2001

HSBC Holdings plc

Interim Report

YOUR WORLD OF FINANCIAL SERVICES

HSBC

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This document comprises the *Interim Report 2001* to shareholders and is being filed on Form 6-K with the US Securities and Exchange Commission ('SEC'), for HSBC Holdings plc and its subsidiary and associated undertakings.

HSBC HOLDINGS PLC
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Financial Highlights

HSBC prepares its financial statements in accordance with UK Generally Accepted Accounting Principles (‘UK GAAP’). It uses the US dollar as its reporting currency because the US dollar and currencies linked to it form the major currency bloc in which HSBC transacts its business. Following its listing on the New York Stock Exchange, HSBC also reconciles certain financial information to US Generally Accepted Accounting Principles (‘US GAAP’) which differs in certain aspects from UK GAAP as explained on page 67. HSBC judges its own performance by comparing cash returns on cash invested. Cash basis items are derived by adjusting reported earnings to eliminate the impact of the amortisation of goodwill arising on acquisitions.

	Half-year to 30 June 2001	Half-year to 30 June 2000	Half-year to 31 December 2000
	US$m	US$m	US$m
For the period (cash basis)			
Operating profit before provisions	**5,652**	5,614	5,382
Profit on ordinary activities before tax	**5,840**	5,378	4,922
Profit attributable to shareholders	**4,075**	3,697	3,456
For the period (as reported)			
Operating profit before provisions	**5,251**	5,442	5,044
Profit on ordinary activities before tax	**5,435**	5,206	4,569
Profit attributable to shareholders	**3,670**	3,525	3,103
Dividends	**(1,764)**	(1,280)	(2,730)
At period-end			
Shareholders’ funds	**46,035**	35,319	45,570
Capital resources	**52,732**	47,935	50,964
Customer accounts and deposits by banks	**506,141**	426,122	487,122
Total assets	**691,840**	580,280	673,814
Risk-weighted assets	**386,054**	339,444	383,687
	US$	US$	US$
Per share			
Cash earnings	**0.44**	0.44	0.38
Basic earnings	**0.40**	0.42	0.34
Diluted earnings	**0.39**	0.41	0.34
Dividend	**0.19**	0.15	0.285
Net asset value at period end	**4.93**	4.14	4.92

	At 30 June 2001	At 30 June 2000	At 31 December 2000
Share information			
US$0.50 ordinary shares in issue (million)	**9,333**	8,532	9,268
Market capitalisation	**US$110bn**	US$98bn	US$136bn
Closing market price per share	**£8.43**	£7.56	£9.85

	HSBC	**Benchmark**
Total shareholder return to 30 June 2001*		
- over 1 year	**116**	**111**
- since 1 January 1999†	**178**	**138**

* *Total shareholder return (‘TSR’) is as defined on page 116 of the Annual Report and Accounts 2000.*

† *HSBC’s governing objective is to beat the TSR of its defined benchmark, with a minimum objective to achieve double TSR over a five-year period beginning on 1 January 1999.*

Financial Highlights (continued)

.	Half-year to 30 June 2001	Half-year to 30 June 2000	Half-year to 31 December 2000
Performance ratios (annualised)	**%**	%	%
On a cash basis			
Return on invested capital†	**16.0**	19.1	14.2
Return on net tangible equity*	**26.3**	26.1	22.1
Post-tax return on average tangible assets	**1.38**	1.45	1.22
Post-tax return on average risk-weighted assets	**2.42**	2.43	2.11
After goodwill amortisation – reported earnings			
Return on average shareholders' funds	**15.9**	20.2	13.7
Post-tax return on average assets	**1.23**	1.37	1.09
Post-tax return on average risk-weighted assets	**2.21**	2.33	1.92
Efficiency and revenue mix ratios			
Cost:income ratio (excluding goodwill amortisation)	**55.8**	53.3	57.1
As a percentage of total operating income:			
- net interest income	**56.2**	55.6	56.1
- other operating income	**43.8**	44.4	43.9
- net fees and commissions	**29.4**	29.6	29.9
- dealing profits	**6.8**	7.3	6.0
Capital ratios			
- tier 1 capital	**9.4**	9.6	9.0
- total capital	**13.7**	14.1	13.3

Amounts in accordance with US GAAP

	US$m	US$m	US$m
Profit and loss account data			
Net income available for ordinary shareholders	**3,542**	3,244	2,992
Dividend	**(2,627)**	(1,754)	(1,383)
Balance sheet data at period-end			
Total assets	**693,065**	591,860	680,076
Shareholders' equity	**47,315**	36,992	48,072
	US$	US$	US$
Per ordinary share amounts			
Basic earnings	**0.38**	0.38	0.33
Diluted earnings	**0.38**	0.38	0.33
Cash earnings	**0.45**	0.42	0.39
Net asset value at period end	**5.10**	4.35	5.19
Dividend	**0.285**	0.207	0.150

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

† *See page 17 for definition*

Forward-Looking Statements

Cautionary statement regarding forward-looking statements

This *Interim Report* contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC. These forward-looking statements represent HSBC's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For example, certain of the market risk disclosures, some of which are only estimates and, therefore, could be materially different from actual results, are dependent on key model characteristics and assumptions and are subject to various limitations. Certain statements, such as those that include the words 'potential', 'value at risk', 'estimated', 'expects', 'anticipates', 'objective', 'intends', 'plans', 'believes', 'estimates', and similar expressions or variations on such expressions may be considered 'forward-looking statements'. Forward-looking statements involve inherent risks and uncertainties. Readers should be cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Trends and factors that are expected to affect HSBC's results of operations are described in the 'Financial Review'.

Presentation of information

HSBC's Financial Statements and Notes thereon, as set out on pages 53 to 73, are prepared in accordance with UK GAAP, which differs in certain respects from US GAAP. For a discussion of significant differences between UK GAAP and US GAAP, and a reconciliation to US GAAP of certain amounts, see Note 23 of the Notes on the Financial Statements. Unless otherwise stated, the numbers presented in this document have been prepared in accordance with UK GAAP.

Certain defined terms

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC' means HSBC Holdings together with its subsidiary undertakings. Within this document the Hong Kong Special Administrative Region of the People's Republic of China has been referred to as 'Hong Kong' or 'Hong Kong SAR'.

Where reference to constant currency is made, comparative data, as expressed in the functional currencies of HSBC's operations, has been translated at current period exchange rates.

Recent developments

Europe

On 3 March 2001 HSBC, through Crédit Commercial de France ('CCF') completed the acquisition of 89.6 per cent of Banque Hervet for €473 million (US$418 million) from the French Finance Ministry. An additional 8 per cent has been acquired in July for €42 million (US$36 million). Banque Hervet is a Paris-based specialist commercial and consumer bank with 86 branches and over 100,000 customers.

The sale of HSBC's 20 per cent stake in British Interactive Broadcasting to BSkyB was completed on 9 May 2001 and recorded a profit on disposal of US$200 million.

In May 2001, Merrill Lynch HSBC opened its full broking business for individuals in the United Kingdom.

On 20 June 2001 Charterhouse Development Capital Holdings Limited ('CDC'), the management company for the Charterhouse venture capital funds, was sold to the existing CDC management team.

On 19 July 2001, HSBC announced that the Banking Regulatory and Supervisory Agency of Turkey had accepted its tender offer for Demirbank TAS ('Demirbank'). HSBC has entered into final and exclusive discussions over a Sale and Purchase Agreement for Demirbank. HSBC expects that this acquisition will be concluded before 30 September 2001. HSBC has agreed to purchase the legal entity of Demirbank and has selected certain of its assets and liabilities to produce a balance sheet of some US$1.35 billion. This entity will be merged with HSBC's existing Turkish operation, HSBC Bank AS, producing a combined entity with a balance sheet of some US$2.35 billion and capital of US$250 million.

Asia-Pacific

On 16 May 2001, HSBC entered into an agreement with China Development Industrial Bank Inc. to acquire its 52.87 per cent interest in China Securities Investment Trust, Taiwan's leading asset management company with approximately US$2.6 billion of assets under management and about 88,000 high net-worth retail and institutional clients, for approximately US$103 million in cash. HSBC has now received acceptances to acquire an additional 44.13 per cent, making the total consideration approximately US$187 million.

On 21 May 2001, HSBC reached agreement to sell its 93.3 per cent stake in Crédit International d'Egypte ('CIE'), an Egyptian commercial bank primarily engaged in corporate banking acquired as part of the acquisition of CCF, to Crédit Agricole Indosuez and the El Mansour and El Maghraby groups.

Worldwide

On 30 July 2001, HSBC and Yahoo! announced a strategic relationship to deliver a co-branded person-to-person payments system called 'Yahoo! ® Paydirect with HSBC' to Yahoo! consumers and HSBC customers around the world.

Legal proceedings

HSBC, through a number of its subsidiary undertakings, is named in and is defending legal actions in various jurisdictions arising from its normal business. None of these proceedings is regarded as material litigation. In addition, there are certain proceedings relating to the 'Princeton Note Matter' that are described in Note 43 on the Financial Statements contained in HSBC's *Annual Report and Accounts 2000* ('the 2000 Report'). Further details are set out in Note 21 on the Financial Statements contained in this *Interim Report*.

Distribution of Results

By geographical region

	Half-year to 30 June 2001		Half-year to 30 June 2000		Half-year to 31 December 2000	
	US$m	**%**	US$m	%	US$m	%
Profit before tax – cash basis						
Europe	**2,377**	**40.7**	2,051	38.1	1,970	40.1
Hong Kong	**2,055**	**35.2**	1,904	35.4	1,788	36.3
Rest of Asia-Pacific	**638**	**10.9**	736	13.7	534	10.8
North America	**599**	**10.3**	488	9.1	505	10.3
Latin America	**171**	**2.9**	199	3.7	125	2.5
HSBC profit on ordinary activities before tax – cash basis	**5,840**	**100.0**	5,378	100.0	4,922	100.0
Goodwill amortisation	**(405)**		(172)		(353)	
HSBC profit on ordinary activities before tax	**5,435**		5,206		4,569	
Tax on profit on ordinary activities	**(1,229)**		(1,263)		(975)	
Profit on ordinary activities after tax	**4,206**		3,943		3,594	
Minority interests	**(536)**		(418)		(491)	
Profit attributable	**3,670**		3,525		3,103	
Profit attributable – cash basis	**4,075**		3,697		3,456	

By line of business

	Half-year to 30 June 2001		Half-year to 30 June 2000		Half-year to 31 December 2000	
	US$m	**%**	US$m	%	US$m	%
Profit before tax – cash basis						
Commercial banking	**5,398**	**92.4**	4,754	88.4	4,442	90.2
Investment banking	**442**	**7.6**	624	11.6	480	9.8
HSBC profit before tax – cash basis	**5,840**	**100.0**	5,378	100.0	4,922	100.0
Goodwill amortisation	**(405)**		(172)		(353)	
HSBC profit before tax	**5,435**		5,206		4,569	

Group Chairman's Comment

When we announced last year's results in February, we said that the outlook for 2001 was challenging. This has proved to be the case. Nevertheless, HSBC has increased its attributable profit, raised its first interim dividend and made good progress in developing its businesses, particularly its wealth management services.

We maintained cash operating profits before provisions at just over US$5.6 billion, the same as in the first half of 2000 which was our best half ever. The contribution of CCF's businesses offset lower revenues from the marked decline in the volume and value of shares traded, and from investment banking. The impact of a stronger US dollar reduced the value of revenues and costs arising in other currencies and masked underlying growth.

In constant currency terms, cash basis operating profit before provisions grew by 5 per cent. As a percentage of average risk-weighted assets, our operating margin improved from 2.9 per cent in the second half of 2000 to 3.0 per cent. With provisions for bad and doubtful debts lower than in the second half of last year, and with the benefit of significant gains on the disposal of investments, cash profit attributable to shareholders grew by 15 per cent in constant currency terms to US$4,075 million. The Board has declared a first interim dividend of US$0.19. This represents an increase of 27 per cent which in part is to reduce the disparity between the amount of the first and second interim dividends.

