the deduction of any provision made under section 719 of the Companies Act or section 187 of the Insolvency Act 1986 (which enables the liquidator to make payments to employees or former employees on the cessation or transfer of HSBC Holdings' business), the remaining assets available for distribution to holders of the Shares will be distributed among them in proportion to the number of Shares held by each. On the date of the distribution, the amount paid to any holder of Shares who has not fully paid for his Shares will be reduced to reflect the amount unpaid. After receiving approval of the holders of the Shares by an extraordinary resolution and meeting any other legal requirements, the liquidator may divide the assets in kind among the holders of the Shares in the manner that it sees fit.

Untraced shareholders

HSBC Holdings can sell any Share (including any further share issued in respect of that Share) if the holder has not cashed any cheque, order or warrant payable and HSBC Holdings has not received any communication in respect of the Share from the relevant holder (or other person entitled to the Share) for a period of 12 years during which at least three dividends were payable with respect to the Share. HSBC Holdings must advertise its intention to sell the Share in newspapers published in the United Kingdom and in Hong Kong (in the manner specified in the Articles) and inform the London Stock Exchange and the Hong Kong Stock Exchange of the same.

HSBC Holdings may then sell the Shares if it does not receive any response from the holder of the Shares within three months of publishing the advertisements. After selling the Shares, HSBC Holdings will owe the former holder of the Shares (or other person previously entitled to the Share) only the sale amount, without interest.

Transfer of Shares

HSBC Holdings Shares may be transferred by an instrument in any usual form or in any other form acceptable to the Directors. The Directors may refuse to register a transfer:

- if it is of Shares which are not fully paid;
- if it is not stamped (if required);
- if it not duly presented for registration together with the share certificate and other evidence of title as the Directors reasonably require;
- if it is in respect of more than one class of Shares or Shares denominated in different currencies;
- if it is in favour of more than four persons jointly;
- if HSBC Holdings has a lien on the Shares; or
- in certain circumstances, if the holder has failed to provide the required particulars as described under 'Disclosure of interests in Shares' above.

The transferor will remain the holder of the Shares concerned until the name of the transferee is entered in the share register in respect of the transfer.

If the Board refuses to register a transfer of a Share it must inform the transferee of its refusal within two months of receiving the transfer request. The Board must return the refused instrument of transfer to the person depositing it, except in the case of suspected fraud.

The registration of transfers may be suspended at any time and for any periods as the Directors may determine, although these suspensions may not exceed 30 days in any year.

Unless expressly provided by the Articles or required by law or court order, HSBC Holdings cannot recognise any person other than the registered holder of a Share as the owner of such Share.

Uncertificated shares

Shares may be held in uncertificated form. The Board may refuse to register a transfer of uncertificated Shares in such circumstances permitted or required by Regulations and the relevant system. HSBC Holdings cannot refuse to register uncertificated Shares for failure to comply with a notice concerning disclosure of interests in Shares given pursuant to the Companies Act. See 'Disclosure of interests in Shares' and 'Restrictions on voting' above.

Variation of class rights and alteration of share capital

Subject to the provisions of the Companies Act, the consent in writing of the holders of at least three-quarters of the Shares in a class, or the sanction by the shareholders of that class of an extraordinary resolution passed at a separate general meeting, is required to vary or abrogate the rights of the class, unless otherwise provided by the terms of issue of the Shares of that class. Two persons holding or representing by proxy at least one-third of the Shares of the relevant class must be present for the separate annual general meeting to be valid. The issuance of new shares ranking in priority to or *pari passu* with an existing class of Shares is not considered to be a 'variation' in the rights of already existing Shares, unless the existing Shares provide so expressly.

HSBC Holdings may also vary or abrogate rights attached to the Shares by a special resolution without the separate consent or sanction of the holders of any class of Shares so long as the rights attached to all the Shares are varied or abrogated in the same manner and to the same extent.

HSBC Holdings may issue Shares with rights or restrictions as it sees fit, including redeemable Shares, so long as it does so in accordance with the Companies Act and the Articles and without reducing any rights attached to any existing shares.

HSBC Holdings can increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its share capital into shares of a smaller amount (subject to the provisions of the Companies Act) or cancel any shares not taken or agreed to be taken by any person and reduce the amount of its authorised share capital accordingly.

