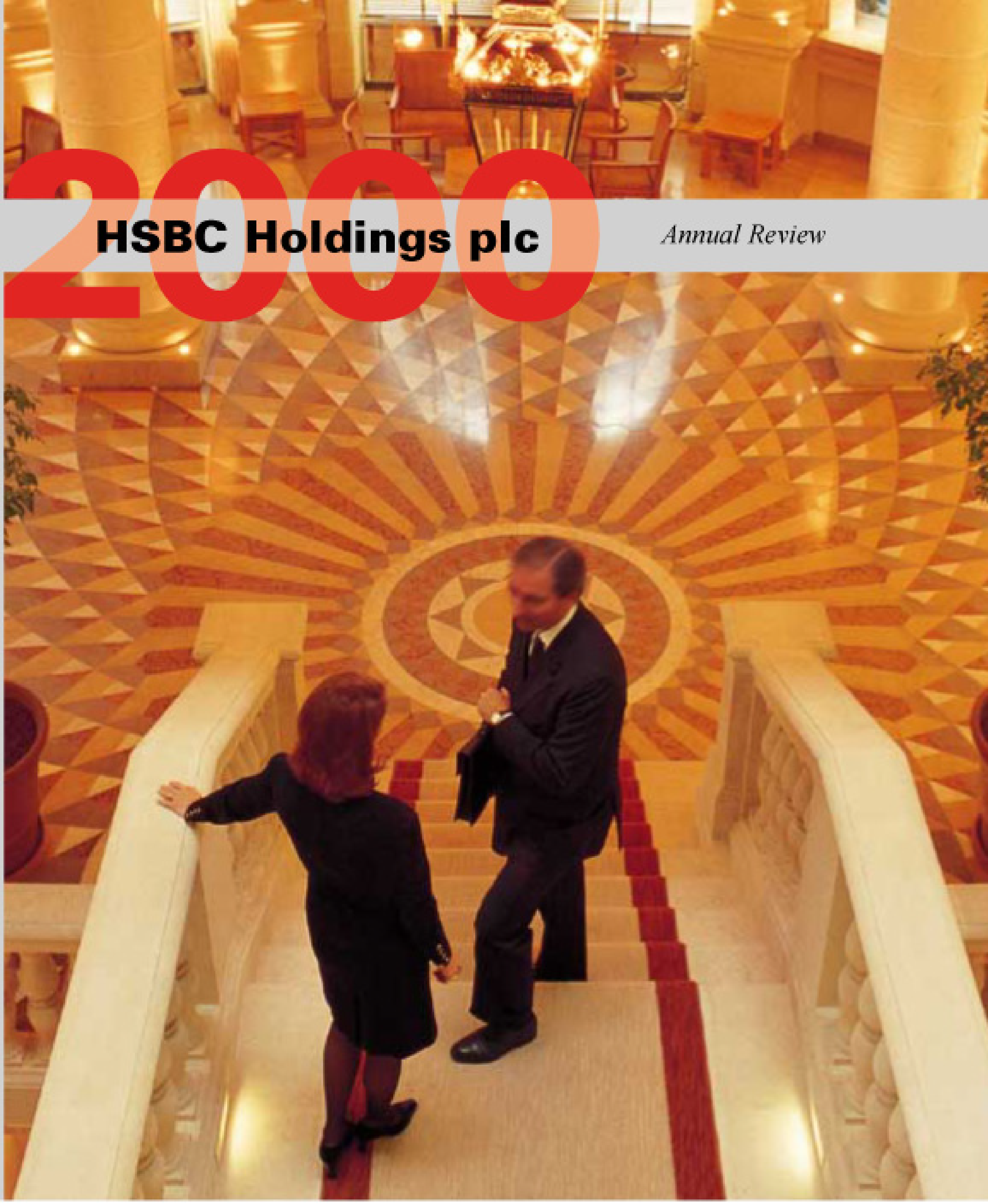
2000 HSBC Holdings plc

Annual Review



YOUR WORLD OF FINANCIAL SERVICES

HSBC

The HSBC Group

Headquartered in London, HSBC Holdings plc is one of the largest banking and financial services organisations in the world. The HSBC Group's international network comprises some 6,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

With listings on the London, Hong Kong, New York and Paris stock exchanges, shares in HSBC Holdings plc are held by around 190,000 shareholders in some 100 countries and territories. The shares are traded on the New York Stock Exchange in the form of American Depositary Receipts.

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

Illustrative Theme

Managing for Value

The photographs in this *Annual Review* show major developments in the HSBC Group last year. They illustrate the progress we have made in implementing our five-year strategic plan, 'Managing for Value', launched in 1998.

The picture spreads are grouped around these initiatives. They reflect the breadth and scope of our operations, and our international character.

Building our 'wealth management' (personal financial services) business is a cornerstone of our plan. It was seen in our acquisitions during 2000, notably CCF, and in the launch of our first truly global service for personal customers, HSBC *Premier*. To provide essential back office support, we invested more resources in the global processing of banking operations. We focused on e-business to bring customers a range of new services via new delivery channels, such as internet and mobile phone banking. We joined forces with Merrill Lynch in a joint venture offering online investment and banking services. Together with the successful integration of acquisitions made in 1999, these developments meant that 2000 was an exciting year for HSBC.

Cover photograph: The HSBC Republic head office in Geneva — the world's premier private banking centre. By integrating its major operations in 2000, HSBC took another important step towards becoming one of the world's top five private banks.

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Financial Highlights

1999	Year ended 31 December	2000	2000	2000
US$m	**For the year**	**US$m**	*£m*	*HK$m*
	Cash basis[1]			
8,018	Profit before tax	**10,300**	*6,798*	*80,258*
5,444	Profit attributable	**7,153**	*4,721*	*55,736*
	After goodwill amortisation – reported earnings			
7,982	Profit before tax	**9,775**	*6,452*	*76,167*
5,408	Profit attributable	**6,628**	*4,374*	*51,645*
2,872	Dividends	**4,010**	*2,647*	*31,246*
	At year-end			
33,408	Shareholders' funds	**45,570**	*30,532*	*355,446*
44,270	Capital resources	**50,964**	*34,146*	*397,519*
398,075	Customer accounts and deposits by banks	**487,122**	*326,372*	*3,799,552*
569,139	Total assets	**673,814**	*451,456*	*5,255,749*
336,126	Risk-weighted assets	**383,687**	*257,070*	*2,992,759*
US$	**Per share**	**US$**	*£*	*HK$*
0.66	Cash earnings[1]	**0.81**	*0.53*	*6.31*
0.65	Basic earnings	**0.76**	*0.50*	*5.92*
0.65	Diluted earnings	**0.75**	*0.50*	*5.84*
	Dividends			
0.133	— first interim	**0.15**	*0.10*	*1.17*
0.207	— second interim	**0.285**	*0.19*[2]	*2.22*[2]
3.95	Net asset value	**4.92**	*3.29*	*38.35*
	Share information			
8,458m	US$0.50 ordinary shares in issue	**9,268m**		
US$118b	Market capitalisation	**US$136b**		
£8.63	Closing market price per share	**£9.85**		
	Total shareholder return against peer index[3]	**HSBC**		**Peer index**
	— over 1 year	**118**		**113**
	— over 2 years	**203**		**136**
%	**Ratios**	**%**		
17.5	Return on average shareholders' funds	**16.5**		
1.20	Post-tax return on average tangible assets	**1.24**		
2.00	Post-tax return on average risk-weighted assets	**2.11**		
	Ratios – cash basis[1]			
17.6	Return on net tangible equity[4]	**24.0**		
1.20	Post-tax return on average tangible assets	**1.33**		
2.02	Post-tax return on average risk-weighted assets	**2.26**		
	Capital ratios			
8.5	— tier 1 capital	**9.0**		
13.2	— total capital	**13.3**		
53.9	**Cost:income ratio** (excluding goodwill amortisation)	**55.3**		

1 *Cash-based measurements are after excluding the impact of goodwill amortisation.*
2 *The second interim dividend of US$0.285 per share is translated at the closing rate on 31 December 2000. Where required, this dividend will be converted into sterling or Hong Kong dollars at the exchange rates on 23 April 2001.*
3 *Total shareholder return (TSR) is the increase in the HSBC share price with dividends assumed to be reinvested. The peer index is the TSR of our defined peer group of financial institutions.*
4 *Cash basis attributable profit divided by average shareholders' funds after deducting average purchased goodwill.*

Overview of Results

HSBC Holdings plc made a profit before tax of US$9,775 million in 2000, an increase of US$1,793 million, or 22 per cent, over 1999. Profit attributable to shareholders was US$6,628 million, an increase of 23 per cent.

On a cash basis, profit before tax increased 28 per cent to US$10,300 million and attributable profit increased 31 per cent to US$7,153 million.

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 (US$0.34 per share in 1999), an increase of 28 per cent. The dividend will be payable on 2 May 2001.

Net interest income of US$13,723 million was US$1,733 million, or 14 per cent, higher than 1999. Other operating income rose by US$1,838 million, or 20 per cent, to US$10,850 million within which net fees and commissions rose 22 per cent to US$7,311 million.

The Group's cost:income ratio (excluding the impact of the amortisation of goodwill) was 55.3 per cent compared with 53.9 per cent in 1999. This was after incurring US$121 million (1999: US$164 million) of costs relating to the restructuring of recent acquisitions.

The charge for bad and doubtful debts was US$932 million, which was US$1,141 million lower than in 1999; this was after releasing 60 per cent (US$174 million) of the special general provision for Asian risk raised in 1997. 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.

Gains on disposal of investments of US$302 million were US$148 million lower than in 1999.

The tier 1 capital ratio and total capital ratio for the Group remained strong at 9.0 per cent and 13.3 per cent, respectively, at 31 December 2000.

The Group's total assets at 31 December 2000 were US$674 billion, an increase of US$105 billion, or 18 per cent, since year-end 1999 (US$123 billion, or 22 per cent at constant exchange rates); of this increase, US$81 billion related to the acquisition of CCF (Crédit Commercial de France) in July 2000.