Economic environment

The first six months of 2001 were characterised by a lower rate of growth in most of the world's economies, volatile and falling equity markets and declining confidence in the ability of certain emerging economies to maintain stability. As corporate activity slowed, the demand for financial services also declined. A large proportion of lending activity was confined to refinancing as businesses took advantage of falling interest rates to reduce their borrowing costs. Similar trends were seen in the personal sector with refinancing at lower interest rates accounting for a significant part of the mortgage business in the US and virtually all of the market in Hong Kong.

Conservative positioning

In such an environment short-term revenue growth can only be achieved organically by increasing risk. We did not consider it prudent to follow this route. Indeed, in expectation of a world economic downturn, we positioned our business more conservatively. At 30 June, only 44 per cent of HSBC's total assets were in loans. We strengthened our capital position and maintained strong liquidity. In a period which called for consolidation rather than expansion, HSBC focused on initiatives to improve its operating margins.

Investment and progress

The increase in operating costs reflects continued investment in building our brand and developing the new distribution channels and fee-based services important to our future. The underlying strength of HSBC allows us to press ahead with our investment plans in weaker markets.

The difficult market conditions underscored the advantage of having deposit led businesses and we were able to improve the management of those resources.

- In Hong Kong, the structural changes we announced to take effect after the final phase of interest rate deregulation led to a consolidation within the account base. However, the amount of money deposited with us in savings accounts grew by 8 per cent. Current account balances were stable.

- In the UK, over the last year we have increased our personal savings account balances by 30 per cent to US$20.5 billion and added a further US$1.2 billion in personal current accounts.

- In the US, since the acquisition of Republic, we have grown private banking deposits by 16 per cent.

- In France, we grew interest-free balances by 5 per cent.

These examples show our progress in building a stable base of customers to whom we can offer an increased range of products and services, in line with our strategic plan. Apart from equity market-related activity, we grew fees and commission income in all geographical regions.

- Wealth management product sales grew strongly as customers sought more conservative investment opportunities, particularly guaranteed income funds and unit trusts.

- Our credit card businesses in Hong Kong and the rest of Asia, which we had expanded by some one million cards in 2000, generated significantly higher revenues.

- The Mandatory Provident Fund ('MPF') in Hong Kong generated revenues for the first time.

- In the US, domestic wealth management and insurance fees revenues grew 13 per cent to US$103 million. We added US$5 million to banking fees and commissions following harmonisation of the charges structure of the former Republic National Bank with HSBC's.

- On the wholesale side of our business, the continuing closer alignment between our corporate and investment banking colleagues is yielding benefits in terms of revenue growth; our markets and treasury businesses produced an exceptional performance in the first half of 2001.

The integration of Republic into HSBC is essentially complete. The focus now is on development and progress has been encouraging. In April 2001, HSBC Mortgage Corporation (USA) was named a 'Premier lender' by Freddie Mac, one of only six banks in the US to enjoy such recognition. The combination of the former Republic and HSBC treasury and capital markets businesses in New York has given us critical mass and a reputation which has enabled us to attract a number of key executives to build on our success. Revenues and gains in the US from Investment Banking and Markets activities in the first half of 2001 were US$475 million, 53 per cent higher than the first half of 2000.

Expansion and integration

We have continued to invest in expanding our distribution channels. During the first half of 2001, we opened additional branches in several countries, including eight in France. Through CCF, we acquired Banque Hervet, a Paris-based specialist commercial and consumer bank with 86 branches and over 100,000 customers. We completed acquisitions in Taiwan and Brunei. We acquired the branches of Barclays in Greece, doubling our network in that country. The number of our registered internet and other online users grew from 1.5 million at the end of 2000 to 2.2 million by the end of June 2001. Our *Premier* customer base grew by 31 per cent to 365,000 during the same period. Merrill Lynch HSBC opened for business in May in the UK and continues to win international recognition for the quality and value of its services.

In July 2001, HSBC received confirmation from the Banking Regulatory and Supervisory Agency of Turkey (BDDK) that its offer for Demirbank TAS had been successful. HSBC has now entered into final and exclusive discussions over a Sale and Purchase agreement. The sale completion and transfer of ownership is expected to take place before 30 September 2001.

The integration of CCF into HSBC has proceeded smoothly. Reorganisation has allowed a new focus which is enabling us to achieve the revenue synergies we forecast at the time of the acquisition. Additionally, virtually all of CCF's international network, including its operations in Brazil and in international private banking, have been merged with the larger HSBC operations, generating some significant cost savings.

The combination of corporate and investment banking skills within HSBC and CCF has been very well received by customers, leading to additional revenues.

- HSBC-CCF was ranked seventh in the Eurocorporate Bonds league table for the first half of 2001 against a pro forma 16^{th} position in 2000.

- New business has been won in syndicated lending, in advisory and in capital markets activities. We have also increased revenues outside France from major French institutions requiring payments and cash management services, credit support and trade finance.

Credit quality

The slowdown in the world economy and its impact on corporate borrowers has not yet had a significant impact on our levels of provisioning for bad and doubtful debts. Low interest rates, low inflation and resilient consumer spending in the developed markets have offset the effects of lower levels of corporate investment and weaker profitability.

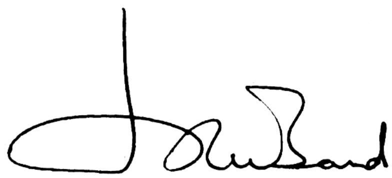
Outlook

The outlook for the financial services industry is unclear. There is evidence of increasingly fragile economic conditions in certain emerging markets. The performance of the US economy remains pivotal and the Federal Reserve indicated last month that there are as yet few signs of it rebounding. It has yet to be seen what the full effect of the corporate slowdown will be on employment and, in turn, how that will affect the consumer demand which currently sustains some major economies.

While the economic environment will remain challenging, we have positioned our business conservatively. The strength of our liquidity, our capital

Group Chairman's Comment (continued)

base and our loan loss reserves enable us to respond robustly to any events which may arise. Our international reach, combined with the quality of our staff and the strength of our customer base, gives grounds for confidence that we will continue to create value for our shareholders as opportunities arise.



Sir John Bond, *Group Chairman*
6 August 2001

Financial Review

Summary

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
Net interest income	**7,192**	6,684	7,039
Other operating income	**5,609**	5,334	5,516
Total operating income	**12,801**	12,018	12,555
Operating expenses excluding goodwill amortisation	**(7,149)**	(6,404)	(7,173)
Goodwill amortisation	**(401)**	(172)	(338)
Operating profit before provisions	**5,251**	5,442	5,044
Provisions for bad and doubtful debts	**(441)**	(368)	(564)
Provisions for contingent liabilities and commitments	**(42)**	(40)	(31)
Amounts written off fixed asset investments	**(53)**	(14)	(22)
Operating profit	**4,715**	5,020	4,427
Share of operating loss in joint ventures	**(48)**	(2)	(49)
Share of operating profit in associates	**92**	27	48
Gains/(losses) on disposal of:			
- investments	**667**	162	140
- tangible fixed assets	**9**	(1)	3
Profit on ordinary activities before tax	**5,435**	5,206	4,569
Tax on profit on ordinary activities	**(1,229)**	(1,263)	(975)
Profit on ordinary activities after tax	**4,206**	3,943	3,594
Minority interests	**(536)**	(418)	(491)
Profit attributable to shareholders	**3,670**	3,525	3,103

HSBC made a profit before tax on a cash basis of US$5,840 million in the first six months of 2001, up US$462 million, or 9 per cent, over the same period in 2000. On the same basis, profit attributable to shareholders rose 10 per cent to US$4,075 million, and in constant currency terms grew by 15 per cent.

Profit before tax on a reported basis was US$5,435 million, an increase of 4 per cent compared with the first half of 2000. Profit attributable to shareholders was US$3,670 million, an increase of 4 per cent compared with the first half of 2000.

Net interest income of US$7,192 million was US$508 million, or 8 per cent, higher than the same period in 2000.

Other operating income rose by US$275 million, or 5 per cent, to US$5,609 million over the same period in 2000, mainly due to the contribution from CCF.

Operating expenses (excluding goodwill amortisation) were US$745 million, or 12 per cent, higher than the first half of 2000 but marginally lower than in the second half. Costs included significant development expenditure on HSBC's 'e'-commerce initiatives.

HSBC's cost:income ratio (excluding goodwill amortisation) was 55.8 per cent in the first half of 2001 compared with 53.3 per cent for the same period in 2000 and 57.1 per cent for the second half of 2000.

The charge for bad and doubtful debts of US$441 million was US$73 million higher than in the same period of 2000 but US$123 million lower than the second half of 2000. This was mainly as a result of lower new specific provisions and higher recoveries on previously provided debt than the second half of 2000. Both halves of 2000 included releases from the special general provision related to HSBC's Asian exposure.

The US$48 million share of operating losses in joint ventures principally reflected the start-up and development costs of Merrill Lynch HSBC, now operational in the UK, Canada and Australia.

Gains on disposal of investments of US$667 million included profit on the sales of HSBC's 20 per cent stake in British Interactive Broadcasting and investment in Modern Terminals Limited. In addition, disposal gains of US$145 million were realised from sales of investment debt securities to adjust to changes in interest rate conditions.

In the sections which follow, analysis of these results highlights the contribution from CCF, acquired on 28 July 2000, and the impact of a stronger US dollar on HSBC's results, each of which is significant to an understanding of HSBC's performance in the first half of 2001.

Financial Review (continued)

Net interest income

	Half-year to					
	30 June 2001		30 June 2000		31 December 2000	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,635**	**36.6**	2,365	35.4	2,623	37.3
Hong Kong	**2,073**	**28.8**	2,003	30.0	1,994	28.3
Rest of Asia-Pacific	**725**	**10.1**	668	10.0	699	9.9
North America	**1,162**	**16.2**	1,057	15.8	1,095	15.6
Latin America	**597**	**8.3**	591	8.8	628	8.9
Net interest income	**7,192**	**100.0**	6,684	100.0	7,039	100.0

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
Net interest income	**7,192**	6,684	7,039
Average interest-earning assets	**575,774**	484,247	547,776
Gross interest yield (per cent)[1]	**6.73**	7.24	7.38
Net interest spread (per cent)[2]	**2.03**	2.23	1.99
Net interest margin (per cent)[3]	**2.52**	2.78	2.56

1 *Gross interest yield is the average interest rate earned on average interest-earning assets (AIEA).*

2 *Net interest spread is the difference between the average interest rate earned on average interest-earning assets and the average interest rate paid on average interest-bearing funds.*

3 *Net interest margin is net interest income expressed as a percentage of average interest-earning assets and is annualised.*

Net interest income in the first half of 2001 was US$508 million, or 8 per cent, higher than the first half of 2000 at US$7,192 million, and included net interest income of US$436 million reported by CCF. At constant exchange rates and excluding CCF, net interest income was 6 per cent higher than the first half of 2000.

Average interest-earning assets increased by US$91.5 billion, or 18.9 per cent, of which US$60 billion related to CCF. At constant exchange rates and excluding CCF, average interest-earning assets were 11 per cent higher than the first half of 2000.

HSBC's net interest margin in the first half of 2001 was 2.52 per cent, 26 basis points lower than the first half of 2000, mainly reflecting the impact of CCF's lower margin business. Against the second half of 2000, net interest margin improved in our three largest domestic banking businesses in the United Kingdom, Hong Kong and the United States, but for HSBC as a whole weakened slightly, reflecting an increasingly liquid balance sheet and a lower benefit from net free funds as interest rates fell. The fall in interest rates, however, also improved the margin on our treasury activities as funding costs were reduced.

HSBC is moving increasingly to differentiated product pricing. This competitive approach reflects the value to HSBC of our most loyal customers and has resulted in narrower spreads on a number of products, particularly mortgages and savings products. The benefit of this strategy is seen in growth in balances and improvements in the mix and volume of HSBC's core current account and savings products during the first half of 2001, particularly in the United Kingdom, Hong Kong and the United States.