Pre-emptive rights

Because HSBC Holdings is a public company incorporated in England and Wales, in general, holders of its Shares have automatic pre-emptive rights pursuant to section 89 of the Companies Act.

Lien on shares

HSBC Holdings has a lien on Shares which are not fully paid and for which payment is due (to the extent permitted by the Companies Act). The Board may waive the lien in whole or in part, or temporarily, and may sell Shares subject to a lien as it sees fit. The Board is entitled to sell a Share subject to the lien only after giving 14 days' notice of its intent to sell in default.

Calls

The Board may from time to time make calls on the holders of the Shares for any amounts unpaid on the Shares. These calls must be made with 14 clear days' notice specifying the time, place and manner of payment, which may include payment in instalments. The person on whom a call is made remains liable for the call despite any subsequent transfer of the Shares on which the call was made. The joint holders of a Share are jointly and severally liable for the payment of all calls.

Holders of Shares who have not paid all calls (and any accrued interest) due are not entitled to receive a dividend or vote at meetings of holders of the Shares either in person or by proxy (except as proxy for another member), are not counted as present and may not form part of a quorum.

Forfeiture of Shares

If any holder of Shares does not pay any part of any call on or before the payment date, the Board may send the holder of Shares a notice of the amount unpaid (including interest and other costs and expenses incurred by HSBC Holdings) and if the holder of Shares does not pay the amount owed within 14 clear days from the date of the notice, the Board may forfeit the relevant Share, at any time before full payment is made. The forfeited Share and any dividends declared or other moneys payable in respect of the forfeited Share will then become the property of HSBC Holdings.

Purchase of Shares

HSBC Holdings can purchase any of its own Shares of any class, including any redeemable Shares, in any manner that it deems fit, subject to the provisions of the Companies Act and the Articles.

Description of Preference Shares

The Articles authorise the issuance of Sterling Preference Shares, Dollar Preference Shares and Euro Preference Shares. The substantive provisions of the Articles relating to the Sterling, Dollar and Euro Preference Shares are substantively identical and have been summarised in general below.

As of 31 December 2000, HSBC Holdings had not issued any Preference Shares. In connection with the issuance of Non-cumulative Step-up Perpetual Preferred Securities on 17 April 2000 by the Jersey limited partnerships (see Note 33), HSBC Holdings agreed, if required and subject to the occurrence of certain events, to issue Preference Shares to the holders of those securities in exchange for those securities.

The Sterling Preference Shares, the Dollar Preference Shares and the Euro Preference Shares rank *pari passu* with each other and any additional class of shares designated by the Board as ranking equal to the Preference Shares.

The Board is empowered to determine any of the rights or limitations of any series of Preference Shares, other than as to ranking, prior to their issue. Each series of Preference Shares can have different rights and limitations.

Dividends

Each Preference Share confers the right to the payment of a dividend in priority to the right of payment to the holder of Shares and of any other class of shares of HSBC Holdings in issue, other than any other class of Preference Shares and any class of shares designated by the Board as ranking *pari passu* with the Preference Shares or which by their terms rank in priority to the Preference Shares, with respect to dividends. This right is to a non-cumulative preferential dividend in the relevant currency to be paid at a rate and in a manner, which may be fixed, floating, variable or determined in accordance with a specified formula or procedure, determined by the Board prior to issue.

The right of the holder of a Preference Share to receive a dividend is limited as described below. On any date that a dividend would otherwise fall to be paid on any Preference Shares, if:

- the profits of HSBC Holdings are, in the opinion of the Board, insufficient to enable payment in full to be made of the relevant dividend, the Board shall use the profits available to pay dividends to the persons entitled to such dividend *pro rata*, after payment in full of any dividends due before that date on any shares of HSBC Holdings ranked higher in priority to dividends. The holders entitled to receive the *pro rata* dividend will include the holders of the relevant Preference Shares and any other shares of HSBC Holdings ranking *pari passu* as to rights to dividends and on which either a dividend is payable on the relevant date or arrears of cumulative dividend are unpaid at the relevant date.

- the payment of any dividend on any Preference Shares would breach or cause a breach of the capital adequacy requirements of the FSA, or relevant successor entity, then none of the dividend shall be payable.