Geographical Distribution of Results

	Year ended 31 December 2000		Year ended 31 December 1999	
	US$m	**%**	US$m	%
Profit before tax – cash basis				
Europe	**4,021**	**39.0**	3,331	41.5
Hong Kong	**3,692**	**35.9**	3,054	38.1
Rest of Asia-Pacific	**1,270**	**12.3**	343	4.3
North America	**993**	**9.6**	962	12.0
Latin America	**324**	**3.2**	328	4.1
Group profit before tax – cash basis	**10,300**	**100.0**	8,018	100.0
Goodwill amortisation	**(525)**		(36)	
Group profit before tax	**9,775**		7,982	
Tax on profit on ordinary activities	**(2,238)**		(2,038)	
Profit on ordinary activities after tax	**7,537**		5,944	
Minority interests	**(909)**		(536)	
Profit attributable	**6,628**		5,408	
Profit attributable – cash basis	**7,153**		5,444	

Group Chairman's Statement

HSBC's Group Chairman, Sir John Bond, in Singapore attending a senior management 'off-site' meeting in October 2000.

2000 was a year of exciting developments for HSBC. It was marked by organic growth, by the integration of recent acquisitions, and by important new initiatives as we laid the foundations for the future growth of our business. The costs of taking such initiatives, although significant, were absorbed by core operating profits which, before provisions for bad and doubtful debts, grew on a cash basis by 13 per cent to US$11 billion. Cash profit attributable to shareholders increased by 31 per cent and the total dividend for the year increased by 28 per cent to US$0.435 per share.

A number of developments illustrated our progress and were in line with our strategic plan. The illustrative theme of this *Annual Review* reflects that progress.

In July, we completed the acquisition of the highly respected French bank, CCF (Crédit Commercial de France). This was a major step forward for our wealth management strategy and gives us a substantial platform in the euro zone. As a consequence of the acquisition, HSBC listed on the stock exchange in Paris in July.

The integration of CCF has proceeded smoothly. We are already seeing benefits in terms of increased revenues and favourable customer reaction which fully support the objectives we set for the business. Based on incremental revenues and cost savings so far indentified from combining HSBC's and CCF's strengths, we are confident of achieving our target for synergy benefits of €150 million (US$139 million) after tax in 2001. We were delighted by the announcement on 22 February this year that CCF had been chosen by the French government to acquire Banque Hervet.

The integration of the former Republic and Safra businesses also went smoothly during 2000. All US offices have been rebranded and we have completed about 75 per cent of the targeted integration efficiencies.

In April, we combined forces with Merrill Lynch in a joint venture to establish 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.

We began to bring to market our e-commerce strategy which we have been developing for two years. We started last year with internet banking live only in Brazil and with 200,000 registered users. Today, we have 1,500,000 registered users.

Our strategy to attract customers through transparent and competitively priced services was successful in many parts of the world. We achieved our target market share of the Hong Kong SAR's new Mandatory Provident Fund, a compulsory retirement savings scheme. Some 580,000 employees have enrolled with HSBC. In the UK, and against strong competition, HSBC grew its personal savings account base by 21 per cent. Also in the UK, our variable-rate mortgage offering, which we had been developing for some time, was widely recognised for its competitiveness and transparency.

We made good progress in aligning our Corporate and Institutional Banking business with our Investment Banking and Markets capabilities. More than 600 major transactions were completed which involved our commercial and investment banks working closely together.

We capitalised on our international reach by establishing a second global processing centre in Hyderabad in India to complement our first centre in Guangzhou, China. By the end of the year, some 1,000 staff were engaged in global processing support.

Our strategy calls for HSBC to maintain a broadly equal balance of earnings between the OECD and emerging markets. Clearly, achieving this balance is dependent to some extent on the realities of the market-place.

We are presented on a regular basis with potential acquisitions from all over the world. We have very stringent criteria for determining the suitability of a potential acquisition; we look for a strategic fit with our existing business and the chance to create enduring value. Few offer a more attractive return on our shareholders' capital than investing it in our own business. As a result, we reject the great majority of those brought to us. Even where we see the potential to create value, we will only complete a deal if we

Group Chairman's Statement (continued)

believe the terms are such that our criteria will be met in full. Our strategy does not demand acquisitions; we have the ability and the opportunities to grow organically.

We were disappointed not to be able to achieve mutually agreeable terms with the authorities in Thailand for the acquisition of Bangkok Metropolitan Bank.

However, we reinforced our position in the emerging markets through the acquisition of PCIB Savings Bank in the Philippines, by acquiring Chase Manhattan's branches in Panama, and by increasing our stake in Egyptian British Bank from 40 per cent to more than 90 per cent.

'The Implementation of HSBC's Strategy: a Review by the Group Chief Executive' provides further detail on many of these developments.

This progress in implementing our strategy of Managing for Value would not be possible without the hard work of my 160,000 colleagues around the world. The many awards we received during the year are a mark of their achievements. These included 'Bank of the year' in Western Europe and Asia-Pacific from *The Banker*, 'Best private bank' from *Global Finance*, and 'Britain's most admired bank' from *Management Today*.

I thank all my colleagues for their contribution, in particular those who have worked so hard to help integrate our new operations successfully into the HSBC family. A strong sense of teamwork remains one of HSBC's greatest strengths.

We continued to make good progress in increasing the number of employees who have a direct interest in the ownership of the Group through participation in our employee share plans. During 2000, more than 57,000 employees in 46 countries and territories applied for savings-related options. Performance-related share options were awarded to almost 28,000 employees at all levels of the organisation. In line with our strategy of Managing for Value, we will continue to encourage such participation by employees.

Your Board continued to provide valuable advice and support. Charles de Croisset and Sir John Kemp-Welch were appointed Directors on 1 September 2000. Sir Mark Moody-Stuart and Sharon Hintze have been appointed Directors with effect from 1 March 2001.

Main picture: One of our key centres for international private banking is Fifth Avenue, New York, where HSBC Republic serves both American clients and those from Latin America, Europe, the Middle East and Asia-Pacific.
Far left: The HSBC Republic global treasury centre in Geneva offers a full range of services covering equities, fixed income, derivatives, foreign exchange trading and money markets products tailored for international private banking clients.

As well as working for our shareholders, we continue to take very seriously our wider responsibilities to the communities where we operate. On pages 19-21 of this *Annual Review*, you can read about our commitment to behaving in a socially responsible manner and some of the ways we are contributing. In 2000, we directed US$24.5 million to charitable causes. However, we do not measure our contribution solely in terms of money. HSBC staff provide valuable, sometimes invaluable, expertise to many good causes and devote considerable time and effort to them.

This is an important area especially at a time when, in some of our markets, banks are often subject to criticism, not all of it justified. Banks can play an important part in helping to make people's lives better by supporting their financial needs, and in nurturing and developing businesses which create wealth.

Banks are an indispensable intermediary in the distribution of savings and it is hard to see that a successful market economy can function without a vigorous and healthy banking system. There is no strong economy in the world that does not have a strong banking system. Furthermore, not all banks are the same.

It is clear from HSBC's history that we have played a significant role in the economic development of many of the communities in which we operate. And we continue to do so today, both in emerging and developed markets. Behaving in a socially responsible manner is not something we do at the margins, nor is it solely about charitable work, important though that is. It is something we practise in our everyday business and through which we aim to enhance the lives of our 29 million customers and enable them to reach their financial goals.

Our principal objectives for 2001 are to broaden our customer base and to deepen the relationship we have with our customers, harnessing the growing strength of the HSBC brand and our internationalism. We shall expand internet banking for personal customers to at least 10 more countries. We shall launch business internet banking in the UK, USA, Canada and the Hong Kong SAR, with further expansion planned for Asia-Pacific and the Middle East. Merrill Lynch HSBC will launch a full service in the UK and will begin to develop a service for the German, French, Hong Kong SAR and Japanese markets. Expanded personal financial services will be launched in the Middle East, and in Argentina where the health-care market is to be deregulated. In the Hong Kong SAR, the Mandatory Provident Fund will begin to accrue revenues and the sales force, which has been so successful in achieving our initial client base, will concentrate on promoting other

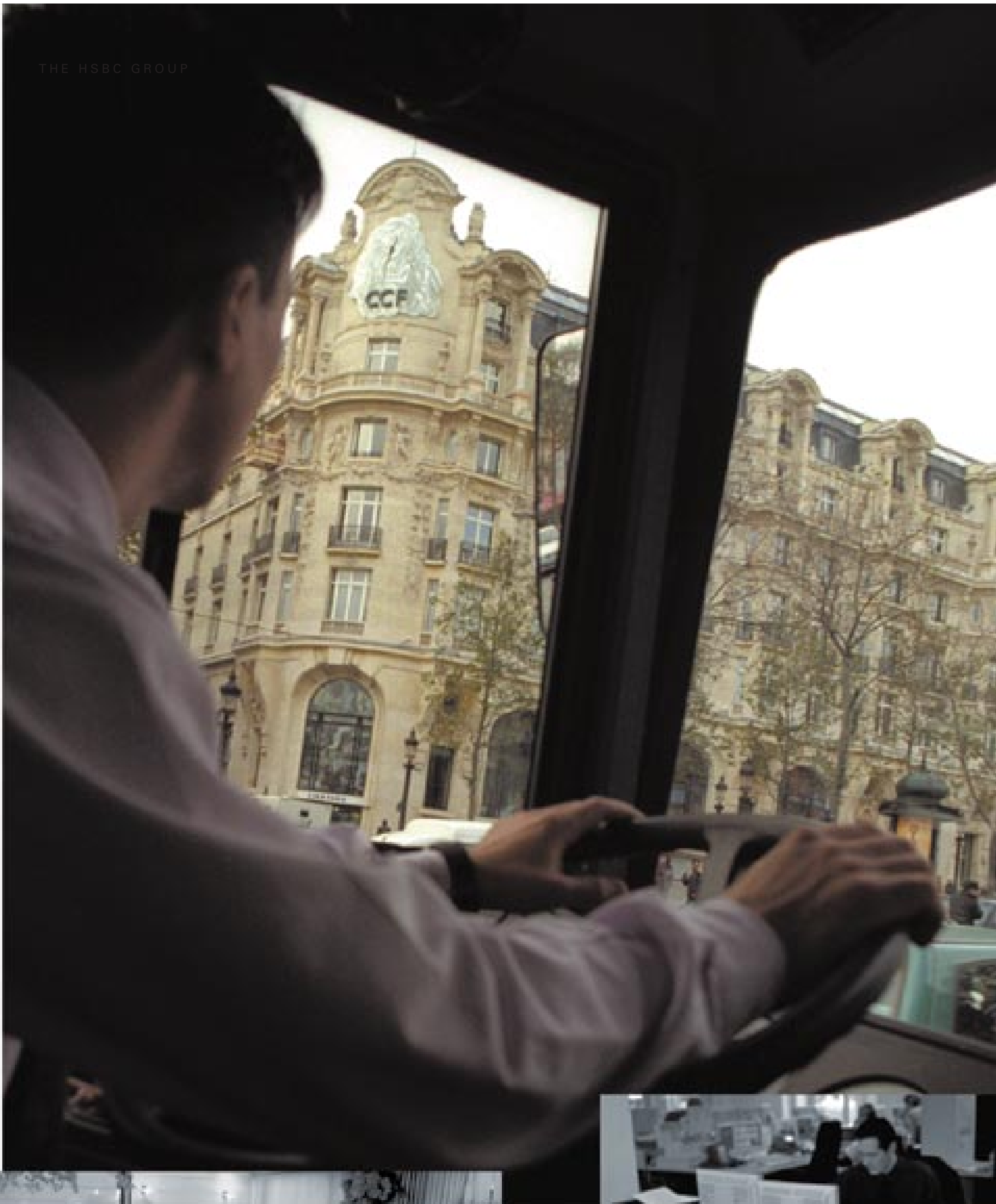
Group Chairman's Statement (continued)

wealth management products. The integration of the former Republic businesses and of CCF will be completed in 2001. Global processing will be expanded. Our sites in China and India together plan to add a further 1,100 staff for this activity, as well as 120 systems development staff, thereby enhancing HSBC's productivity.