In UK mortgages, the repricing initiative announced last year contributed to a US$2 billion, or 11 per cent, growth in net new mortgages advanced, representing an increased market share. The benefit to customers in the period from the revised pricing was US$13 million.

In Hong Kong the reduction in average yield on the mortgage book in the first half of 2001 compared with the first half of 2000 resulted in a reduction in net interest margin. The average yield earned on this portfolio by The Hongkong and Shanghai Banking Corporation fell from one basis point below Hong Kong best lending rate ('BLR') to 56 basis points below BLR. The fall in mortgage yield earned by Hang Seng Bank, which competed more aggressively in the market, decreased from five basis points above BLR to 65 basis points below BLR.

The other main contributions to net interest income not included in the table of net interest income margin of the principal commercial banking subsidiaries by region on page 11 were from:

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
Former Republic businesses outside North America	**117**	168	164
HSBC Holdings sub-group	**63**	51	49

Net interest margin of the principal commercial banking subsidiaries by region

	Half-year to			Half-year to		
	30 June 2001	30 June 2000	31 December 2000	**30 June 2001**	30 June 2000	31 December 2000
	(Local currency)			*(US$m equivalent)*		
Europe						
HSBC Bank plc (Europe)						
- margin (per cent)	**2.72**	2.78	2.66			
- AIEA (£m)	**94,729**	87,764	94,597	**136,410**	137,702	139,814
CCF						
- margin (per cent)	**1.49**	—	1.50			
- AIEA (€m)	**65,418**	—	53,857	**58,733**	—	49,706
HSBC Private Banking Holdings (Suisse) S.A.						
- margin (per cent)	**0.87**	1.35	1.17			
- AIEA (US$m)	**25,800**	20,903	23,433	**25,800**	20,903	23,433
Hong Kong						
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries excluding Hang Seng Bank Limited						
- margin (per cent)	**2.49**	2.55	2.40			
- AIEA (HK$m)	**803,525**	733,144	776,272	**103,022**	94,163	99,554
Hang Seng Bank Limited						
- margin (per cent)	**2.58**	2.83	2.55			
- AIEA (HK$m)	**461,267**	418,774	452,559	**59,140**	53,786	58,041
Rest of Asia-Pacific						
The Hongkong and Shanghai Banking Corporation Limited						
- margin (per cent)	**2.22**	2.17	2.19			
- AIEA (HK$m)	**315,491**	297,533	305,937	**40,450**	38,214	39,248
HSBC Bank Malaysia Berhad						
- margin (per cent)	**2.67**	2.76*	2.66			
- AIEA (ringgit m)	**24,310**	24,349	24,624	**6,397**	6,408	6,480
HSBC Bank Middle East						
- margin (per cent)	**3.81**	3.98	3.91			
- AIEA (US$m)	**8,238**	7,685	8,077	**8,238**	7,685	8,077
North America						
HSBC Bank USA (US domestic)						
- margin (per cent)	**2.71**	2.50 †	2.58			
- AIEA (US$m)	**68,639**	64,928	64,063	**68,639**	64,928	64,063
HSBC Bank Canada						
- margin (per cent)	**2.50**	2.48*	2.51			
- AIEA (C$m)	**28,662**	25,741	27,571	**18,688**	17,555	18,365
Latin America						
HSBC Bank Brasil S.A.- Banco Múltiplo						
- margin (per cent)	**11.19**	12.77	12.47			
- AIEA (Brazilian reais m)	**15,417**	12,028	13,269	**7,171**	6,733	7,111
HSBC Bank Argentina S.A.						
- margin (per cent)	**5.51**	5.74	5.36			
- AIEA (peso m)	**4,220**	4,011	4,170	**4,220**	4,011	4,170

* *Restated to a UK GAAP basis*
† *Restated to include funding cost of intermediate holding company*

Financial Review (continued)

Other operating income

	Half-year to 30 June 2001 US$m	%	30 June 2000 US$m	%	31 December 2000 US$m	%
By geographical segment						
Europe	**3,038**	**53.1**	2,848	52.4	3,074	54.5
Hong Kong	**919**	**16.0**	870	16.0	920	16.3
Rest of Asia-Pacific	**553**	**9.7**	563	10.4	522	9.3
North America	**758**	**13.2**	684	12.6	633	11.2
Latin America	**458**	**8.0**	465	8.6	488	8.7
	5,726	**100.0**	5,430	100.0	5,637	100.0
Intra-HSBC elimination	**(117)**		(96)		(121)	
Other operating income	**5,609**		5,334		5,516	

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
By income category:			
Dividend income	**99**	111	86
Fees and commissions (net)	**3,768**	3,559	3,752
Dealing profits			
- foreign exchange	**520**	478	487
- interest rate derivatives	**31**	43	14
- debt securities	**253**	144	137
- equities and other trading	**72**	213	110
	876	878	748
- operating leased assets rental income	**233**	248	233
- general insurance underwriting (net)	**180**	184	176
- increase in value of long-term insurance business	**78**	71	124
- other	**375**	283	397
	866	786	930
Total other operating income	**5,609**	5,334	5,516

Analysis of fees and commissions receivable and payable

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Account services	**814**	744	792
Credit facilities	**311**	308	305
Remittances	**121**	109	116
Cards	**537**	509	561
Imports/exports	**257**	262	278
Underwriting	**86**	88	115
Insurance	**337**	276	294
Mortgage servicing rights	**40**	35	34
Trust income	**58**	90	95
Broking income	**499**	686	522
Global custody	**158**	147	144
Maintenance income on operating leases	**84**	91	85
Other	**1,130**	815	1,076
Total fees and commissions receivable	**4,432**	4,160	4,417
Less: fees payable	**(664)**	(601)	(665)
Net fees and commissions	**3,768**	3,559	3,752

In constant currency terms, and excluding the contribution of US$564 million from CCF, other operating income in the first half of 2001 was in line with the first half of 2000.

Net fees and commissions included a US$431 million contribution from CCF. At constant exchange rates and excluding CCF, net fees and commissions were in line with the first half of 2000. In the first half of 2000, these were assisted by the exceptional revenues generated from buoyant equity markets.

As part of HSBC's competitive positioning and consistent with the pricing changes on loan and deposit products referred to above, our customers also benefited from a number of fee reductions during 2001, particularly in UK banking.

In the United Kingdom, eliminating mortgage loan to valuation fees reduced revenues by US$6 million, the elimination of ATM withdrawal fees benefited customers by US$37 million and overdraft fees fell by US$20 million as unauthorised overdrafts fell, as we have made it easier for customers to obtain authorised borrowings.

Offsetting these reductions, UK banking achieved good growth in wealth management revenue with income rising 5 per cent, reflecting increases in general insurance, private client and life, pensions and investment business.

Within Europe, CCF contributed US$410 million of fee and commission income. CCF's regional banking subsidiaries performed ahead of expectations although the slowdown in the equities market adversely affected income levels in the CCF network and in the capital markets business. Corporate and Institutional Banking revenues benefited from the integration initiatives between HSBC and CCF and grew strongly.

In Hong Kong and the rest of Asia-Pacific, there was encouraging growth in wealth management income, particularly fee income from unit trusts with strong growth in the sale of capital guaranteed products. Credit card fees grew by US$20 million, or 12 per cent, following the growth in the number of credit cards issued last year.

In North America, revenues from wealth management and insurance grew 13 per cent over prior year levels and harmonising the former

Republic Bank of New York fee structures on banking products with HSBC's yielded a further US$5 million in revenue.

In Latin America, fee income benefited from the continued emphasis on the development of wealth management business. In Brazil, fee income from asset management business grew by 42 per cent.

In investment banking, broking income and fees from corporate finance fell in line with market conditions.

Dealing profits held up well in the first half of 2001, despite less favourable conditions in equity markets. Foreign exchange earnings were boosted by the inclusion of CCF. Performance in debt securities improved markedly compared to the first half of 2000, driven in particular by the expanded operations and customer business in New York. Equities and other trading activities continued to make a positive contribution, notwithstanding difficult trading conditions in 2001.

Operating expenses

	Half-year to					
	30 June 2001		30 June 2000		31 December 2000	
	US$m	**%**	US$m	%	US$m	%
By geographical segment						
Europe	**3,503**	**48.3**	2,966	45.6	3,552	48.7
Hong Kong	**1,025**	**14.1**	949	14.6	1,037	14.2
Rest of Asia-Pacific	**670**	**9.2**	616	9.5	676	9.3
North America	**1,311**	**18.0**	1,187	18.3	1,176	16.1
Latin America	**757**	**10.4**	782	12.0	853	11.7
	7,266	**100.0**	6,500	100.0	7,294	100.0
Goodwill amortisation						
Europe	**319**	**79.6**	89	51.7	259	76.6
Hong Kong	**—**	**0.0**	1	0.6	—	0.0
Rest of Asia-Pacific	**4**	**1.0**	2	1.2	3	0.9
North America	**71**	**17.7**	74	43.0	69	20.4
Latin America	**7**	**1.7**	6	3.5	7	2.1
	401	**100.0**	172	100.0	338	100.0
Intra-HSBC elimination	**(117)**		(96)		(121)	
Total operating expenses	**7,550**		6,576		7,511	

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
By expense category:			
Staff costs	**4,180**	3,893	4,164
Premises and equipment (excluding depreciation)	**800**	695	785
Other administrative expenses	**1,615**	1,305	1,654
Administrative expenses*	**6,595**	5,893	6,603
Depreciation and amortisation			
- tangible fixed assets	**554**	511	570
- goodwill	**401**	172	338
Total operating expenses	**7,550**	6,576	7,511
Cost:income ratio (excluding goodwill amortisation)	**55.8**	53.3	57.1

* *Included in administrative expenses were US$4 million of restructuring costs relating to CCF (first half 2000: nil, second half 2000: US$47 million) and US$14 million relating to Republic New York Corporation and Safra Republic Holdings (first half 2000: US$56 million, second half 2000: US$18 million).*

Staff numbers (full-time equivalent)

	30 June 2001	30 June 2000	31 December 2000
Europe	**71,405**	55,364	69,629
Hong Kong	**25,167**	23,914	24,204
Rest of Asia-Pacific	**24,252**	21,393	22,919
North America	**18,533**	19,121	18,965
Latin America	**25,568**	26,738	25,907
	164,925	146,530	161,624

Financial Review (continued)

Operating expenses are primarily driven by headcount. The growth in operating expenses in the first half of 2001 reflects the major growth in headcount resulting from the acquisition of CCF.

Operating expenses, excluding goodwill, were US$745 million, or 12 per cent, higher compared with the first half of 2000, mainly due to the operating costs of CCF of US$717 million. At constant exchange rates and excluding CCF, cash basis operating expenses were US$392 million, or 7 per cent, higher than the first half of 2000.

During the period all our businesses continued to invest in the development of distribution channels and customer information systems: ‘e’-commerce development grew strongly as launch dates drew closer. In addition to initiatives within individual businesses, HSBC has been developing centrally in New York an HSBC platform, *hsbc.com*, for which the costs are significant at US$100 million in the first half of 2001 (first and second halves of 2000: nil). These costs are reflected in the North American segment.

In addition to *hsbc.com*, costs in North America were only modestly higher with restructuring savings invested in infrastructure initiatives and business expansion, particularly in treasury and capital markets. Other new business initiatives against which expenditure has been incurred in the period are focused on developing ‘e’-commerce delivery capabilities and on growth in the private banking and wealth management businesses. Restructuring costs relating to the acquisition of Republic New York Corporation were not significant and from a customer perspective the integration has been completed. Certain back office systems conversions are in the final stages of completion.

In Europe, cost increases reflected initiatives to support business expansion and business development. These were concentrated in e-channel development, business internet banking, e-procurement and in expanded marketing initiatives to support the HSBC brand.