If a dividend or any part thereof is not paid for the reasons stated above, the holders of the relevant Preference Shares will have no further claim in respect of any amounts not paid.

If any dividend on any relevant Preference Share for a period determined by the Board prior to allotment is not paid in full, HSBC Holdings is not permitted:

- to purchase or redeem, or contribute money to any sinking fund for the purchase or redemption of, any other share capital ranking *pari passu* with or after the relevant Preference Shares; or

- to declare or pay a dividend on any of its share capital ranking as to the right to dividends after the relevant Preference Shares

until HSBC Holdings has paid, or set aside money for the payment for, in full the dividend for the relevant Preference Shares.

Liquidation

Upon the winding up of HSBC Holdings (but not upon a redemption, reduction or purchase by HSBC Holdings unless otherwise provided by the terms of issue of that Preference Share), each Preference Share confers on the holder the right to receive a payment in the relevant currency out of the assets of HSBC Holdings available for distribution to shareholders. This right ranks higher in priority than the right of payment upon a winding up of HSBC Holdings of the holders of Shares and of any other class of shares of HSBC Holdings in issue, other than any other class of Preference Shares and any class of shares designated by the Board as ranking *pari passu* with the Preference Shares or which by their terms rank in priority to the Preference Shares, with respect to assets upon a winding up. The amount of this payment upon liquidation is equal to:

- the amount of any dividend due for payment after the date of the commencement of the winding up and payable for the period ending on or before such date
- if the date of the commencement of the winding up falls before the last day of a period in respect of which a dividend would have been payable and which began before that date, any further amount of dividend that would have been payable had the day before that date been the last day of that period, and
- subject thereto, a sum equal to the amount paid up or credited as paid up on the Preference Share together with any premium, if any, determined by the Board prior to issue.

Redemption

The Preference Shares are redeemable at the option of HSBC Holdings, subject to compliance with the Companies Act and the Articles, unless the Board determines prior to their issue that the Preference Shares will be non-redeemable. If HSBC Holdings chooses to redeem a series of Preference Shares, it must redeem all, and not only some, of the Preference Shares of that series on the redemption date or dates established for that series by the Board prior to issue. HSBC Holdings must give at least 30 and no more than 60 days prior notice of the redemption date. HSBC Holdings will pay on the redemption date to the holder of each Preference Share, the aggregate of:

- the nominal amount of such Preference Share
- any premium credited as paid up on the redemption date, and
- any dividend payable on the redemption date.

Voting rights

The holders of Preference Shares are not entitled to attend or vote at general meetings of the holders of Shares of HSBC Holdings except where:

- the dividend due for a dividend period, as determined by the Board prior to allotment, has not been paid in full, until such time as the dividend for that period, as determined by the Board prior to allotment, is paid in full, or an amount is set aside to provide payment in full, or
- the Board determines otherwise prior to allotment of those Preference Shares.

Issuance of further Preference Shares

HSBC Holdings may issue further series of Preference Shares with identical or differing rights and limitations, including:

- differing rate or basis for the calculation of dividends
- differing dates for determining the ranking of dividend payments or for the payment of dividends
- the provision of a premium or no premium on return of capital
- the provision of no right to redeem or a right to redeem at the option of the holder or of HSBC Holdings, or to redeem on different redemption dates with different terms, and
- the option to convert the Preference Shares into Shares or any other class of shares ranking, with regards to dividends or assets upon a winding up, *pari passu* with or after such Preference Shares.

Variation of Class Rights

All or any of the rights, preference, privileges, limitations or restrictions attached to Preference Shares may from time to time be varied or abrogated with the consent in writing of three-quarters in nominal value of the Preference Shares in issue of all series denominated in the same currency or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of all series of the Preference Shares denominated in the same currency.

All or any of the rights, preference, privileges, limitations or restrictions attached to the Preference

Shares of a series may from time to time be varied or abrogated so as to adversely affect such rights on a basis different from any other series of Preference Shares denominated in the same currency with the consent in writing of three-quarters in nominal value of the Preference Shares of that series or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of that series.

The provisions that apply to meetings of the holders of the Shares apply, to the extent applicable, to meetings of the holders of Preference Shares, except as otherwise stated in the Articles.