The outlook for 2001 is challenging. It is clear that the rate of growth in the United States, the principal motor for recent world economic growth, has slowed rapidly. This will have an effect on other economies, particularly those that depend on exports to the United States. Competition in the UK shows no sign of abating and structural changes here and in Hong Kong, where interest rate deregulation will be completed in July, suggest a testing environment ahead. Historically, however, HSBC has responded well to such conditions. I am confident that we can do so again. The HSBC brand is increasingly well known and respected around the world. Our internationalism gives us a major competitive advantage. With our traditional strengths of a conservative balance sheet, high liquidity and a strong capital base, we are well placed to seek out, and take advantage of, the opportunities which undoubtedly will arise.

Sir John Bond, *Group Chairman*

Main picture: To strengthen its wealth management business, HSBC made several strategic acquisitions during 2000, the most significant of which was that of CCF (Crédit Commercial de France), headquartered on avenue des Champs Elysées, Paris, and one of France's largest and most respected banks.
As part of the Group's expansion in the euro zone following the acquisition of CCF, in July HSBC shares began trading on the Paris Bourse, a member of Euronext (*far left*), the pan-European merged exchange whose other members are the Amsterdam and Brussels stock exchanges.
Trading in HSBC shares actually takes place on securities companies' trading floors such as the HSBC CCF Securities operation (*bottom right*), rather than on the Paris Bourse, now a 'virtual' stock exchange.
Acquisitions to expand our personal financial services business were also made on other continents.
Right: In the Americas, HSBC purchased Chase Manhattan's branches in Panama, greatly extending its network in the country, including this unusual stand-alone automated teller machine kiosk at the Gatun Locks in the Panama Canal zone.
Second from left: In Egypt, we increased our stake in Egyptian British Bank, an indication of the importance we attach to this regional market. The bank, including its branch in Heliopolis, located at a major transport hub in Cairo, has now adopted the HSBC brand.
Second from right: In Asia, we acquired the branch network of PCIB Savings Bank in the Philippines, which has greatly strengthened our own network and reinforced our commitment to a market where we have had a presence since 1875.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The Implementation of HSBC's Strategy: a Review by the Group Chief Executive

HSBC's Group Chief Executive, Keith Whitson, in Singapore attending the senior management 'off-site' meeting in October 2000.

In December 1998, HSBC embarked on a five-year strategy called 'Managing for Value: HSBC into the 21st Century'. It marked a new era for HSBC and in this, our first *Annual Review*, I would like to report on the significant progress we have made so far.

Managing for Value — or MfV as it has become known — builds on the historically successful performance of the Group by seeking to harness the global capabilities and reach of HSBC and by delivering a level of shareholder value which exceeds that of our peer group. This review outlines some of the initiatives we have taken or have planned during the past year to ensure that we succeed.

We have structured the review around our lines of business, which reflect our global approach to providing top class products and services to our customers, wherever they are or whatever their size.

Our strategy is underpinned by our use of technology to become even more customer-driven, providing the delivery channels our clients choose whether they are at a bank branch, at home, in the office or, increasingly, on the move. We have invested significantly in e-business during the past year, and we firmly believe that it has an exciting and major role to play in our lives. Indeed, our 'clicks and mortar' strategy has already proved a success with our customers, with 1.5 million of them now registered for internet banking.

Our technology priorities also encompass electronic procurement, customer relationship management, and the globalisation of back-office work processing. In the United Kingdom, a pilot project is under way to implement a common standard in e-procurement which will facilitate global purchasing of information technology and many other resources we use. The system is targeted to generate cost savings of over US$200 million and will be rolled out to all our major operations worldwide by 2003. The growing personalisation of our customer relationship management systems, supported by an increasing use of credit and behavioural scoring, is helping us to broaden the range of services available to our customers and to make the pricing of our products more attractive.

Our technology expenditure in 2000 was more than US$2 billion, representing 17 per cent of the Group's total overheads and an increase of about US$300 million over 1999. Our technology expenditure in 2001 is forecast to increase by

Cash basis attributable profit by subsidiary and by line of business

Figures in US$m	Year ended 31 December 2000	1999
Hang Seng Bank	**1,285**	1,071
Less: minority interests	**(487)**	(406)
	798	665
HSBC Investment Bank Asia Holdings Limited	**195**	275
The Hongkong and Shanghai Banking Corporation Limited and other subsidiaries	**2,339**	1,369
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries	**3,332**	2,309
HSBC Bank plc excluding CCF	**2,163**	1,933
Less: preference dividend	**(76)**	(76)
	2,087	1,857
CCF	**143**	–
HSBC USA, Inc	**743**	467
HSBC Bank Middle East	**153**	78
HSBC Bank Malaysia Berhad	**115**	(126)
HSBC Bank Canada	**116**	112
HSBC Latin American operations	**183**	188
HSBC Holdings sub-group	**(55)**	156
Other commercial banking entities	**103**	187
UK GAAP adjustments	**3**	(27)
Less: Investment banking profits included above*	**(586)**	(303)
Commercial banking	**6,337**	4,898
Investment banking*	**816**	546
Group attributable profit – cash basis	**7,153**	5,444
Goodwill amortisation	**(525)**	(36)
Group attributable profit	**6,628**	5,408

** The figure for the year to 31 December 1999 has been restated to exclude income derived from unit trust-related business, management responsibility for which was transferred from Investment Banking on 1 January 2000.*

US$600 million to US$2.6 billion. In addition, our capital expenditure on information technology will be more than US$700 million. These figures, I believe, demonstrate the increasing sophistication of the distribution channels available and the service levels demanded by our customers.

Personal Financial Services

Last year, we said that the internet was changing the very fabric of our business because it had become an increasingly vital tool for the delivery of the priorities set out in our Managing for Value strategy, especially in personal financial services.

Our customer internet offerings are designed to meet three criteria: they must integrate with and complement our existing distribution channels; customer needs and preferences must be paramount; and what we offer must be international in scope.

Use of our internet service has shown encouraging growth. At the end of 2000, internet banking was available to customers of 11 of our businesses, including Brazil, Canada, the Hong Kong SAR, the UK, Singapore and the United States. Through our operations in the Channel Islands, we now have internet customers in over 150 countries and territories around the world and, in 2001, we plan to provide onshore internet banking to our customers in Australia, India, the Middle East and a number of other Asian countries.

Our other e-business initiatives in 2000 included the launch of a mobile phone messaging service at First Direct in the UK, and also in Malaysia. In France, we introduced a payment facility using mobile phones, while WAP (wireless application protocol) mobile phone services, offering account information and payments, were also launched there. Brazil saw the introduction of WAP mobile phone and personal digital assistant services offering current account and investment information and, in the UK, a pilot project is under way to test the feasibility of launching a full WAP mobile phone service for customers later this year. Our TV banking service in the UK complements internet banking, offering an alternative medium for managing personal finances. Customers can use it to make payments, transfer funds, obtain price quotations, and apply for loans, a mortgage and credit or debit cards.

The management of our personal customers' financial needs — 'wealth management' — is a key element of our strategy. Through a combination of quality service levels and quality products, we aim to provide a full range of financial services to our customers worldwide.

HSBC *Premier* is a clear example of our customer-driven approach to product and service development. This new global service for our most valuable personal customers was launched simultaneously in 17 countries and territories in March 2000. Relationship management is a vital part of the HSBC *Premier* service, with dedicated relationship managers or teams responsible for facilitating everyday transactions and helping to satisfy the wider financial needs of the customer. HSBC *Premier* customers, of whom there were 270,000 at the year-end, have exclusive access to dedicated HSBC *Premier* centres in selected locations across the world. In addition to local 24-hour call centre support, a global travel assistance service is also available around the clock. The number of dedicated HSBC *Premier* centres continues to expand, with more than 100 now established worldwide.

Our robust organic growth has been complemented with acquisitions in key regions and a very important ground-breaking joint venture in order to achieve our objective of growing our wealth management business and providing a larger and more attractive range of products to our personal customers.

Following the acquisition of Republic National Bank of New York in 1999, its branches in New York State were integrated with those of HSBC Bank USA in 2000 and rebranded. The HSBC name and hexagon symbol have become familiar sights in New York State where we now have the largest network of any bank with more than 430 branches. HSBC also offers a national mortgage service to over 3,000 brokers in 48 states.

With 682 branches in France, CCF (Crédit Commercial de France) and its regional subsidiaries provide comprehensive personal financial services to more than one million customers. CCF is one of the largest and most highly respected banks in France and continues to maintain its branch opening programme with 22 new offices planned for 2001. With CCF assuming management responsibility for a number of the Group's branches in the euro zone, HSBC's Paris branch has been integrated into the CCF network.

Strategic acquisitions were also made in other markets to expand our personal financial services capabilities. These included the purchase in August of

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

Chase Manhattan Bank's branch operations in Panama, increasing our presence there from five to 17 branches and our total assets from US$477 million to US$1,224 million.

Further expansion came in October when we increased our shareholding in Egyptian British Bank S.A.E. from 40 per cent to over 90 per cent, reflecting the importance we place on delivering a wide range of HSBC's wealth management products in this major regional market. Egyptian British Bank will be renamed HSBC Bank Egypt S.A.E.