In Hong Kong and the rest of Asia-Pacific, staff costs increased outside of annual pay increments due to business expansion in a number of countries in the region, including acquisitions in the Philippines, Egypt and Brunei. Recruitment included staff taken on to facilitate the transfer of back office processing operations to premises in Hyderabad and Guangzhou, where employment at 30 June 2001 was around 1,500 against some 1,000 at 31 December 2000.

Operating expenses other than staff costs increased, mainly due to an increase in marketing expenses promoting personal banking products and development costs relating to ‘e’-banking initiatives.

In Latin America, cost increases reflected the impact of acquisitions and a number of initiatives were launched to control costs in the weak economic environment.

In Investment Banking, excluding the impact of CCF, the cost base fell by US$126 million, or 10 per cent, with markedly lower profit-related compensation offset in part by strategic hiring in the investment banking and capital markets businesses in New York and in private banking.

HSBC’s cost:income ratio (excluding goodwill amortisation) was 55.8 per cent compared with 53.3 per cent for the first half of 2000 and 57.1 per cent in the second half of 2000.

Bad and doubtful debts

	Half-year to					
	30 June 2001		30 June 2000		31 December 2000	
	US$m	**%**	US$m	%	US$m	%
By geographical segment:						
Europe	**128**	**29.0**	167	45.4	181	32.1
Hong Kong	**87**	**19.7**	128	34.8	120	21.3
Rest of Asia-Pacific						
- normal	**(18)**	**(4.1)**	50	13.6	109	19.3
- release of special general provision.	**-**	**0.0**	(116)	(31.6)	(58)	(10.3)
North America	**114**	**25.9**	72	19.6	75	13.3
Latin America	**130**	**29.5**	67	18.2	137	24.3
	441	**100.0**	368	100.0	564	100.0

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**1,126**	995	1,298
releases and recoveries	**(676)**	(493)	(590)
	450	502	708
- general release			
special provision reflecting Asian risk raised in 1997	**-**	(116)	(58)
other	**(9)**	(16)	(90)
	(9)	(132)	(148)
Customer bad and doubtful debt charge	**441**	370	560
Loans and advances to banks			
- net specific (release)/ charge	**-**	(2)	4
Total bad and doubtful debt charge	**441**	368	564
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**0.29%**	0.28%	0.37%

New specific provisions against customer advances in the first half of 2001 were US$1,126 million, compared with US$995 million in the first half of 2000 and US$1,298 million in the second half of 2000, reflecting a broadly stable credit environment.

In the United Kingdom, although there has been some weakening of business confidence, underlying credit quality remained stable. New specific provisions of US$254 million were in line with the first half of 2000 (US$26 million higher at constant exchange rates) and at a lower level than in the second half of 2000. There were lower new specific provisions in First Direct and in respect of credit card advances. In France, there was evidence of some weakening of business confidence although the credit losses suffered remained low.

In Hong Kong, asset quality remained stable with some improvement in the corporate loan book. The charge for new specific provisions decreased with a lower charge for corporate borrowers partly offset by a higher charge for credit card advances and for residential mortgages in Hang Seng Bank. Mortgage delinquency rates remained low, although the trend is moving upwards. Non-performing loans as a percentage of total customer advances improved to 3.4 per cent compared with 3.8 per cent at 31 December 2000.

Non-performing advances also decreased in the rest of Asia-Pacific mainly due to the recovery arising on the sale of shares held as security against historical Olympia & York loans. This, together with good recoveries in Malaysia, contributed to a net recovery of credit charges in the period. New specific provisions were increased in Indonesia, reflecting the increasingly uncertain political and economic environment.

Credit quality in North America remained relatively stable notwithstanding a weaker business and credit environment. The level of non-performing advances at 0.9 per cent of total customer advances was in line with the position at 31 December 2000. Provisions for bad and doubtful debts in the United States exceeded amounts written off by US$25 million.

In Latin America, the bad debt charge increased as a result of targeted growth in higher margin consumer lending in Brazil.

At 30 June 2001, non-performing customer loans amounted to 3.2 per cent of gross customer advances compared with 3.5 per cent at 31 December 2000. Provisions covered 79 per cent of these non-performing loans.

Financial Review (continued)

Gains on disposals of investments

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Gains/(losses) on disposal of:			
- equity investments (including private equity)	**239**	153	75
- debt securities	**145**	15	51
- part of a business	**-**	-	(11)
- other participating interests	**4**	(12)	1
- associates	**261**	-	-
- subsidiaries	**21**	-	-
- other	**(3)**	6	24
	667	162	140

During the first half of 2001, HSBC made 9 business acquisitions and completed 9 business disposals.

Gains on disposals of investments of US$667 million included a profit of US$200 million on the sale of HSBC's stake in British Interactive Broadcasting to BSkyB.

HSBC's European results were bolstered by gains on the disposal of the stake in Quilter and by profits in Germany on the sale of our fledgling internet broker Pulsiv and ERGO.

In Hong Kong, we made gains on the sale of HSBC's investment in Modern Terminals Limited and the disposal of our 50 per cent stake in Central Registration Hong Kong Limited to the other 50 per cent shareholder, Computershare.

In the United States, we realised significant gains on the sale of a number of mortgage-backed and other debt securities as long-term portfolios were adjusted to respond to changed economic circumstances, particularly the potential for a loss of value from mortgage re-financing. Similar, but smaller gains were achieved in other locations.

Asset deployment

	30 June 2001 US$m	**%**	30 June 2000 US$m	%	31 December 2000 US$m	%
Loans and advances to customers	**299,471**	**43.8**	261,593	45.7	289,837	43.5
Loans and advances to banks	**121,791**	**17.8**	112,667	19.7	126,032	18.9
Debt securities	**149,046**	**21.8**	104,143	18.2	132,818	20.0
Treasury bills and other eligible bills	**20,896**	**3.1**	21,380	3.7	23,131	3.5
Equity shares	**7,656**	**1.1**	5,503	1.0	8,104	1.2
Other	**84,706**	**12.4**	67,084	11.7	85,699	12.9
	683,566	**100.0**	572,370	100.0	665,621	100.0
Hong Kong SAR Government certificates of indebtedness	**8,274**		7,910		8,193	
	691,840		580,280		673,814	
Loans and advances to customers include:						
- reverse repos	**10,869**		12,353		12,158	
- settlement accounts	**16,235**		8,866		6,954	
Loans and advances to banks include:						
- reverse repos	**12,693**		10,566		12,341	
- settlement accounts	**11,079**		4,728		6,745	

Total assets grew by US$17.9 billion, and by US$40.1 billion at constant exchange rates, in the six months to 30 June 2001.

The increase was mainly due to the acquisition of Banque Hervet, the investment of higher levels of customer deposits in debt securities and a higher level of financial market transactions in North America.

In Europe, there was growth in mortgages and term lending in the UK. The acquisition of Banque Hervet added US$5.3 billion to total assets.

In Hong Kong, customer loans grew moderately against a background of intense price competition and subdued loan demand. Increases in advances to the commercial, industrial and international trade sector, in lending under the Hong Kong SAR Government Home Ownership Scheme, and in other personal lending were partly offset by reductions in residential mortgage loans and lending relating to other commercial sectors.

In the rest of Asia-Pacific, demand for new corporate credit was very limited. There was growth in residential mortgage lending in Korea, Malaysia and Taiwan.

In North America, there was a significant increase in residential mortgage lending as a result of the high level of refinancing activity as interest rates fell. There was also an increase in lending to the commercial sector, partly offset by a decrease in personal lending.

In Latin America, there was an expansion in the personal lending portfolio in Brazil. There was little acceptable demand for corporate lending in the weakening economic conditions.

Debt securities and equity shares

Debt securities held in the accruals book showed an unrecognised gain, net of off-balance-sheet hedges, of US$653 million compared with an unrecognised gain of US$711 million at 31 December 2000. Equity shares included US$4,471 million held on investment account, compared with US$4,638 million at 31 December 2000, on which there was an unrecognised gain of US$751 million compared with US$1,135 million at 31 December 2000.

Assets under administration and funds under management

At 30 June 2001, the amount of assets held by HSBC as custodian amounted to US$1,300 billion. The slight decline since 31 December 2000 is due to the decline in world equity markets. Custody is the safekeeping and administration of securities and financial instruments on behalf of others.

Funds under management of US$279 billion were US$40 billion, or 17 per cent, higher than at 30 June 2000 but US$16 billion, or 5 per cent, lower than at the end of 2000. Since the year-end, both our asset management and private banking businesses have continued to report net funds inflows as the continued integration of CCF further establishes our global brand. However, the sale of specialised CCF fund management business, the fall in global equity markets and the impact of the continued strengthening of the US dollar on our sterling and euro denominated funds, have resulted in a fall in the value of funds under management.

Economic profit

HSBC's internal performance measures include economic profit, a measure which compares the return on the amount of capital invested in HSBC by its shareholders with the cost of that capital. HSBC prices that cost of capital internally and the difference between that cost and post-tax profit attributable to ordinary shareholders is the amount of economic profit generated. Economic profit is used by management as one of the measures to decide where to allocate resources so that they will be most productive. HSBC internally emphasises the trend in economic profit within business units rather than absolute amounts in order to concentrate focus on external factors rather than measurement bases. As a result of this, HSBC has consistently used a benchmark cost of capital of 12.5 per cent on a consolidated basis. Given recent changes in interest rates and in the composition of HSBC, HSBC believes that its true cost of capital on a consolidated basis is now 10.5 per cent. HSBC plans to continue to use the figure of 12.5 per cent to ensure consistency and to help comparability.

Economic profit fell by US$399 million, or 31 per cent, compared with the first half of 2000 reflecting significantly higher invested equity following the acquisition of CCF. However, economic profit grew strongly by US$467 million, or 111 per cent, compared with the second half of 2000. Measurement of economic profit involves a number of assumptions and, therefore, management believe that the trend over time is more relevant than the absolute economic profit reported for a single period.

	Half-year to					
	30 June 2001		30 June 2000		31 December 2000	
	US$m	**%**	US$m	%	US$m	%
Average invested capital	51,562		39,160		48,278	
Return on invested capital*	4,084	16.0	3,720	19.1	3,454	14.2
Benchmark cost of capital	(3,197)	(12.5)	(2,434)	(12.5)	(3,034)	(12.5)
Economic profit	887	3.5	1,286	6.6	420	1.7

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

Financial Review (continued)

Analysis by operating segment

Profit on ordinary activities before tax by segment

	Half–year to					
	30 June 2001		30 June 2000		31 December 2000	
	US$m	**%**	US$m	%	US$m	%
Europe	**2,054**	**37.8**	1,962	37.6	1,696	37.2
Hong Kong	**2,055**	**37.8**	1,903	36.6	1,788	39.1
Rest of Asia – Pacific	**634**	**11.7**	734	14.1	531	11.6
North America	**528**	**9.7**	414	8.0	436	9.5
Latin America	**164**	**3.0**	193	3.7	118	2.6
Total	**5,435**	**100.0**	5,206	100.0	4,569	100.0

Total assets by segment

	30 June 2001		30 June 2000		31 December 2000	
Total assets*	**US$m**	**%**	US$m	%	US$m	%
Europe	**300,179**	**44.0**	221,306	38.7	295,274	44.4
Hong Kong	**175,239**	**25.6**	163,390	28.5	176,545	26.5
Rest of Asia-Pacific	**58,820**	**8.6**	55,979	9.8	56,676	8.5
North America	**129,962**	**19.0**	114,778	20.0	118,053	17.7
Latin America	**19,366**	**2.8**	16,917	3.0	19,073	2.9
Total	**683,566**	**100.0**	572,370	100.0	665,621	100.0

* *Excluding Hong Kong SAR Government certificates of indebtedness.*

The results of Investment Banking operations are included in the following segmental disclosures in the appropriate geographical segment. A separate commentary is provided on the aggregate results of the Investment Banking operations on pages 34 and 35.