Description of Non-voting Deferred Shares

The holders of Non-voting Deferred Shares have no right to a dividend.

On a winding-up or other return of capital of HSBC Holdings (other than conversion, redemption or purchase by HSBC Holdings), the holders of Non-voting Deferred Shares have the right to receive the amount paid up on their shares after there has been distributed to the holders of the Shares an amount equal to £10,000,000 per Share held, or an equivalent amount in another currency.

The holders of Non-voting Deferred Shares have no right to vote at any general meeting of the shareholders of HSBC Holdings.

Directors

At each Annual General Meeting of HSBC Holdings, up to one third of the Directors are required to retire from office by rotation. The Directors to retire by rotation each year are those who wish to retire and thereafter those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire will, unless they otherwise agree among themselves, be determined by lot. A retiring Director is eligible for re-election. Non-executive Directors are appointed for fixed terms not exceeding three years.

The Board has the power to appoint Directors to fill any vacancies on the Board and to appoint additional Directors. All Directors initially appointed by the Board hold office until the next Annual General Meeting and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

HSBC Holdings may by ordinary resolution remove any Director before the expiration of his or her period of office and appoint another person in his or her place. The Board may from time to time appoint one or more Directors to any executive office for such period and on such terms as it decides, and the Board may terminate any such appointment.

Powers

The Board is empowered to exercise all powers of HSBC Holdings to borrow money and to mortgage all or any part of the undertaking, property and assets, both present and future, of HSBC Holdings. The Board, subject to the Companies Act, may issue debentures and other securities outright or for use as collateral for any debt, or other obligations, of HSBC Holdings or any third party.

Interested Directors

A Director may enter into contracts or other arrangements with HSBC Holdings or in which HSBC Holdings is otherwise interested so long as:

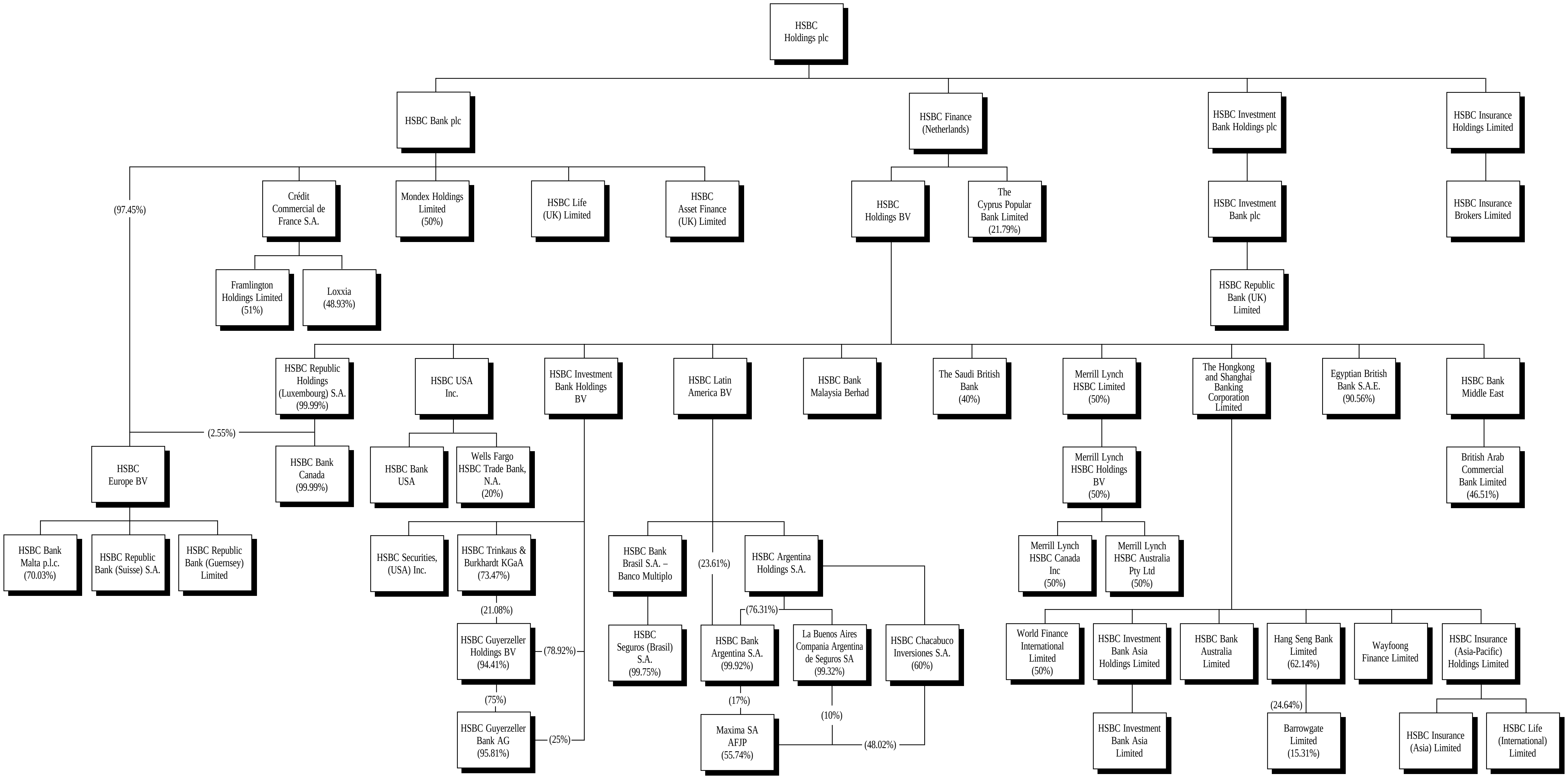
- the interested Director discloses his or her interests to the Board; and
- the interested Director does not vote on, and is not counted in the quorum in relation to, any resolution concerning any contract or other arrangements to which HSBC Holdings is a party and in which he or she (or any related person as defined in the Companies Act) has an interest.