In the Philippines PCIB Savings Bank, with 16 branches, was purchased in December 2000 for US$22 million. Now renamed HSBC Savings Bank (Philippines) Inc., it is focusing on providing financial services to personal and middle-market customers, complementing the services offered by the five branches HSBC already has in the country.

Another very important initiative was the establishment of Merrill Lynch HSBC, a 50:50 joint venture with the leading US-based investment bank and securities house Merrill Lynch. The ability to offer integrated online securities and banking services will provide further advantage and benefits to our clients. The partnership is backed by a commitment of US$1 billion and brings together world class banking and investment offerings to cater for a primary growth segment — the 'mass affluent', self-directed clients who wish to handle their own investment decisions with the aid of award-winning research and guidance.

Merrill Lynch HSBC will initially offer a combined securities and banking account, together with a range of products appropriate to each local market. Clients will also have access to a wide range of market information. Over time, the service will be extended to global trading and will include a range of online banking products, such as bill payment facilities, mortgages and credit cards. Clients will also have access to a dedicated network of investment centres in key locations and telephone service support seven days a week.

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 online service in other parts of the world, including Germany, France, the Hong Kong SAR and Japan.

The strong organic growth in our traditional businesses was the other very encouraging element of our wealth management strategy. During the year, HSBC's personal insurance businesses continued to benefit both from the impetus of our personal financial services strategy and from the increasing alignment of product manufacturing with our retail distribution channels around the world. By the end of 2000, there were more than four million insurance policies in force, compared with 3.5 million a year earlier — a rise of 17 per cent. At the same time, about 13 per cent of our personal banking customers had purchased some of their insurance needs from HSBC, compared with 4 per cent in 1997. We are now on our way to achieving the target of 20 per cent we set in 1998.

In close co-operation with our private banking operations, we introduced new insurance products specifically designed to insure the assets and liabilities of our international private banking clients. There was promising growth in both our North and South American businesses. For example, in the United States the number of life insurance policies sold by HSBC was the highest among US-based banks and, in Brazil, our insurance operation achieved the lowest combined claims and expenses ratio as a percentage of earned premiums — a measure of efficiency — among the country's bank-owned insurance companies.

By the end of 2000, we had issued more than 11 million cards to our customers worldwide, compared with 10 million by year-end 1999 — an increase of approximately 10 per cent. Major growth occurred in several of our key markets, including Brazil, the Hong Kong SAR and India, while in the UK, HSBC Bank plc and First Direct customers were among the first to be issued with cards incorporating the latest chip technology to provide increased security.

Commercial Banking

Commercial banking, which embraces our middle market business, is one of our traditional strengths. HSBC is a popular choice for commercial customers because of our international reach, wide array of products and services, and our long historical association with this very broad customer segment, which ranges from sole traders to publicly quoted companies. Commercial banking is an increasingly global business that benefits greatly from HSBC's geographical spread and local knowledge.

In 2001, the roll-out of internet banking across the Group will see the range of online offerings expand for business customers and will include cash management, payment and trade services. Our founder member's equity stake in Identrus formed the basis for working with other stake-holders to develop e-commerce for trading companies, concentrating on secure payments and transactions on third-party web sites.

The establishment of Merrill Lynch HSBC, the world's first online investment and banking services company, was a major strategic development harnessing the internet.
Anti-clockwise from main picture:
An Australian client uses the Merrill Lynch HSBC service to buy shares in a telecommunications company on his lap-top while enjoying morning coffee in Circular Quay, Sydney.
For Merrill Lynch HSBC clients who require assistance with their transactions, over 100 customer service representatives will be on hand at a state-of-the-art centre in Royal Leamington Spa in the UK to provide a full telephone support service seven days a week.
The www.mlhsbc.com home page will be the gateway to such services and products as a combined securities and banking account, debit cards and investment research.

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

Our trade services capabilities stem naturally from our global strength. During 2000, HSBC won the 'Best trade documentation bank' award from *Trade Finance* magazine for the fifth year running and was voted 'Best trade finance house' by *Finance Asia* for the fourth year in a row. We continue to grow the already significant percentage of trade business that is retained within the Group and, with commercial customers increasingly looking for regional solutions to their cash management requirements, we now have teams in all our major areas harnessing the strength of HSBC's local network to meet these needs across a broad geographical range. HSBC's pan-European cash management service has been reinforced by CCF's strong position in France, which complements HSBC Trinkaus & Burkhardt's presence in Germany.

An integral part of our commercial banking strategy is to broaden our range of products and services. For example, in the Hong Kong SAR, HSBC launched RetailerSurance, a comprehensive insurance package for retailers. To meet the requirements of small and medium-sized enterprises, Hang Seng Bank Limited has introduced financing and factoring facilities for information technology equipment.

During the year, HSBC increased its market share of the gold and silver trade in India, one of the world's largest consumers of these metals.

An important long-term opportunity for HSBC is the provision of personal financial services to our commercial banking customers and their employees. In the Hong Kong SAR, HSBC and Hang Seng Bank jointly set out to achieve a significant market share of accounts for the Mandatory Provident Fund, which was implemented in December. Their target was exceeded through a co-ordinated effort with our insurance, asset management and trustee companies in Hong Kong — an example of how HSBC delivers collective solutions to customers across both our personal and commercial segments.

Corporate and Institutional Banking

HSBC has focused increased resources on the management of its largest corporate and institutional clients in response to continued globalisation and business consolidation, and their increasing demands for a truly global financial services provider. We now have a 900-strong relationship management team,

Our first international banking service, HSBC *Premier* is for personal customers whose lifestyle requires relationship management — a vital part of the service — offered in over 100 dedicated centres in our global network of offices. The service includes an HSBC *Premier* card *(second from left)* and a quarterly lifestyle magazine *(fourth from left)*.
Clockwise from main picture: The same high level of personal service is offered by all our HSBC *Premier* centres around the world, including: HSBC Main Building in the heart of Central, the Hong Kong SAR's main business district; the main HSBC Building in Florida Street in Buenos Aires' financial district, Argentina; the Dubai branch in the United Arab Emirates, one of over 30 HSBC *Premier* centres in the Middle East; and Tanglin branch, off Scotts Road, in Singapore's main shopping area.
Far left: Tellers, such as this one at the main branch in Leboh Ampang, Kuala Lumpur, provide essential back office support for customer transactions.


HSBC

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

spread over 40 countries and territories, serving 1,200 of the world's largest and most successful companies, together with some 15,000 of their subsidiaries.

A major effort has been made to align more closely our traditional corporate banking and credit services with the skill base and professional expertise available from our investment bank.

With the strength of our balance sheet, our geographical reach, our product range and our service capability, HSBC is one of the few banks in the world that can justifiably claim to offer truly global relationship management to major corporate and institutional clients. Each client is assigned a dedicated team, drawn from the corporate and the investment banks and comprising relationship and product specialists responsible for handling client requirements worldwide.

Our UK expertise has been enhanced by CCF's membership of the Group and we have won a number of prestigious mandates from corporate and institutional clients seeking access to both the euro and the euro zone. Together with HSBC Trinkaus & Burkhardt in Germany and our broad spread of continental European branches, HSBC has a substantial and proven capability to service client needs in this massive economy.

In the institutional custody business, our Edinburgh-based fund administration company has won several major new fund management mandates. In Asia, HSBC was rated top custodian in 13 markets and was named the world's best emerging markets custodian, while in *Treasury Management International*'s 2000 poll of corporate treasurers, HSBC won the award for the 'Best bank in Asia for cash management' for the second consecutive year, and the award for 'Best bank in Asia for risk management'.

In our trade services business in Asia, we handled US$4.3 billion in transactions, representing an increase of over 40 per cent compared with 1999.

Propositions are being developed for online banking services and business-to-business market-places for our corporate and institutional clients. They will complement the online treasury offerings from Investment Banking and Markets.

Investment Banking and Markets

Investment Banking and Markets comprises our treasury and capital markets businesses, global investment banking, merchant banking, private banking, asset management and private equity operations. Collectively, these areas provide products and services to all of HSBC's key customer segments, from individuals to multinational corporations. Our strategic objective is to ensure that the scale and quality of the Investment Banking and Markets businesses are consistent with HSBC's prominent position in the world's financial markets while creating economic value for our shareholders.

During 2000, our treasury and capital markets and global investment banking businesses made significant investments in client account management in order to provide a full range of products to meet client needs worldwide. Revenues from our origination activities increased significantly, reflecting the strengthening of resources in this area and the capabilities of our distribution network around the world. The alignment of these businesses with Corporate and Institutional Banking will help us meet our clients' requirements, reinforce our relationships with them and help grow our earnings.

We sealed e-business alliances with other major players to provide improved service for our clients. We joined 12 leading foreign exchange dealers in FX-All to offer one-stop electronic access to a range of services, including spot, forward and option transactions, as well as market research. HSBC also became a partner in a joint venture company, BondsinAsia, which provides for online completion of Asia-wide fixed income transactions.

Our merchant banking businesses, which include Project and Export Finance, Structured Finance, Syndicated Finance and Islamic Finance, combine the balance sheet strength of the Group with our expertise in arranging and distributing debt. During 2000, these financing businesses played a prominent role in arranging acquisition finance, project finance, liquidity support and working capital issues for a number of major companies across multiple business sectors and countries. HSBC played a leading role worldwide in arranging syndicated loan facilities for our clients, winning the Hong Kong 'Loan house of the year' award for 2000, as well as achieving a premier ranking in the UK market-place.

HSBC's Islamic finance initiative led to several successful and innovative transactions, including a pioneering, credit-enhanced aircraft leasing finance structure with insurance protection features. Over US$500 million was invested in Islamic money-market mechanisms structured by HSBC.

To free staff to concentrate on serving customers and to reduce costs, selected back office banking operations are now performed by HSBC's two global processing centres, in Hyderabad, India *(main picture and top)*, and in Guangzhou, China.

The acquisitions of Republic New York Corporation and Safra Republic Holdings S.A., completed at the end of 1999, strengthened our standing as one of the most significant and high quality international private banks. We seek to position HSBC among the world's top five private banks. These new members of the HSBC Group have been successfully integrated to form our international private banking arm, which bears the name HSBC Republic. We have retained the distinctive HSBC Guyerzeller name, which will continue to cater for its specialist niche customer base. With CCF's private banking business as part of our Group, HSBC has over 70,000 private banking and trustee clients managed through 45 locations worldwide.