In the analysis of profit by segment which follows, the total of operating income and operating expenses includes intra-HSBC items of US$117 million in the first half of 2001, US$96 million in the first half of 2000 and US$121 million in the second half of 2000.

Europe

Cash basis profit before tax

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
UK banking	**1,309**	1,102	1,103
France	**366**	7	169
International banking	**194**	236	190
Treasury and capital markets	**171**	145	160
HSBC Private Banking Holdings (Suisse) SA	**101**	162	128
HSBC Trinkaus & Burkhardt	**96**	79	54
Other*	**140**	320	166
	2,377	2,051	1,970

* *Other primarily relates to investment banking, dealt with on pages 34 and 35 and the holding company sub-group.*

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Net interest income	**2,635**	2,365	2,623
Dividend income	**58**	51	33
Net fees and commissions	**2,166**	1,957	2,143
Dealing profits	**341**	420	367
Other income	**473**	420	531
Other operating income	**3,038**	2,848	3,074
Total operating income	**5,673**	5,213	5,697
Staff costs	**(2,055)**	(1,813)	(2,049)
Premises and equipment	**(387)**	(280)	(371)
Other	**(737)**	(581)	(793)
Depreciation	**(324)**	(292)	(339)
Goodwill amortisation	**(319)**	(89)	(259)
Operating expenses	**(3,822)**	(3,055)	(3,811)
Operating profit before provisions	**1,851**	2,158	1,886
Provisions for bad and doubtful debts	**(128)**	(167)	(181)
Provisions for contingent liabilities and commitments	**(9)**	(45)	(22)
Amounts written off fixed asset investments	**(27)**	(9)	(14)
Operating profit	**1,687**	1,937	1,669
Share of operating losses in associated undertakings	**(19)**	(37)	(59)
Gains on disposal of investments and tangible fixed assets	**386**	62	86
Profit on ordinary activities before tax*	**2,054**	1,962	1,696
** of which United Kingdom*	***1,660***	*1,627*	*1,500*

	Half-year to 30 June 2001	30 June 2000	31 December 2000
Share of HSBC's pre-tax profits (cash basis) (per cent)	**40.7**	38.1	40.1
Share of HSBC's pre-tax profits (per cent)	**37.8**	37.6	37.2
Cost:income ratio (excluding goodwill amortisation) (per cent)	**61.7**	56.9	62.3
Period-end staff numbers (Full-time equivalent)	**71,405**	55,364	69,629

Bad and doubtful debts

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**328**	271	336
releases and recoveries	**(175)**	(120)	(184)
	153	151	152
- general (release)/charge	**(25)**	18	25
Customer bad and doubtful debt charge	**128**	169	177
Loans and advances to banks			
- net specific (release)/charge	**-**	(2)	4
Total bad and doubtful debt charge	**128**	167	181
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**0.2%**	0.3%	0.3%

Figures in US$m	30 June 2001	30 June 2000	31 December 2000
Assets			
Loans and advances to customers (net)	**128,414**	102,555	129,143
Loans and advances to banks (net)	**51,669**	35,724	45,040
Debt securities, treasury bills and other eligible bills	**65,250**	44,439	63,280
Total assets	**300,179**	221,306	295,274
Liabilities			
Deposits by banks	**45,745**	22,913	43,888
Customer accounts	**164,555**	136,314	159,505

Economic activity slowed within Europe during the first half of 2001, with industrial production leading the way following the slowdown in global demand. However, in both the UK and France, consumer spending remained robust, helped in the UK by a buoyant housing market.

On a cash basis, Europe's pre-tax profits were US$2,377 million in the first half of 2001, US$326 million, or 16 per cent, more than in the first half of 2000 and represented 40.7 per cent of HSBC's cash basis pre-tax profits. CCF contributed US$366 million of cash earnings in the first half of 2001. At constant exchange rates, and excluding CCF, Europe's cash basis profit before tax increased by 5 per cent.

The process of integration of CCF has continued to progress well and is now almost complete. The alignment of corporate and investment banking in HSBC and CCF has generated the additional revenues expected when the transaction was announced and this, together with a higher level of cost savings and in the CCF entities transferred within HSBC, will result in our €150 million post tax synergy target being exceeded. Management responsibility for HSBC's businesses in France, Belgium, Italy, Spain and the Netherlands has now been transferred to CCF. Within France, the HSBC hexagon symbol has now been put on all the branches in the CCF network and the majority of the investment banking businesses have been rebranded.

In March 2001 HSBC, through CCF, acquired Banque Hervet at a cost of US$418 million. Banque Hervet has more than 100,000 customers and 86 branches and is mainly based in the greater Paris area and the central region of France. This acquisition will strengthen CCF's wealth management and commercial banking businesses. Banque Hervet contributed US$21 million to cash basis profits before tax for the four months after its acquisition.

The following commentary on the Europe results is based on constant exchange rates.

Excluding CCF, net interest income was US$29 million higher than the first half of 2000. CCF contributed US$406 million of net interest income which reflected, in part, strong growth in personal and commercial customer loans and sight deposits.

In UK banking, net interest income of US$1,496 million was in line with the first half of 2000. Balance sheet growth of 27 per cent was achieved in personal savings balances, 8 per cent in personal current accounts and 12 per cent in business current accounts. The benefit of these higher deposits was reduced by the impact of HSBC Bank plc's product repricing which resulted in narrower spreads on a number of products, particularly savings accounts and residential mortgages.

The net interest income earned in treasury and capital markets increased strongly compared with the first half of 2000. This increase was primarily due to earnings on money market business, which benefited from reduced funding costs as short-term sterling interest rates declined. In addition, HSBC Bank plc diversified the deployment of its surplus liquidity by increasing its holdings of corporate bonds which improved interest spread.

In Turkey, higher net interest income was earned on short-term money market business due to volatile local market conditions.

Other operating income was 6 per cent lower than the first half of 2000, excluding CCF. This was mainly caused by lower broking and other securities-related fee income reflecting the decline in the equities markets and in merger and acquisition activity.

In UK banking, other operating income was US$1,478 million, or 6 per cent, higher than the first half of 2000, reflecting growth in wealth management income and higher corporate banking fees.

Wealth management income increased by 5 per cent compared with the first half of 2000, reflecting growth in general insurance, private client and life, pensions and investment business. Overall life, pensions and investment sales increased by 13 per cent notwithstanding the depressed market for investment products. In the life and health market, HSBC Bank plc has increased its market share to 11 per cent for income protection policies and 7 per cent for critical illness-related policies. New private client funds increased strongly, by 21 per cent.

Personal account overdraft fees and mortgage fees were reduced compared with the first half of 2000. Overdraft fees declined by US$20 million, reflecting a reduction in unauthorised overdrafts. Mortgage fees were US$10 million lower than the first half of 2000, mainly due to the removal of loan to valuation fees.

Corporate banking fees increased by 5 per cent benefiting from the bank's strategy of aligning corporate and investment banking services.

In treasury and capital markets, other operating income was US$163 million, or 10 per cent, lower than the first half of 2000. This was primarily due to lower income in gilts trading, which did not repeat the strong performance of the first half of 2000.

CCF's other operating income was US$553 million, of which US$410 million arose from fee and commission income and US$91 million from dealing profits. CCF's regional banking subsidiaries performed ahead of expectations although the slowdown in the equities market adversely affected income levels in the CCF network and in the capital markets businesses. Funds under management were US$60 billion at 30 June 2001.

In investment banking, the level of dealing profits in the equity trading business fell as volumes fell, sharply reflecting the adverse market conditions.

Operating expenses before goodwill amortisation increased by 3 per cent, excluding CCF.

In UK banking, staff costs increased by 7 per cent to US$974 million. Staff numbers were increased by 4 per cent to support business development and higher business volumes, including wealth management activities. Additional IT staff have supported service improvement projects, particularly relating to delivery channels including internet banking initiatives. Annual pay increases and incentive costs also contributed to the increase.

Non-staff costs grew by 8 per cent to US$756 million, including an increase in information technology-related expenditure and marketing activities to support planned business growth and improve services to customers. Marketing investment to promote the HSBC brand increased, including expenditure on a three-year initiative at London's airports and in HSBC's Formula One partnership with Jaguar Racing.

CCF's operating costs on a cash basis were US$687 million. A number of cost containment measures were implemented during 2001 in response to the weak market conditions, including a freeze on new staff recruitment in many businesses.

In international banking, higher costs in Greece reflected the acquisition of additional branches and, in Turkey and in offshore banking business volumes increased significantly resulting in cost increases.

Operating expenses decreased in investment banking, reflecting lower profit-related remuneration linked to the decline in revenues.

The charge for bad and doubtful debts was US$22 million lower than the first half of 2000, excluding CCF. In UK banking, the charge for bad and doubtful debts was US$135 million, or 22 per cent, lower than the first half of 2000 in constant currency terms. New specific provisions of US$229 million were in line with the first half of 2000 and at a lower level than in the second half of 2000. Although there has been some weakening of business confidence, underlying credit quality remained stable.There were lower new specific provisions for First Direct and on credit card advances.

In France, although there was some weakening of business confidence, the credit losses suffered remained low.

The share of operating losses in associated undertakings primarily reflected HSBC's share of losses in Merrill Lynch HSBC of US$45 million.

Gains on disposal of investments included the US$200 million profit on the sale of HSBC Bank plc's 20 per cent shareholding in British Interactive Broadcasting.

The results of HSBC Republic, HSBC Trinkaus & Burkhardt KGaA and HSBC Guyerzeller are included in investment banking, which is dealt with on pages 34 and 35.

The underlying results of all these businesses were impacted adversely by the depressed equity markets which resulted in a reduction in commission income and lower fees from a reduced volume of transactions.

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Hong Kong

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Net interest income	**2,073**	2,003	1,994
Dividend income	**12**	18	16
Net fees and commissions	**564**	567	601
Dealing profits	**134**	124	105
Other income	**209**	161	198
Other operating income	**919**	870	920
Total operating income	**2,992**	2,873	2,914
Staff costs	**(619)**	(576)	(590)
Premises and equipment	**(110)**	(109)	(109)
Other	**(199)**	(170)	(242)
Depreciation	**(97)**	(94)	(96)
Goodwill amortisation	**—**	(1)	—
Operating expenses	**(1,025)**	(950)	(1,037)
Operating profit before provisions	**1,967**	1,923	1,877
Provisions for bad and doubtful debts	**(87)**	(128)	(120)
Provisions for contingent liabilities and commitments	**2**	1	(11)
Amounts written off fixed asset investments	**(14)**	(5)	(4)
Operating profit	**1,868**	1,791	1,742
Share of operating profit in associated undertakings	**12**	9	12
Gains on disposal of investments and tangible fixed assets	**175**	103	34
Profit on ordinary activities before tax	**2,055**	1,903	1,788
Share of HSBC's pre-tax profits (cash basis) (per cent)	**35.2**	35.4	36.3
Share of HSBC's pre-tax profits (per cent)	**37.8**	36.6	39.1
Cost:income ratio (excluding goodwill amortisation) (per cent)	**34.3**	33.0	35.6
Period-end staff numbers (Full-time equivalent)	**25,167**	23,914	24,204

Bad and doubtful debts

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**206**	217	237
releases and recoveries	**(108)**	(95)	(112)
	98	122	125
- general (release)/charge	**(11)**	6	(5)
Customer bad and doubtful debt charge	**87**	128	120
Total bad and doubtful debt charge	**87**	128	120
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**0.3%**	0.4%	0.4%

Figures in US$m	30 June 2001	30 June 2000	31 December 2000
Assets			
Loans and advances to customers (net)	**66,527**	64,375	64,369
Loans and advances to banks (net)	**46,178**	52,508	57,154
Debt securities, treasury bills and other eligible bills	**46,234**	31,412	38,913
Total assets (excluding Hong Kong SAR Government certificates of indebtedness)	**175,239**	163,390	176,545
Liabilities			
Deposits by banks	**2,654**	2,795	2,220
Customer accounts	**144,307**	135,961	146,394

Growth in Hong Kong slowed notably in the first half of 2001, in spite of interest rate cuts, as the absence of a wealth effect from a rising property market dampened the recovery of domestic demand. The banking system increased its liquidity in the absence of demand for loans.