A Director may not vote on or be counted in the quorum for any resolution of the Board or any Board committee concerning his or her own appointment, including fixing or varying the terms of his appointment or termination. Any Director may vote on and be counted in the quorum for any resolution of the Board or a committee of the Board concerning the appointment of any other Director.

Retirement

In accordance with Section 293 of the Companies Act and the Articles, Directors must retire at the annual general meeting next following their seventieth birthday.

The HSBC Group
Structure of Principal Operating Companies
at January 2001



NOTES
1) *This chart is a simplified ownership diagram only; not all intermediate holding companies are shown.*
2) *A percentage figure in brackets inside a company name box indicates the ultimate percentage owned of that company within the HSBC Group. Where no figure appears the company is wholly owned.*

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* Filed with the Securities and Exchange Commission.

GLOSSARY OF TERMS

Terms Used	US Equivalent or Brief Description
Accounts	Financial Statements
Allotted	Issued
Articles of Association	Bylaws
Associates	Long-term equity investments accounted for by the equity method
Attributable profit	Net income
Balance sheet	Statement of financial position
Bills	Notes
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax depreciation allowances
Creditors	Payables
Dealing	Trading
Debtors	Receivables
Deferred tax	Deferred income tax
De-mutualising	Process by which a mutual society is converted into a public limited company
Depreciation	Amortisation
Fees and commissions payable	Fees and commissions expense
Fees and commissions receivable	Fees and commissions income
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Interest payable	Interest expense
Interest receivable	Interest income
Interests in associated undertakings	Long-term equity investments accounted for by the equity method
Loans and advances	Lendings
Loan capital	Long-term debt
Memorandum items	Contingencies and commitments; off-balance-sheet items
Nominal value	Par value
One-off	Non-recurring
Ordinary shares	Common stock
Other participating interests	Long-term equity investments accounted for by the cost method
Overdraft	A line of credit, contractually repayable on demand unless a fixed-term has been agreed, established through a customer's current account
Preference shares	Preferred stock
Premises	Real estate
Profit & loss account	Income statement
Profit & loss account reserve	Retained earnings
Provisions	Allowances
Revaluation reserve	Increase or temporary decrease in the valuation of certain assets as compared with historical cost
Share capital	Ordinary shares or common stock issued and fully paid
Shareholders' funds	Stockholders' equity
Share premium account	Additional paid-in capital
Shares in issue	Shares outstanding
Tangible fixed assets	Property and equipment
Undistributable reserves	Restricted surplus
Write-offs	Charge-offs

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