In Asset Management the above acquisitions added significant size, global coverage and product range. At year-end 2000, the Group's funds under management totalled US$295 billion, an increase of 32 per cent over 1999. Our objective now is to see total funds under management grow to match the Group's total assets within five years.

HSBC Private Equity is expanding in Europe, Asia and the Americas to cater for increased demand from our commercial banking customers and from governments wishing to encourage the use of private equity in stimulating economic growth. At the end of 2000, we managed US$3 billion of private equity funds, which were invested in a wide range of businesses.

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

Global Processing

A core principle of our Managing for Value strategy is that HSBC should pursue economies of scale across the many countries and territories we span in order to improve service, increase productivity and achieve economic advantage over our competitors. A key initiative is the introduction of global processing. We now have two centres, the first of which was established in Guangzhou, China in 1996, and the second in Hyderabad, India in October 2000. These centres currently employ more than 1,000 people to handle routine work flow from both the UK and the Hong Kong SAR. We plan to double our global processing capacity in 2001.

Aligning Shareholder and Employee Interests

We have progressively linked incentive schemes for all employees to the achievement of our longer-term strategic objectives, including both financial targets and service levels. Performance measurement and target-setting increasingly reflect the achievement of goals based on key value drivers in the businesses.

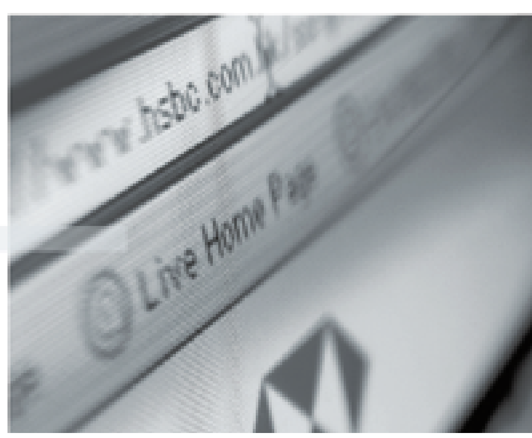
In 1998, we set the objective of achieving a level of employee ownership of HSBC equivalent to 5 per cent of our share capital within five years. We estimate that, at year-end 2000, our employees had an interest in over 3 per cent of our fully diluted capital base. This alignment of the interests of our employees with those of our shareholders is crucial to the success of our strategy.

Economic Profit

Economic profit which, in simple terms, expresses our profitability after accounting for the cost of capital, continues to be a key determinant in the investment of financial, information technology, human and other resources. We pay significant attention to the economic value that will be added by our investment decisions. We consider opportunities in many different businesses and countries, but only proceed if economic profit forecasts meet our parameters. Using the same cost of capital of 12.5 per cent applied in 1999, our economic profit grew by 50.6 per cent to US$1,706 million.

These pictures illustrate the growing influence of e-banking on our lives in the 21st century — and how HSBC continues to harness technology to meet its customers' needs, wherever they may be.
From right to left:
An online initial public offering service was launched in the Hong Kong SAR *(main picture)*, which offers customers the convenience of subscribing via the internet. About 88 per cent of applications for the first online IPO, for Hong Kong's Mass Transit Railway in September, were handled by the HSBC Group.
The home page of the www.hsbc.com web site, which offers shareholder information, news on current developments, and information on HSBC's services and products.
A customer uses a WAP mobile phone to check the performance of her HSBC investment funds while taking time off on Ipanema beach in Rio de Janeiro, Brazil.
A new flagship branch in Milton Keynes in the UK has an area dedicated to online services where, as shown here, a Customer Service Representative can demonstrate the benefits of internet banking to interested customers.
In the comfort of home — and against the stunning backdrop of Howe Sound and the Coast Mountains in Vancouver, British Columbia — a Canadian customer manages her finances on HSBC's internet site.


HSBC
Applying for
an IPO Online


hsbc.com
Live Home Page

The Implementation of HSBC's Strategy: a Review by the Group Chief Executive (continued)

Building the Brand

A key component of our business strategy is the creation of a global brand featuring our name, HSBC, and our hexagon symbol. Since we announced our plans in November 1998, we have pressed ahead successfully and the HSBC symbol is now a familiar sight around the world. We have now embarked on the next phase — making the HSBC brand universally synonymous with our core values of integrity, trust and excellent customer service.

The rebranding of the branch network has been completed successfully. The current upgrade programme focuses on rolling out a modern, high-quality Group standard design to all of our branches. This process is well under way in France, where more than 200 CCF branches will display their new Group branding by the end of March 2001.

A three-year initiative announced in March 2000 will promote the HSBC brand on the jetties and corridors at London's Heathrow, Gatwick and Stansted airports, through which over 100 million people pass each year. The external branding will be largely in place by the end of March 2001.

Sponsorships continue to be an important way of promoting the HSBC brand internationally. Through our Formula One partnership with Jaguar Racing, we have run successful campaigns in Australia, Malaysia and the UK.

Another key element designed to help build the brand was the launch of the second phase of our simple but effective international symbol advertising campaign on television, in print, in the cinema and at outdoor sites across some 100 countries and territories.

Strategic Outlook

We made good progress during the past year. The overall financial performance of HSBC testifies to this. Going forward, there will be many challenges but, equally, many opportunities. We will continue to build on the strength of our international presence, encouraging the sharing of best practice and facilitating cross-border referrals in all business lines. We continue to respond to the challenges of margin pressure, industry consolidation and new entrants to financial services, which put pressure on revenues but which emphasise the importance of a competitive cost structure. The breadth of our management experience, the commitment of our staff, the investment in technology and equipment, coupled with our overriding determination to place the interests of customers first, will, I am confident, assure us of continued success in the future.

Keith Whitson, *Group Chief Executive*

A Sense of Responsibility

The British government intends to treble the amount of waste recycled in the UK by the end of the decade. It will not be easy. In the building industry alone, less than a quarter of the mixed waste produced is recycled. The rest is deposited in costly and, increasingly scarce, landfill sites. But three years ago, two businessmen in Nottingham, England, devised some new techniques to increase the percentage of reusable material. They took their plans to their local HSBC Bank branch and explained how they could start a successful business — and help the environment at the same time.

HSBC is well aware of the potential for waste recycling and supported the start-up of Wastecycle in temporary premises, using three second-hand vehicles and five employees to collect waste for sorting and recycling. The company dramatically increased the amount of material that could be recycled and its service was quickly welcomed by local construction and industrial firms. Wastecycle established a new waste recycling plant and bought 10 new lorries to undertake an increasing number of contracts.

Substantial capital investment was required and HSBC provided loans, electronic banking and personal financial services, together with help in maintaining a strong balance sheet and healthy cash-flow. Within two years, the business had grown tenfold and was achieving a recovery rate of 70 per cent of the material it handled. By increasing the percentage of material recycled, the company has managed to reduce its charges while maintaining good profitability and return on capital. Wastecycle has built a wood-shredding plant to recover scrap wood and pallets, and expects to recycle more than 5,000 tonnes of wood a year. Material which would otherwise have been buried is sold to manufacturers, thus saving on valuable resources. The company now employs 38 people, and offers profit-sharing and quality-based performance incentives to all staff. It has some 350 customers and has set up a web site to provide information on recycling to a wider audience.

HSBC is a commercial organisation and its governing objective is to provide a satisfactory return on its shareholders' capital. Its primary role in society is to conduct its business with the highest standards of professionalism, and with absolute integrity. However, as the example above shows, fulfilling a purely commercial role frequently contributes to improvements in society. At the same time, HSBC recognises that it can only achieve its business objectives by balancing its commercial duties with its broader obligations. HSBC is determined to play its full part in the life of the communities it serves and is proud of its contribution to wealth creation. It attaches the greatest importance to respecting the environment and the laws and customs of every country in which it operates. HSBC's duty to its customers is to look after their financial affairs with expertise, fairness and transparency. Its duty to its staff is to provide a safe and pleasant place to work, competitive terms and conditions, and opportunities for advancement in an international meritocracy.

At the same time, HSBC believes in sharing its success with the less fortunate members of society because economic success and social deprivation are incompatible in the long term, because the public increasingly expects major companies to support the community and because, simply, HSBC has always believed it is the right thing to do. Although balancing these different responsibilities is sometimes challenging they are, ultimately, indivisible.

There is nothing new in how HSBC sees its role. Its strong sense of responsibility runs throughout its history. The tradition of 'capitalism with a conscience' can be traced back to HSBC's earliest days. It is an integral part of the company's character, so much so that for a long time it was not felt necessary to articulate it. However, times change and HSBC changes with them. The role of international business, including international banks, has come under increasing scrutiny in many parts of the world in recent years. We have therefore decided to make explicit what was previously implicit. In its 1998 *Annual Report* HSBC, for the first time, published a statement of its business principles and values. 2000 saw some significant developments in the Group's expression of a long-standing sense of its responsibilities. In order to demonstrate our beliefs further, we have recently adopted the United Nations Global Compact and Global Sullivan Principles.

In our support for these two standards we have undertaken, among other things, to express our regard for universal human rights, promote equal opportunity and freedom of association, compensate employees properly, provide a safe and healthy workplace, promote fair competition, and work with governments and communities to improve educational, cultural, economic and social well-being.

During 2000, we built on the Group's policy of corporate social responsibility. We continue to support primary and secondary education for the disadvantaged, and environmental sustainability.

HSBC staff play a major part in our support for

A Sense of Responsibility (continued)

the community. They have been recognised in Hong Kong's Social Welfare Department Volunteer Movement Awards for contributing 17,000 hours of voluntary community service. Together with the Hongkong Bank Foundation, HSBC has become the top donor to the Hong Kong Community Chest with a contribution of more than HK$10 million.

Our staff in the UK were the largest fund-raisers for Children in Need for the sixth year running and more than 650 female members of staff took part in the Imperial Cancer Research Fund's Race for Life, raising £120,000 for research into women's cancers.

Sharing Our Success

Lord Butler, a non-executive Director of HSBC Holdings, oversees our corporate social responsibility programme which operates under the title 'HSBC in the Community — Sharing Our Success'. We have increased resources devoted to these activities and are working on a number of major initiatives for 2001.

HSBC's commitment to support education is now led by Dame Mary Richardson and reflects the importance HSBC attaches to this vital area. Dame Mary joined the HSBC team recently after a distinguished career in education. For 14 years, she was the principal of a school in a deprived area of London and transformed it into a shining example of its kind. Dame Mary also sits on a number of authoritative education committees, reflecting her prominence in her profession. Her primary role with HSBC is as Chief Executive of the HSBC Education Trust in the UK.