Hong Kong's operations contributed US$2,055 million to HSBC's cash basis profit before tax in the first half of 2001, an increase of US$151 million compared with the first half of 2000. This represented 35.2 per cent of HSBC's cash basis profit before tax.

Net interest income increased by US$70 million, or 3 per cent, to US$2,073 million, primarily reflecting the placement of increased customer deposits and the benefit of lower interest rates on funding money market activities. This was partly offset by reduced spreads on residential mortgage loans and Hong Kong dollar deposits.

Average interest-earning assets increased as a result of the continued increase in customer time deposits, savings and current accounts. With little demand for new lending, these deposits funded a significant increase in debt securities. Average customer loans increased slightly despite intense mortgage price competition and subdued corporate loan demand as a result of slower economic growth in Hong Kong.

For The Hongkong and Shanghai Banking Corporation in Hong Kong, net interest margin narrowed by six basis points to 2.49 per cent in the first half of 2001. Spread improved by three basis points following a five basis point improvement from a reduction in suspended interest, net of releases and recoveries, and the benefit of lower funding costs, as short-term funds repriced ahead of assets. This was partially offset by reduced spreads on residential mortgage loans and Hong Kong dollar time deposits. The contribution from net free funds fell by 9 basis points due to lower average interest rates in the first half of 2001.

In Hang Seng Bank, net interest margin decreased by 25 basis points to 2.58 per cent. Spread narrowed by 14 basis points mainly due to a further decline in mortgage yields and reduced spreads on Hong Kong dollar time deposits. These negative effects were partly mitigated by the benefits of the continued growth in lower cost savings accounts, a higher spread on investment securities on higher holdings of corporate bonds, and the widening of the gap between the Hong Kong BLR and interbank rates. The contribution from net free funds also fell due to lower average interest rates in the first half of 2001.

Continued price competition in the residential loan market resulted in a further reduction in the average yield on the residential mortgage portfolio. Excluding Government Home Ownership Scheme and staff loans, the average yield earned by The Hongkong and Shanghai Banking Corporation on this portfolio fell to 56 basis points below BLR for the first half of 2001, before accounting for the effect of cash incentive payments, compared with one basis point below BLR in the first half of 2000 and 54 basis points below BLR in the second half of 2000. Hang Seng Bank, which competed more aggressively for market share, saw its average yield fall to 65 basis points below BLR for the first half of 2001, compared with five basis points above BLR for the first half of 2000 and 57 basis points below BLR for the second half of 2000.

Other operating income was US$49 million, or 6 per cent, higher than the first half of 2000. Within other operating income, insurance income increased by US$19 million or 23 per cent, reflecting significant growth in new business for life insurance. Dealing profits were in line with the first half of 2000. Net fees and commissions were only US$3 million lower when compared with the exceptional levels in the first half of 2000 despite a decline in stock market volumes. Securities and stockbroking income fell sharply by US$39 million, or 33 per cent, due to lower volumes reflecting the poor stock market sentiment. Stock market-related revenues were also affected as a result of an increase in the volume of customer trades now being executed via the internet. Approximately 50 per cent of all trades are now transacted through this low-cost channel.

Catering for a more conservative investment environment there was an encouraging increase in fee income from the sale of unit trusts in HSBC's Hong Kong operations, reflecting the successful sale of capital guaranteed funds. In addition, fee income from cards increased by US$8 million, or 8 per cent, mainly in The Hongkong and Shanghai Banking Corporation following an increase of 323,000 of cards in issue over the past 12 months to 1,800,000.

Operating expenses excluding goodwill increased by US$76 million, or 8 per cent, compared with the first half of 2000. Staff costs increased by US$43 million, or 7 per cent, mainly due to headcount increases to support the MPF business expansion, the development of HSBC's 'e'-banking initiatives and annual salary increments. The total number of staff in Hong Kong increased to 25,167 at 30 June 2001 compared with 23,914 at 30 June 2000, and 24,204 at 31 December 2000. Operating expenses, other than staff costs, increased by US$33 million, or 9 per cent, mainly in advertising and marketing expenses relating to the promotion of credit card products and development costs relating to HSBC's 'e'-banking initiatives. Operating expenses were US$12 million lower when compared with the second half of 2000.

Provisions for bad and doubtful debts decreased by US$41 million in the first half of 2001. The charge for new specific provisions decreased by US$11 million compared with the first half of 2000, with a lower charge for corporate borrowers partly offset by a higher charge for credit card advances and a higher charge against residential mortgage loans in Hang

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Seng Bank. Mortgage delinquency rates remained low in absolute terms, albeit showing an upward trend. Releases and recoveries of specific provisions were higher compared with the first half of 2000, mainly in Hang Seng Bank.

Non-performing advances as a percentage of total customer advances improved to 3.4 per cent, compared with 3.8 per cent at the end of 2000 and 4.2 per cent at 30 June 2000.

The gains on disposal of tangible fixed assets and long-term investments amounted to US$175 million, an increase of US$72 million compared with the first half of 2000. During the period, HSBC's operations in Hong Kong disposed of their interest in Modern Terminals and a 50 per cent shareholding in Central Registration. These gains were augmented by those on disposal of other investment securities.

Rest of Asia-Pacific (including the Middle East)

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Net interest income	**725**	668	699
Dividend income	**1**	1	2
Net fees and commissions	**332**	363	347
Dealing profits	**196**	172	152
Other income	**24**	27	21
Other operating income	**553**	563	522
Total operating income	**1,278**	1,231	1,221
Staff costs	**(374)**	(358)	(375)
Premises and equipment	**(69)**	(66)	(71)
Other	**(186)**	(154)	(189)
Depreciation	**(41)**	(38)	(41)
Goodwill amortisation	**(4)**	(2)	(3)
Operating expenses	**(674)**	(618)	(679)
Operating profit before provisions	**604**	613	542
Provisions for bad and doubtful debts	**18**	66	(51)
Provisions for contingent liabilities and commitments	**(33)**	4	1
Amounts written off fixed asset investments	**(6)**	—	(3)
Operating profit	**583**	683	489
Share of operating profit in associated undertakings	**48**	51	49
Gains/(losses) on disposal of investments and tangible fixed assets	**3**	—	(7)
Profit on ordinary activities before tax	**634**	734	531
Share of HSBC's pre-tax profits (cash basis) (per cent)	**10.9**	13.7	10.8
Share of HSBC's pre-tax profits (per cent)	**11.7**	14.1	11.6
Cost:income ratio (excluding goodwill amortisation) (per cent)	**52.4**	50.0	55.4
Period-end staff numbers (Full-time equivalent)	**24,252**	21,393	22,919

Bad and doubtful debts

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**269**	231	312
releases and recoveries	**(282)**	(181)	(189)
	(13)	50	123
- general release	**(5)**	(116)	(72)
Customer bad and doubtful debt (release)/charge	**(18)**	(66)	51
Total bad and doubtful debt (release)/charge	**(18)**	(66)	51
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**-0.1%**	-0.4%	0.3%

Figures in US$m	30 June 2001	30 June 2000	31 December 2000
Assets			
Loans and advances to customers (net)	**28,220**	28,803	28,641
Loans and advances to banks (net)	**10,995**	12,719	11,197
Debt securities, treasury bills and other eligible bills	**14,179**	10,232	11,705
Total assets	**58,820**	55,979	56,676
Liabilities			
Deposits by banks	**4,776**	3,758	4,080
Customer accounts	**43,778**	40,225	42,516

Growth across Asia, with the exception of mainland China, weakened significantly in the first half of 2001 with weak domestic demand as the region suffered the effects of the severe decline in the global technology sector, which hit exports particularly hard. The dichotomy between mainland China and the rest of Asia- Pacific became ever more apparent as its domestic economy continued to grow.

HSBC's operations in the rest of Asia-Pacific region contributed US$638 million, or 10.9 per cent, of HSBC's cash basis profit before tax in the first half of 2001, a decrease of US$98 million compared with the first half of 2000. At constant exchange rates, operating profit before provisions was 5 per cent higher than the first half of 2000 and 14 per cent higher than the second half of 2000. Investment in and marketing of expanded personal banking businesses picked up in the second half of 2000 and as a result, at constant exchange rates, the performance in the first half of 2001 reflected strong revenue and related cost growth against the first half of 2000. Cost growth was only modestly higher than in the second half of 2000. A significant recovery on a previously provided debt

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mitigated the impact of the absence of the favourable impact which the partial release of the special general provision contributed to both halves of last year.

The following commentary on the rest of Asia-Pacific results is based on constant exchange rates.

Net interest income increased by US$95 million, or 15 per cent, compared with the first half of 2000. This increase reflected growth in higher yielding personal lending, increased spreads on treasury activities and recoveries of suspended interest. There was solid growth in personal lending in Taiwan, Korea and India reflecting the successful development of wealth management businesses. Spread widened in Singapore and Japan mainly due to strong treasury performance and in mainland China as a result of recoveries of previously suspended interest.

Other operating income was US$34 million, or 7 per cent, higher than the first half of 2000. Net fees and commissions were only US$2 million lower when compared with the exceptional levels achieved in the first half of 2000. The continuing focus on expanding HSBC's personal banking operations, most notably in India, the Philippines, Malaysia and Taiwan, resulted in a 24 per cent increase in credit card fee income. Securities and broking income fell by some 30 per cent, reflecting subdued stock market activities in the region. Dealing profits increased by US$39 million, or 25 per cent. This was due to increased profits on debt securities trading, particularly in India, Singapore and Taiwan, which benefited from increased volatility in interest rates and a first time contribution from HSBC Bank Egypt S.A.E.

Operating expenses increased by US$98 million, or 17 per cent, compared with the first half of 2000. Staff costs increased by US$42 million due to growth in staff numbers to support business expansion and the transfer of back office processing operations to premises in Hyderabad and Guangzhou. Over the past year, HSBC has expanded its operations in the Philippines, Egypt and Brunei through acquisition and has opened some 20 new branches in seven countries in the Rest of Asia-Pacific region. Operating expenses other than staff costs increased by 23 per cent, mainly due to the effect of acquisitions, an increase in marketing expenses promoting personal banking products and development costs relating to 'e'-banking initiatives.

The net release of customer bad and doubtful debt provisions of US$18 million was US$48 million lower than in the first half of 2000. New specific provisions increased by US$49 million, particularly in Indonesia. This increase in part reflected further provisioning on existing doubtful debts due to the current political and economic uncertainties in Indonesia, partly offset by a reduction in credit charges in Singapore and China. Mainly as a result of the liquidation of security held (shares of Gulf Canada Resources following an agreed offer by Conoco) against a loan to Olympia and York, releases and recoveries increased by US$112 million to US$282 million. HSBC also achieved good recoveries in Malaysia following debt restructuring and refinancing. In comparison, the first half of 2000 charge benefited from a release from the special general provision of US$116 million.

The pre-tax profit of HSBC's operations in Singapore at US$222 million was US$104 million higher than the first half of 2000. This was largely attributable to the release of bad debt provisions against the historical Olympia and York debt. Net interest income was US$13 million higher than in the first half of 2000. This resulted from a combination of an improved net interest margin as spreads on deposits widened and a good performance by treasury. The level of fee income was unchanged as higher fees from advisory services and the sale of capital protected funds offset a fall in stockbroking income. Operating expenses increased by US$20 million, or 24 per cent, compared with the first half of 2000, largely due to higher staff related costs.

In India, our operations benefited from continued growth in personal banking business and a marked increase in dealing profits. Pre-tax profits at US$62 million were US$14 million higher than the first half of 2000. Net interest income increased by 11 per cent, reflecting a 15 per cent increase during the first half of 2001 in higher yielding personal lending volumes, lower suspended interest and a larger contribution from net free funds. Movements in interest rates in the first half of 2001 provided the opportunity to increase dealing profits from debt securities and interest rate derivatives trading. Fee income was 13 per cent higher than in the first half of 2000 as growth in credit card fees offset falls in securities and stockbroking income from subdued stock market activities. Operating expenses were US$10 million higher than in the first half of 2000. An increase in salary costs reflected higher performance-related salaries resulting from improved dealing profits.

Higher operating expenses other than staff costs reflected increased marketing spend incurred in the promotion of HSBC's personal banking products. There was a net release of bad and doubtful debt provisions compared with a charge in 2000 following higher recoveries from corporate customers.

In mainland China, HSBC's operations reported a small pre-tax profit compared with a loss in the first half of 2000. Recoveries of previously suspended interest and a lower level of provisions for bad and doubtful debts were the main factors affecting results for the first half of 2001, with a net charge for provisions of US$4 million, US$22 million lower than in the first half of 2000.

In Malaysia, HSBC Bank Malaysia Berhad reported profits before tax of US$101 million, compared with US$62 million for the first half of 2000, driven by good recoveries on previously provided debt. Net interest income of US$85 million was US$3 million lower than in the first half of 2000 as intense competition for the limited quality corporate lending opportunities caused lending margins to fall. Targeted growth in residential mortgages (up US$242 million or 43 per cent) and credit card loans (up US$64 million or 67 per cent) following successful promotional campaigns was largely offset by a fall in term lending to corporate borrowers. This, coupled with lower net free funds, resulted in a 9 basis point fall in net interest margin to 2.67 per cent. Other operating income of US$47 million was US$6 million higher than in the first half of 2000. The continuing focus on expanding HSBC's personal banking operations resulted in a 29 per cent increase in credit card fee income to US$13 million. Higher profits from bond trading and higher volumes of foreign exchange transactions resulted in a 34 per cent increase in dealing profits to US$19 million. Operating expenses at US$65 million were US$7 million higher than in the first half of 2000. Operating expenses, other than staff costs, increased by 31 per cent, mainly due to an increase in advertising and marketing expenses on residential mortgage and credit card sales promotions. Strong recoveries following debt restructuring and loan refinancing resulted in a net release of US$27 million in the bad debt charge in the first half of 2001 compared to a net charge of US$14 million for the same period in 2000. Non-performing customer loans have decreased by US$179 million, or 21 per cent, since 30 June 2000 as a result of the combination of credit upgrades following loan restructurings, recoveries and write-offs.

The Middle Eastern operations of HSBC Bank Middle East reported an increase in cash basis pre-tax profits of US$11 million, or 11 per cent, compared with the first half of 2000, largely as a result of lower bad debt charges. Net interest income was 3 per cent higher than in the first half of 2000, reflecting deposit-driven growth in average interest-earning assets, although intense competition for personal lending opportunities caused lending volumes to fall. Net interest margin fell 17 basis points as a result of the combination of a more liquid balance sheet as surplus deposits were invested through the money market and a lower contribution from a reduced level of net free funds. Net fee income was US$5 million, or 13 per cent, higher as a result of growth in personal banking products. HSBC's financial planning management service (which provides savings, retirement, education and protection planning services) was expanded across the region, resulting in an increase of US$2 million in fees; credit card fee income increased by US$1 million, or 7 per cent, following fresh promotion of credit card products, backed by the launch of a new loyalty programme. The number of credit cards in issue increased by 18 per cent. Funds sold to customers rose by 23 per cent to US$301 million compared with the first half of 2000. A wider range of trade, cash management and institutional products for commercial customers also contributed to the increase in other operating income. Operating expenses increased by US$6 million compared to the first half of 2000, largely as a result of the development of the financial planning management programme and investment in internet service capability. This internet service is planned to be launched in the United Arab Emirates in October 2001, with a full regional launch from the beginning of 2002. Provisions for bad and doubtful debts fell by 50 per cent in the first half of 2001, compared to the same period last year, reflecting a smaller number of significant individual provisions raised, and recoveries in the United Arab Emirates.

Elsewhere, operations in Korea and Thailand each contributed cash basis pre-tax profits in excess of US$25 million whilst operations in the Philippines and Taiwan each contributed in excess of US$15 million of HSBC's cash basis pre-tax profit. The acquisition of HSBC Bank Egypt contributed US$14 million to cash basis pre-tax profits during the first half of 2001. HSBC's associates, The Saudi British Bank and British

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Arab Commercial Bank, contributed US$51million to cash basis pre-tax profits.

In Lebanon, losses of US$31 million were suffered on an operation which has subsequently been closed.

North America

Cash basis profit before tax

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
HSBC Bank USA	**645**	418	453
HSBC Markets USA	**1**	32	3
Other USA operations	**4**	12	(7)
USA operations	**650**	462	449
Canadian operations	**123**	109	127
	773	571	576
Group internet development – *hsbc.com*	**(97)**	-	-
Intermediate holding companies	**(77)**	(83)	(71)
	599	488	505

	Half-year to		
Figures in US$m	**30 June 2001**	30 June 2000	31 December 2000
Net interest income	**1,162**	1,057	1,095
Dividend income	**16**	33	35
Net fees and commissions	**437**	451	402
Dealing profits	**211**	132	86
Other income	**94**	68	110
Other operating income	**758**	684	633
Total operating income	**1,920**	1,741	1,728
Staff costs	**(714)**	(707)	(683)
Premises and equipment	**(155)**	(157)	(150)
Other	**(384)**	(269)	(283)
Depreciation	**(58)**	(54)	(60)
Goodwill amortisation	**(71)**	(74)	(69)
Operating expenses	**(1,382)**	(1,261)	(1,245)
Operating profit before provisions	**538**	480	483
Provisions for bad and doubtful debts	**(114)**	(72)	(75)
Provisions for contingent liabilities and commitments	**(2)**	—	1
Amounts written off fixed asset investments	**(4)**	—	—
Operating profit	**418**	408	409
Share of operating profit/(losses) in associated undertakings	**1**	2	(4)
Gains on disposal of investments and tangible fixed assets	**109**	4	31
Profit on ordinary activities before tax	**528**	414	436
Share of HSBC's pre-tax profits (cash basis) (per cent)	**10.3**	9.1	10.3
Share of HSBC's pre-tax profits (per cent)	**9.7**	8.0	9.5
Cost:income ratio (excluding goodwill amortisation) (per cent)	**68.3**	68.2	68.1
Period-end staff numbers (Full-time equivalent basis)	**18,533**	19,121	18,965

Bad and doubtful debts

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**144**	170	217
releases and recoveries	**(46)**	(59)	(43)
	98	111	174
- general charge/(release)	**16**	(39)	(99)
Customer bad and doubtful debt charge	**114**	72	75
Total bad and doubtful debt charge	**114**	72	75
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**0.3%**	0.2%	0.2%

Figures in US$m	30 June 2001	30 June 2000	31 December 2000
Assets			
Loans and advances to customers (net)	**69,727**	59,956	60,835
Loans and advances to banks (net)	**9,401**	9,398	9,279
Debt securities, treasury bills and other eligible bills	**39,563**	34,307	36,770
Total assets	**129,962**	114,778	118,053
Liabilities			
Deposits by banks	**8,486**	5,742	7,221
Customer accounts	**79,502**	67,922	68,389

The slowdown in the US continued in the first half of 2001 particularly in manufacturing. Continuing profit declines put pressure on capital spending and led to rising unemployment. Additionally, US households saw wealth fall with equity prices.

HSBC's operations in North America contributed US$599 million to HSBC's cash basis profit before tax in the first half of 2001, compared to US$488 million in the comparable period in 2000 and represented 10.3 per cent of HSBC's cash basis profit before tax. Excluding development costs of US$100 million incurred in the first half of 2001 on HSBC's strategic 'e'-commerce platform *hsbc.com*, cash basis profits before tax were US$211 million, or 43 per cent, higher than for the same period in 2000.

HSBC Bank USA's operations in the United States reported an increase of US$227 million, or 54 per cent, in cash basis profit before tax in the first half of 2001, due largely to increased levels of net interest income and gains on the disposal of mortgage-backed securities. The Canadian operations of HSBC reported an increase of US$14 million, or 13 per cent, in cash basis profit before tax compared to the six months ended 30 June 2000. Excluding the results of HSBC InvestDirect (Canada) Inc, which was transferred to the Merrill Lynch HSBC joint venture in the fourth quarter of 2000, the increase in Canada's cash basis pre-tax profit in the first half of 2001 was US$23 million.

Net interest income in North America at US$1,162 million in the first half of 2001 was US$105 million higher than in the first half of 2000. In the United States, net interest income was US$93 million higher than in the first half of 2000. Average interest-earning assets of HSBC Bank USA's domestic operations increased by US$3.7 billion, of which US$2.8 billion reflected growth in residential mortgages, and were funded by increased levels of lower costing customer deposits. In addition, the several cuts in interest rates widened spreads in certain commercial businesses, the residential mortgage business, and treasury investment operations. Net interest income in Canada was US$12 million higher than in the first half of 2000 as the result of a US$1.3 billion increase in average residential and commercial loan interest-earning assets.

Other operating income was US$74 million higher than in the first half of 2000 with a solid increase in dealing profits. Fee income, excluding HSBC InvestDirect (Canada) Inc's first half 2000 contribution, was in line with the first half of 2000. In the United States, fee income increased by 9 per cent compared to the first half of 2000. Fees grew in wealth management and insurance within the personal segment, and within the commercial segment due to harmonisation of fee structures on deposit accounts as the former Republic Bank of New York customers were integrated into HSBC. Bankcard fees, particularly related to debit cards, also grew as former Republic customers were introduced to HSBC card products. Fee income in Canada was 25 per cent lower than in the first half of 2000 as an increase of 20 per cent in personal and commercial financial services only partly offset lower levels of broking and capital market fees as a result of weaker equity stock markets.

Dealing profits at US$211million were US$79 million, or 60 per cent, higher than in the first half of 2000. In the United States, HSBC Markets Inc reported an increase of US$64 million, or 92 per cent, in profits on debt securities and US treasury trading activity over the first half of 2000. In addition, HSBC Bank

USA reported increased profits on foreign exchange trading. In Canada, dealing profits were US$5 million lower than in the first half of 2000 as unsettled equity markets reduced profits on equity trading.

Operating expenses, excluding goodwill amortisation, of US$1,311million in the first half of 2001 were US$124 million higher than in the comparable period in 2000. Of this increase, US$100 million relates to development costs associated with *hsbc.com*. Excluding these costs and adjusting for the transfer of HSBC InvestDirect (Canada) Inc, underlying costs increased by US$29 million, or 2 per cent, in the first half of 2001. HSBC Markets Inc's operating expenses increased by US$72 million, of which US$58 million related to higher staff costs. This increase reflected higher levels of performance-related bonuses on improved trading revenues and costs associated with additional headcount building on the successful trading platform in place. Operating expenses in HSBC Bank USA were broadly unchanged from the first half of 2000. A reduced level of restructuring charges was offset by infrastructure initiatives and business expansion in treasury, capital markets, private banking, wealth management and 'e'-commerce. In Canada, operating expenses were US$45 million or, 20 per cent, lower than in the first half of 2000, of which US$25 million related to lower performance-related staff costs as a result of lower levels of trading revenue. In addition, continuing efforts to improve operational efficiencies and lower volumes of transaction-driven costs reduced other operating expenses by US$20 million.

Provisions for bad and doubtful debts increased by US$42 million compared with the first half of 2000. The increase in the United States of US$32 million reflected the more volatile business and credit environment in the first half of 2001. Provisions for bad and doubtful debts exceeded amounts written off by US$25 million. In Canada the increase of US$10 million reflected provisioning against a small number of commercial advances. Overall credit quality remained stable in the first half of 2001with non-performing loans in North America at 30 June 2001 of US$634 million compared with US$642 million at 31 December 2000.

Gains on disposal of investments amounted to US$109 million, an increase of US$105 million compared with the first half of 2000.