The Trust will consider charitable payments relating to education in the UK, and has been funded by HSBC with an initial payment of £1 million. Among the initiatives the Trust will support are increased funding for language colleges, and primary and secondary school programmes for children in economically deprived areas.

To help support education in mainland China, HSBC hosts with Fudan University a two-yearly economic forum attended by leading academics while, in Hong Kong, a centre for disabled children has received funding for a special training room in one of its schools. Access to education is a particular challenge for some children in Indonesia and HSBC funds 375 scholarships for elementary and high school students.

In the USA, we assist a range of neighbourhood housing initiatives and an after-school tutoring programme in high schools in New York State. Through the Jumpstart Programme in Buffalo, where HSBC staff work with local high school students, HSBC has hired more than 60 students and supported scholarships for 20 more.

HSBC is the largest supporter in the UK of Young Enterprise, which introduces young people to the business world. More than 1,600 of our employees act as advisers and Bill Dalton, Chief Executive Officer of HSBC Bank plc, is the chairman.

Similarly, HSBC supports Junior Achievement in Canada. Through our bursaries at the British Columbia Institute for Studies in International Trade, we help students develop an understanding of global business.

In the Middle East, we continue our programme to support students who show promise by funding Raleigh International overseas placements for 30 venturers. We support 100 students from Qatar, Oman and the United Arab Emirates who show promise on intensive English courses, and a further eight postgraduate students from Egypt on scholarships at British universities for one-year business-related courses.

In Brazil, HSBC assists with a project for former street children which gives shelter, elementary and secondary education, and help with drug addiction. Through our support for employability programmes, we work with a technical school and companies to prepare 14- to 18-year-olds for work.

Environment

HSBC is deeply conscious of its responsibilities to the environment, believing that the needs of today's society should not be fulfilled at the expense of future generations, and that sustainability is the key. We were one of the founding signatories to the United Nations Environment Programme on which our own environmental policy is based. We are also a founding member of Hong Kong's Private Sector Committee on the Environment.

However, with operations in 79 countries and territories where different cultural and political systems apply, we have to strike a balance on environmental issues. This does not allow us to report our monitoring and performance results easily since there can be no blanket standard of measurement that can be applied to the Group.

HSBC Bank in the UK has been committed since 1992 to a government programme to manage energy consumption better and to promote energy efficiency. Despite the installation of major information technology systems, longer operating hours in many buildings, and the addition of service facilities such as call centres, the bank's energy efficiency has improved by five per cent. Our new world headquarters, currently under construction in London, will have a number of energy-saving features, such as heat recovery, energy recycling and reduced use of paper. We are learning from the success of our main building in Hong Kong, which has a computerised management system designed to minimise power consumption and reduce waste. Paper consumption is being cut in some areas by up to 50 per cent by redesigning printed material and the use of electronic transmission. This *Annual Review* is printed on chlorine-free paper.

We support many environmental organisations and initiatives around the world, seeking to conform with the best standards in the different cultural and political systems in which we work. These organisations range from WWF and Earthwatch to the Royal Geographical Society. We have been involved in many biodiversity projects, which range from reforestation and saving Thailand's tigers to preserving marine life in the Philippines and wetlands in Malaysia. In the UK, HSBC is working to develop an environmental education sponsorship programme involving wildfowl and wetlands that will be available to schools throughout the country.

We fund programmes in Brunei to promote environmental best practice and develop scientific research in the country's Merimbun Heritage Park. HSBC and Hang Seng Bank in Hong Kong support ongoing reforestation with the Agriculture and Fisheries Department and many thousands of trees have been planted as a result.

In Malaysia, where we are helping to preserve the coastline, we have developed a partnership with the Department of Fisheries to protect vital coral reefs and endangered local turtles. Part of our support for the Save the Seas of Samal Island in the Philippines, now in its second year, includes developing alternative livelihoods for fishermen while marine resources recover from environmental damage.

HSBC is proud of its record. We know we cannot help all those in need, and we will never feel that we have done enough. But we are determined to build on the achievement of the past and do even more in the future.

Board of Directors and Senior Management

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.


Sir Peter Walters


Sir John Bond


The Lord Butler


R K F Ch'ien


K R Whitson


The Baroness Dunn

***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.

D J Flint

C F W de Croisset

D E Connolly

S K Green

D G Eldon

W R P Dalton

W K L Fung

Board of Directors and Senior Management (continued)

†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.

A W Jebson

Sir John Kemp-Welch

The Lord Marshall

C Miller Smith

Sir Brian Moffat

†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.

Secretary

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.

H Sohmen

M Murofushi

D J Shaw

Sir Adrian Swire

C E Reichardt

R G Barber

Board of Directors and Senior Management (continued)

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.

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.

Summary Directors' Report

Principal Activities and Business Review

Through its subsidiary and associated undertakings, the Group provides a comprehensive range of banking and related financial services through an international network of some 6,500 offices in 79 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa.

A review of the development of the business of Group undertakings during the year and an indication of likely future developments are given on pages 3 to 18. On 22 February 2001, the French Finance Ministry announced the sale of Banque Hervet to Crédit Commercial de France S.A. for a consideration of FFr3.471 billion.

Dividend

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. A financial calendar including the key dates for payment of the second interim dividend for 2000 is on page 37.

Directors

The names and brief biographical details of the Directors who served during the year are set out on pages 22 to 25.

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.

Directors' Emoluments

Particulars of Directors' emoluments are given on page 35.

Auditors' Report

The auditors' report on the full accounts for the year ended 31 December 2000 was unqualified and did not include a statement under sections 237(2) (inadequate accounting records or returns or accounts not agreeing with records and returns) or 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

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

26 February 2001

Net Interest Income

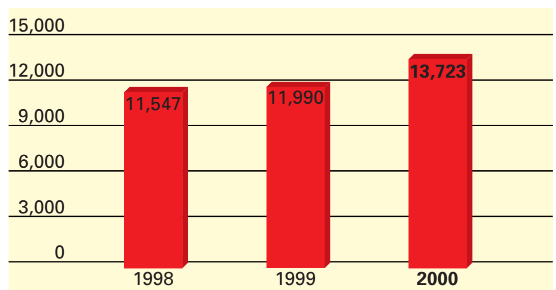
Net interest income was US$1,733 million, or 14.5 per cent, higher than 1999 primarily due to the acquisition of CCF and the former Republic New York Corporation (RNYC) and Safra Republic Holdings (SRH) businesses. There was growth across all geographical regions. This was particularly creditable in Hong Kong where there was muted loan demand and where intense competition in the residential mortgage market reduced interest earned on mortgages by some US$170 million. Net interest income in Hong Kong was US$262 million, or 7.0 per cent, higher which mainly reflected the placement of increased customer deposits and an improved mix of lower costing liabilities. In the UK, there was an underlying increase of US$173 million, or 5.7 per cent, generated by balance sheet growth again with strong growth in savings balances.

Average interest-earning assets increased by US$97 billion, or 23.1 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. There was notable personal lending growth in the UK, Brazil, Korea, India and Taiwan.

The major impact on the Group's net interest margin has been mix, driven by the very liquid balance sheets in recent acquisitions and the related cost of funding these acquisitions. The impact of mix was compounded by a reduction in spread on savings products in the UK and on residential mortgages in the UK and Hong Kong. Although 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, the Group's net interest margin at 2.66 per cent, was 20 basis points lower than for 1999. Excluding the impact of CCF, the Group's margin in the second half was 2.69 per cent, 9 basis points lower than in the first half substantially due to mortgage repricing in Hong Kong and increased liquidity.

At constant exchange rates, net interest income would have been US$2,060 million, or 17.7 per cent, higher than 1999.

Net interest income (US$m)

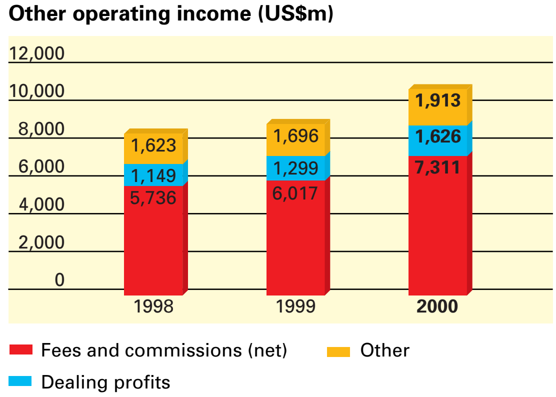


Other Operating Income

Other operating income rose by US$1,838 million or 20.4 per cent compared with 1999, reflecting the impact of acquisitions. This increase was driven by acquisitions, together with underlying growth in fee income.

Net fees and commissions at US$7,311 million represented 29.8 per cent of total operating income against 28.6 per cent in 1999 and were US$1,294 million or 21.5 per cent higher than in 1999. At constant exchange rates, net fees and commissions would have been 27.2 per cent higher than 1999. Excluding the impact of CCF, net fees and commissions were US$181 million lower in the second half of the year, all of which was accounted for by lower brokerage fees and commissions. Brokerage fees and commissions and global custody fees in the second half of 2000 (excluding CCF) were in line with levels achieved in 1999 but could not match the levels achieved in the first half of 2000, driven by an exceptional first quarter. In all other areas, adjusting for the inclusion of CCF in the second half, fee levels were in line with, or modestly better in the second half than in the first half of 2000. Stronger performances were achieved particularly on credit facilities and wealth management in Hong Kong.

Other operating income (US$m)



The less buoyant equity markets in the second half also adversely impacted equity dealing profits which were US$135 million lower, again after adjusting for the impact of CCF. Profits from foreign exchange trading and debt securities trading were stable across both halves of the year. The second half debt securities profits benefited from a recovery of 68.7 per cent of the provisions made in 1999 against a Korean corporate's bonds upon liquidation of the position. Higher volatility in the second half impacted derivatives trading negatively. Dealing profits represented 6.6 per cent of operating income in 2000 against 6.2 per cent in 1999.

At constant exchange rates, other operating income would have been US$2,211 million, or 25.6 per cent, higher than in 1999.

Operating Expenses

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.

In Europe, acquisitions accounted for US$947 million of the cost increase with the remainder mainly reflecting growth in wealth management business, IT and IT-related costs to support development projects to improve customer service, particularly new delivery channels. In Investment Banking, profit-related pay increased in line with improved business performance.

Costs in North America, excluding goodwill amortisation, were US$781 million higher, principally as a result of the acquisition of the former Republic businesses of which US$74 million (1999: US$164 million) related to restructuring costs. During 2000, acquisition-related cost savings have been realised in most support and administrative functions and, to a lesser extent, in some front line businesses. Compensation and benefit packages have been harmonised.

In Hong Kong, cost growth was mainly in non-staff costs and 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. Cost growth in Latin America reflected business growth, restructuring to achieve operating efficiencies and the transfer to subsidiary status of the Argentinian pensions and life business.

A number of initiatives are under way to assist the Group in managing its cost base through leveraging its scale and internationality. 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 the Group's productivity through economies of scale and processing efficiencies.

At 31 December, headcount on a full-time equivalent basis was 161,624 (1999: 145,847).

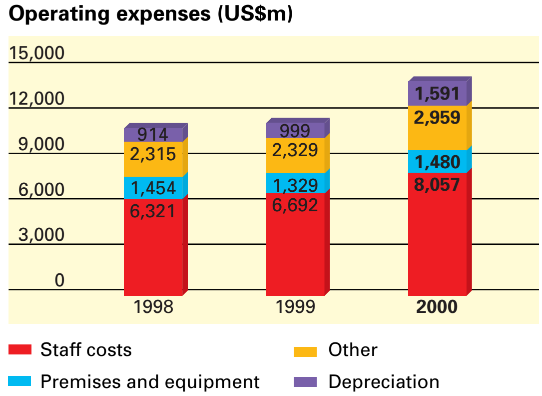
The Group's cost:income ratio was 55.3 per cent, 1.4 per cent higher than in 1999, reflecting the cost structures of new acquisitions and of the expanding wealth management businesses.

At constant exchange rates, operating expenses would have been US$3,153 million, or 28.8 per cent higher than 1999.

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

Operating expenses (US$m)



Bad and Doubtful Debts

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 23.4 per cent compared with 1999. This reflected improved economic conditions, 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 UK, underlying credit quality remained stable with the lower net charge reflecting a higher level of recoveries and no individually significant provisions in the year. 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 on 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 recoveries caused by delays in debt restructuring stemming from a weak stock market: against 1999 the provisions charge in Malaysia was lower by US$256 million.

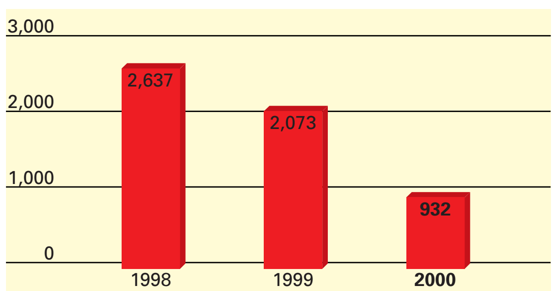
In the second half of the year, a further 20 per cent of the special general provision of US$290 million raised in 1997 in respect of Asia was released, following a 40 per cent release in the first half. In view of the slowdown in the US economy and its possible implications for the Asian economies as 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 improved to 3.5 per cent of gross customer advances (31 December 1999: 4.0 per cent).

Charge for bad and doubtful debts (US$m)



Bad and doubtful debt charge by geographical segment

	As at 31 December					
	2000		1999		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
Group total	**932**	**100.0**	2,073	100.0	2,637	100.0

Gains on Disposal of Investments

The Group's gains on disposal of investments of US$302 million were US$148 million lower than in 1999.

HSBC Private Equity recorded a US$61 million profit from venture capital investment disposals (1999: US$114 million).

Taxation

The charge for taxation comprises:

	2000 US$m	1999 US$m	1998 US$m
UK corporation tax charge	**856**	596	732
Overseas taxation	**1,468**	1,313	1,118
Deferred taxation	**(78)**	129	(71)
Joint ventures	**(7)**	—	—
Associated undertakings	**(1)**	—	10
	2,238	2,038	1,789
Effective tax rate	**22.9%**	25.5%	27.2%

The Company and its subsidiary undertakings in the UK provided for UK corporation tax at 30 per cent, the rate for the calendar year 2000 (1999: 30.25 per cent). Overseas tax included Hong Kong profits tax of US$478 million (1999: US$367 million) provided at the rate of 16.0 per cent (1999: 16.0 per cent) 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 (31 December 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 considered certain.

Analysis of overall tax charge:

Figures in US$m	2000	1999	1998
Taxation at UK corporate tax rate of 30% (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

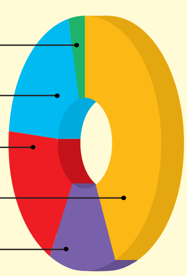
Assets

At 31 December 2000, the Group's balance sheet was highly liquid, reflecting strong deposit growth and muted credit demand. Some 43.0 per cent of the balance sheet was deployed in loans and advances to customers, 1.6 per cent lower than a year before.

Loans and advances to customers (excluding the finance sector and settlement accounts) grew by 6.8 per cent, excluding CCF, and at constant exchange rates. Within this growth, personal banking grew by 9.3 per cent and loans and advances to the

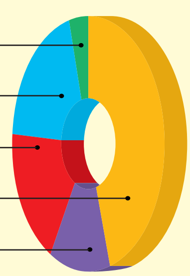
Assets 2000 (excluding Hong Kong Government certificates of indebtedness)

	%	*US$b*
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	**100.0**	**665.6**



Assets 1999 (excluding Hong Kong Government certificates of indebtedness)

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



commercial and corporate customer base grew by 4.8 per cent. Personal lending constituted 39.0 per cent of lending at 31 December 2000.

Double digit mortgage growth was achieved in the USA, Korea, Taiwan, India and Malaysia and the strongest growth in other personal lending was achieved in India. Despite muted loan demand in Hong Kong, corporate loans and advances increased by 5.6 per cent.

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

Assets under administration and funds under management

At 31 December 2000, the amount of 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 of US$295 billion were US$71 billion, or 31.7 per cent, higher than at the end of 1999. The development of the Group's wealth management capabilities has continued in 2000, with the acquisition of CCF. The resulting growth in funds under management has been underpinned by net funds inflows in our existing businesses, in a challenging environment of falling global equity markets and the impact of the strengthening US dollar on our sterling and euro denominated funds. At constant exchange rates, the Group's funds under management increased by 36.7 per cent.

Summary Consolidated Profit and Loss Account

Summary Financial Statement

1999 US$m	Year ended 31 December	2000 US$m	2000 £m	2000 HK$m
29,204	Interest receivable	**37,746**	*24,912*	*294,117*
(17,214)	Interest payable	**(24,023)**	*(15,855)*	*(187,187)*
11,990	**Net interest income**	**13,723**	*9,057*	*106,930*
9,012	Other operating income	**10,850**	*7,161*	*84,543*
21,002	**Operating income**	**24,573**	*16,218*	*191,473*
(11,313)	Operating expenses	**(13,577)**	*(8,961)*	*(105,792)*
(36)	Goodwill amortisation	**(510)**	*(337)*	*(3,974)*
9,653	**Operating profit before provisions**	**10,486**	*6,920*	*81,707*
(2,073)	Provisions for bad and doubtful debts	**(932)**	*(615)*	*(7,262)*
(143)	Provisions for contingent liabilities and commitments	**(71)**	*(47)*	*(553)*
(28)	Amounts written off fixed asset investments	**(36)**	*(24)*	*(281)*
7,409	**Operating profit**	**9,447**	*6,234*	*73,611*
—	Share of losses from joint ventures	**(51)**	*(33)*	*(397)*
123	Income from associated undertakings	**75**	*50*	*584*
	Gains on disposal of:			
450	— investments	**302**	*200*	*2,353*
—	— tangible fixed assets	**2**	*1*	*16*
7,982	**Profit on ordinary activities before tax**	**9,775**	*6,452*	*76,167*
(2,038)	Tax on profit on ordinary activities	**(2,238)**	*(1,477)*	*(17,439)*
5,944	**Profit on ordinary activities after tax**	**7,537**	*4,975*	*58,728*
	Minority interests:			
(460)	— equity	**(558)**	*(368)*	*(4,348)*
(76)	— non-equity	**(351)**	*(233)*	*(2,735)*
5,408	**Profit attributable to shareholders**	**6,628**	*4,374*	*51,645*
(2,872)	Dividends	**(4,010)**	*(2,647)*	*(31,246)*
2,536	**Retained profit for the year**	**2,618**	*1,727*	*20,399*
0.66	Cash earnings per share*	**0.81**	*0.53*	*6.31*
0.65	Basic earnings per ordinary share	**0.76**	*0.50*	*5.92*
0.65	Diluted earnings per ordinary share	**0.75**	*0.50*	*5.84*

**Cash earnings per share comprise basic earnings per share after excluding the impact of goodwill amortisation.*

Consolidated Balance Sheet

Summary Financial Statement

1999 US$m	At 31 December	2000 US$m	2000 £m	2000 HK$m
	ASSETS			
6,179	Cash and balances at central banks	**5,006**	*3,354*	*39,047*
5,826	Items in the course of collection from other banks	**6,668**	*4,468*	*52,010*
23,213	Treasury bills and other eligible bills	**23,131**	*15,498*	*180,422*
9,905	Hong Kong SAR Government certificates of indebtedness	**8,193**	*5,489*	*63,904*
100,077	Loans and advances to banks	**126,032**	*84,441*	*983,050*
253,567	Loans and advances to customers	**289,837**	*194,191*	*2,260,729*
110,068	Debt securities	**132,818**	*88,988*	*1,035,980*
4,478	Equity shares	**8,104**	*5,430*	*63,211*
—	Interests in joint ventures — gross assets	**2,242**	*1,502*	*17,488*
—	Interests in joint ventures — gross liabilities	**(1,959)**	*(1,312)*	*(15,280)*
		283	*190*	*2,208*
926	Interests in associated undertakings	**1,085**	*727*	*8,462*
280	Other participating interests	**126**	*84*	*983*
6,541	Intangible fixed assets	**15,089**	*10,110*	*117,694*
12,868	Tangible fixed assets	**14,021**	*9,394*	*109,364*
29,363	Other assets	**35,562**	*23,826*	*277,385*
5,848	Prepayments and accrued income	**7,859**	*5,266*	*61,300*
569,139	Total assets	**673,814**	*451,456*	*5,255,749*
	LIABILITIES			
9,905	Hong Kong SAR currency notes in circulation	**8,193**	*5,489*	*63,904*
38,103	Deposits by banks	**60,053**	*40,236*	*468,413*
359,972	Customer accounts	**427,069**	*286,136*	*3,331,139*
4,872	Items in the course of transmission to other banks	**4,475**	*2,998*	*34,905*
33,780	Debt securities in issue	**27,956**	*18,731*	*218,057*
59,584	Other liabilities	**63,114**	*42,287*	*492,289*
6,129	Accruals and deferred income	**9,270**	*6,211*	*72,306*
	Provisions for liabilities and charges			
1,388	— deferred taxation	**1,251**	*838*	*9,758*
2,920	— other provisions	**3,332**	*2,232*	*25,990*
	Subordinated liabilities			
3,235	— undated loan capital	**3,546**	*2,376*	*27,659*
12,188	— dated loan capital	**12,676**	*8,493*	*98,873*
	Minority interests			
2,072	— equity	**2,138**	*1,432*	*16,676*
1,583	— non-equity	**5,171**	*3,465*	*40,334*
4,230	Called up share capital	**4,634**	*3,105*	*36,145*
29,178	Reserves	**40,936**	*27,427*	*319,301*
33,408	Shareholders' funds	**45,570**	*30,532*	*355,446*
569,139	Total liabilities	**673,814**	*451,456*	*5,255,749*
	MEMORADUM ITEMS			
	Contingent liabilities			
4,482	— acceptances and endorsements	**5,160**	*3,457*	*40,248*
27,319	— guarantees and assets pledged as collateral security	**33,968**	*22,759*	*264,950*
39	— other contingent liabilities	**14**	*9*	*109*
31,840		**39,142**	*26,225*	*305,307*
168,738	Commitments	**182,716**	*122,420*	*1,425,185*

Sir John Bond, *Group Chairman*

1 Basis of preparation

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings and in accordance with applicable accounting standards. The accounting policies adopted are consistent with those described in the Group's 1999 *Annual Report and Accounts* except as follows:

In 2000, the Group adopted the provisions of Financial Reporting Standards ('FRSs') FRS 15, 'Tangible fixed assets' and FRS 16 'Current tax'.

2 Directors' emoluments

The aggregate emoluments of the Directors of HSBC Holdings plc, computed in accordance with Part I of Schedule 6 of the UK Companies Act 1985, were US$11,741,000 (1999: US$7,207,000; 1998: US$7,303,000). Aggregate gains on the exercise of share options were US$4,187,000 (1999: US$460,000; 1998: nil).

There were annual commitments 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).

Further details of Directors' emoluments are given in the Group's 2000 *Annual Report and Accounts.*

3 Other information

This Summary Financial Statement is only a summary of information in the Group's 2000 *Annual Report and Accounts*. It is not the Group's statutory accounts and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full *Annual Report and Accounts*.

Members may obtain, free of charge, a copy of the 2000 *Annual Report and Accounts* from Group Corporate Affairs, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE, United Kingdom; The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; HSBC Bank USA, 452 Fifth Avenue, New York, New York 10018, USA; or from Crédit Commercial de France, Direction de la Communication, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France. A Chinese translation of the *Annual Report and Accounts* may be obtained from Central Registration Hong Kong Limited, Rooms 1901-1905, Hopewell Centre, 183 Queen's Road East, Hong Kong. Members may elect in writing to receive the full *Annual Report and Accounts* for all future financial years by applying to the appropriate Registrars, the addresses of which are shown on page 40.

The 2000 *Annual Report and Accounts* may be viewed on our web site: www.hsbc.com.

4 Approval of the Summary Financial Statement

This Summary Financial Statement was approved by the Board of Directors on 26 February 2001.

Statement of the Auditors to the Members of HSBC Holdings plc Pursuant to Section 251 of the Companies Act 1985

We have examined the Summary Financial Statement set out on pages 27 to 35.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the *Annual Review*. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the *Annual Review* with the full annual accounts and Directors' Report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the *Annual Review* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the Summary Financial Statement' issued by the Auditing Practices Board. Our unqualified report on the Group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion

In our opinion the Summary Financial Statement is consistent with the full annual accounts and Directors' Report of HSBC Holdings plc for the year ended 31 December 2000 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

26 February 2001

Shareholder Information

Financial Calendar 2001

Shares quoted ex-dividend in London and Hong Kong and ADRs quoted ex-dividend in New York	14 March
Record date for the second interim dividend for 2000	16 March
Shares quoted ex-dividend in Paris	19 March
Publication of *Annual Review*	26 March
Final date for receipt by registrars of forms of election and revocations of standing instructions for scrip dividends	20 April
Exchange rate determined for payment of dividends in sterling and Hong Kong dollars	23 April
Payment date: dividend warrants, new share certificates and notional tax vouchers mailed and shares credited to stock accounts in CREST	2 May
Annual General Meeting	25 May
Announcement of 2001 interim results	6 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 a.m.

Dividends

The Directors have declared a second interim dividend of US$0.285 per ordinary share 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 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 the Company's shares is available from HSBC Bank plc stockbrokers. Details are available from:

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

Shareholder Enquiries

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

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

or

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

Shareholder Information (continued)

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
E-mail: mikestephenson@hsbc.com

Annual Review 2000

Further copies of this *Annual Review*, and additional information about HSBC, may be obtained by writing to any of the following departments.

For those in Europe, the 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

For those in the Americas:
Group Public Affairs
HSBC Bank USA
452 Fifth Avenue
New York, NY 10018
USA

Chinese translation

A Chinese translation of this *Annual Review* is available on request from:

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

本年報備有中譯本，如欲查閱可向下列公司索取：
香港皇后大道東一八三號合和中心1901-1905室
香港中央證券登記有限公司

French translation

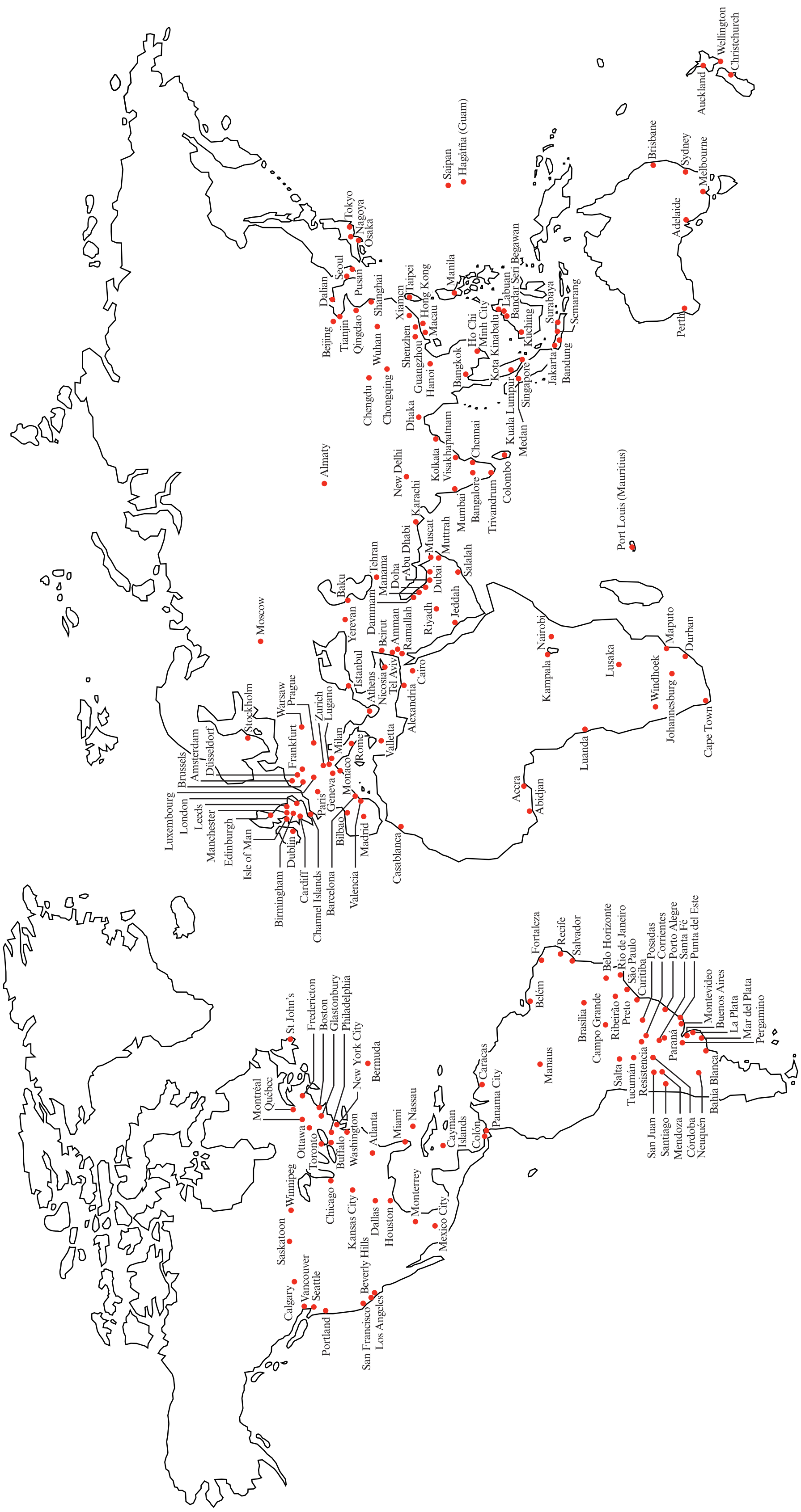
A French translation of this *Annual Review* is available on request from:
La traduction française du bilan d'activité est disponible sur demande:

Direction de la Communication
CCF
103 avenue des Champs Elysées
75419 Paris Cedex 08
France

Web Site

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

HSBC International Network



HSBC HOLDINGS PLC
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Registered in England: number 617987

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Main picture: Judith Pszenica
Far left: François Grobet
Bottom right: Josiah Leung

Pages 6-7
Main picture: Gérard Uféras, Agence Rapho
Far left and bottom right: Patrick Hamon
Centre left: Warren Leon, Jr
Second from left: Nadir Hashem
Second from right: Alan Desiderio

Page 10
Anti-clockwise from main picture: Bruce Usher, James Morgan, Josiah Leung

Pages 12-13
Second and fourth from left: Josiah Leung
Hong Kong: Josiah Leung
Argentina: Roberto Lightowler
United Arab Emirates: Shahin Jalali
Singapore: Michael Liew
Malaysia: K Sukumaran

Page 15
India: Rajender Singh
China: C K Wong

Pages 16-17
From right to left: Josiah Leung, Josiah Leung, Marcia Ramalho, James Morgan, Lloyd Sutton

Pages 22-25
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