During the period, HSBC's operations in the United States reduced their mortgage-backed securities portfolio in an effort to capture unrealised gains in securities before possible impairment by the refinancing of underlying mortgages.

Latin America

Cash basis profit before tax

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Brazil	98	124	84
Argentina	39	62	50
Chile	15	8	-
Mexico	8	5	4
Panama	7	4	(2)
Other	4	(4)	(11)
	171	199	125

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Net interest income	**597**	591	628
Dividend income	**12**	8	—
Net fees and commissions	**269**	221	259
Dealing profits	**(6)**	30	38
Other income	**183**	206	191
Other operating income	**458**	465	488
Total operating income	**1,055**	1,056	1,116
Staff costs	**(418)**	(439)	(467)
Premises and equipment	**(79)**	(83)	(84)
Other	**(226)**	(227)	(268)
Depreciation	**(34)**	(33)	(34)
Goodwill amortisation	**(7)**	(6)	(7)
Operating expenses	**(764)**	(788)	(860)
Operating profit before provisions	**291**	268	256
Provisions for bad and doubtful debts	**(130)**	(67)	(137)
Provisions for contingent liabilities and commitments	**-**	—	—
Amounts written off fixed asset investments	**(2)**	—	(1)
Operating profit	**159**	201	118
Share of operating profit in associated undertakings	**2**	—	1
Gains/(losses) on disposal of investments and tangible fixed assets	**3**	(8)	(1)
Profit on ordinary activities before tax	**164**	193	118
Share of HSBC's pre-tax profits (cash basis) (per cent)	**2.9**	3.7	2.5
Share of HSBC's pre-tax profits (per cent)	**3.0**	3.7	2.6
Cost:income ratio (excluding goodwill amortisation) (per cent)	**71.8**	74.1	76.4
Period-end staff numbers (Full-time equivalent)	**25,568**	26,738	25,907

Bad and doubtful debts

Figures in US$m	Half-year to 30 June 2001	30 June 2000	31 December 2000
Loans and advances to customers			
- specific charge			
new provisions	**179**	106	196
releases and recoveries	**(65)**	(38)	(62)
	114	68	134
- general charge/(release)	**16**	(1)	3
Customer bad and doubtful debt charge	**130**	67	137
Total bad and doubtful debt charge	**130**	67	137
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	**3.7%**	2.1%	3.7%

Figures in US$m	30 June 2001	30 June 2000	31 December 2000
Assets			
Loans and advances to customers (net)	**6,583**	5,904	6,849
Loans and advances to banks (net)	**3,548**	2,318	3,362
Debt securities, treasury bills and other eligible bills	**4,716**	5,133	5,281
Total assets	**19,366**	16,917	19,073
Liabilities			
Deposits by banks	**2,652**	1,818	2,644
Customer accounts	**9,686**	8,674	10,265

Latin American economic growth slowed considerably during the first half of 2001, following the slowdown in the US economy. Additionally, slower growth and the prospect of liquidity problems in Argentina led to a slowdown in capital flows to Latin America, putting currencies under pressure.

HSBC's operations in Latin America contributed US$171 million to HSBC's cash basis profit before tax in the first half of 2001, compared to US$199 million in the comparable period in 2000 and represented 2.9 per cent of HSBC's cash basis profit before tax. At constant exchange rates, HSBC's Latin American operations' cash basis pre-tax profits were US$4 million lower than in the same period in 2000. In Brazil, cash basis profit before tax of US$98 million was generated during the first half of 2001, of which US$10 million related to the contribution from HSBC Investment Bank Brasil S.A. – Banco Mūltiplo (formerly CCF Brazil), compared with US$124 million in the first half of 2000. Profits in the first half of 2001 were affected by volatility in the foreign exchange and interest rate markets due to concerns over the Argentine economy, energy shortages and political uncertainties. At constant exchange rates, pre-tax profits in Brazil were only US$3 million lower in the first half of 2001 than in 2000.

In Argentina, the current political and economic uncertainties are contributing to the economic recession. Recent actions taken by the Argentine Government, including the renegotiation of US$30 billion of government debt, temporarily improved confidence.

However, against a background of continuing economic uncertainty and growing external concern over the progress in economic reform, the country risk premium on Argentine paper rose dramatically during 2001. HSBC Argentina, as one of the joint lead managers, arranged the exchange of US$2.5 billion of these bonds. HSBC's Argentine operations achieved cash basis profits before tax of US$39 million compared with US$62 million for the first half of 2000.

The following commentary on Latin America's results is based on constant exchange rates.

Net interest income in Latin America at US$597 million in the first half of 2001 was US$78 million higher than in the first half of 2000. In Brazil, net interest income was US$72 million, or 19 per cent, higher than for the first half of 2000, reflecting growth in corporate and retail lending and a US$30 million contribution from the acquisition of CCF Brazilian operations. This was partly offset by the effects of lower interest rates as the average Brazilian Government base interest rate in the first half of 2001 was 17 per cent compared to 18 per cent in the first half of 2000. In Argentina, net interest income was US$7 million lower than in the first half of 2000. Funding growth was achieved from higher costing short-term deposits but these were primarily reinvested in investment securities as economic uncertainties caused lending volumes to fall. The increased balance sheet liquidity caused spreads to fall from 5.11 per cent to 4.97 per cent and as a result the net interest margin fell by 15 basis points to 5.51 per cent. Panama contributed US$15 million to the increase in net interest income.

Other operating income was US$40 million higher than in the first half of 2000 with an increase in fee income of US$77 million, or 40 per cent, partially offset by dealing losses. The acquisition of the CCF Brazilian operations contributed some US$11 million to this growth. In Brazil, fee income increased by US$57 million, or 40 per cent, resulting from development of wealth management business, particularly asset management and insurance activities. Fees from asset management grew by 42 per cent when compared to the first half of 2000 and at 30 June 2001 funds under management stood at US$8.6 billion (US$3.9 billion of which arose from the acquisition of CCF Brazil). HSBC now ranks fifth in terms of amount of funds under management in Brazil. Life insurance premiums grew by 23 per cent and now represent 38 per cent (33 per cent in 2000) of total insurance premiums generated. The successful cross-sales of products to existing commercial and retail customers also contributed to the increased fee income. In Argentina, fee income was US$14 million, or 32 per cent, higher than in the first half of 2000. Initiatives taken to improve revenue mix and amount were reflected in higher level of fees from credit cards and fee income benefited from the fees earned from being an arranger and market-maker for Argentine government bond auctions.

The increased contribution from fee income was partially offset by dealing losses of US$6 million compared to dealing profits of US$27 million in the first half of 2000. Brazil reported dealing losses of US$19 million compared to dealing profits of US$9 million in the first half of 2000. These losses were incurred on interest rate trading positions as interest rates rose. In Argentina, difficult trading conditions as a result of volatility in the foreign exchange markets resulted in break-even compared with dealing profits of US$10 million in the first half of 2000.

Operating expenses at US$757 million in the first half of 2001 were US$64 million higher than in the comparable period in 2000. Of this increase, US$45 million relates to the acquisitions of CCF Brazil and Chase Manhattan's Panama operations. Excluding CCF, operating expenses in Brazil were US$14 million, or 3 per cent, higher than the first half of 2000. Cost controls were put in place to restrain operating expense growth with a number of contracts renegotiated in areas such as communications, mailing and marketing campaigns. Investment continued to be made in electronic distribution channels and HSBC Bank Brasil S.A. Banco Mūltiplo, which has offered its customers internet banking services since 1998, now has over 300,000 registered internet bank users performing on average 1.5 million online transactions monthly. In addition, HSBC's Brazilian operations have over 20,000 registered users of both office banking and e-mail banking and over 10,000 registered mobile bank users. In Argentina, operating expenses were in line with the first half of 2000.

Provisions for bad and doubtful debts increased by US$69 million compared with the first half of 2000.

In Brazil, there was a significant increase in provisioning requirements of US$63 million in the first half of 2001 reflecting changes in the lending portfolio mix. Targeted growth in personal lending led to an expected and corresponding increase in delinquencies and provisioning levels rose to reflect the underlying risks within the consumer portfolio. In Argentina, provisions against bad and doubtful debts of US$30 million were only US$1 million higher than in the first half of 2000 and continued to reflect the weak economic environment. The ratio of provisions to non-performing loans in Argentina remained constant at 63 per cent.

Non-performing loans in Latin America at US$749 million were US$3 million lower than at December 2000 reflecting the continuing weakness in the local economies.

Financial Review (continued)

Investment banking

	Half-year to		
	30 June	30 June	31 December
Figures in US$m	**2001**	2000	2000
Net interest income	**400**	366	428
Fees and commissions (net)	**1,032**	1,034	1,175
Trading income*	**115**	236	127
Other income†	**232**	188	183
Total income	**1,779**	1,824	1,913
Operating expenses (excluding goodwill amortisation)	**(1,302)**	(1,220)	(1,429)
Bad and doubtful debts	**(1)**	(7)	(4)
Other	**(34)**	27	—
Profit before tax	**442**	624	480
Total assets	**98,188**	73,840	95,325
Shareholders' funds	**3,922**	4,249	4,287
Return on net tangible equity	**15.9%**	22.7%	16.7%
Staff numbers (full-time equivalent)	**13,903**	10,391	14,140
Segmental analysis of profit before tax			
- Asset management	**50**	42	41
- Private equity	**60**	29	54
- Private banking	**221**	292	230
- Other investment banking	**111**	261	155
	442	624	480

The figures above are on a cash basis and exclude goodwill attributable to investment banking operations

* *In order to present the investment banking results on a basis consistent with common practice in investment banking, trading income as reported above includes all profits and losses relating to dealing activities, including interest income/expense and dividends arising from long and short positions. In this respect, it differs from dealing profits as reported on page 12.*

† *Includes profit on disposal of venture capital and other investments of US$119 million in the first half of 2001 (first half 2000: US$104 million: second half 2000: US$76 million), which was included in gains on disposal of fixed assets and investments at the HSBC level.*

HSBC provides a comprehensive range of investment banking services to its customers on a worldwide scale through major centres in London, Hong Kong, Paris, New York, Geneva and Düsseldorf. The investment banking services provided by HSBC include global investment banking, merchant banking, private equity, asset management and private banking.

Profit before tax on a cash basis of US$442 million decreased by US$182 million, or 29 per cent, over the first half of 2000 and by US$38 million, or 8 per cent, over the second half of 2000. Excluding CCF, cash basis profit before tax decreased by US$289 million, or 46 per cent, over the first of 2000.

Return on net tangible equity of 15.9 per cent was lower when compared with 22.7 per cent in the first half of 2000 but only slightly down when compared with 16.7 per cent in the second half of 2000 reflecting profits reported for the relevant periods.

The increase in the capital base of investment banking as a result of the inclusion of CCF's investment banking businesses was offset by a reduction in capital following a reorganisation of HSBC Republic.

Net interest income was 9 per cent higher than the first half of 2000 but US$40 million, or 11 per cent, lower excluding CCF. The legal reorganisation of HSBC Republic and the resulting reduction in capital in private banking contributed to lower net interest income.

Net fees and commissions were in line with the same period of 2000, with the contribution from CCF's investment banking business offsetting the decline in broking and other investment banking fees and commissions. Stripping out the impact of CCF, fees and commissions were US$212 million, or 21 per cent, lower as the high market volumes and favourable stock market movements seen in the first half of 2000 were not repeated. Although market volumes have fallen, we continue to make good progress in raising our relative position and consolidating our existing strengths. Our research continues to be highly regarded for its independence and quality and within Equity Capital Markets 'ECM' we were recently ranked third amongst ECM/brokers on global mergers and acquisitions transactions completed in the first half of 2001. Merchant banking maintained a solid performance benefiting from the completion of a number of significant structured transactions in Asia as well as the inclusion of CCF for the first time.

The integration of CCF into HSBC has generated opportunities to develop investment banking fee-based revenues within an expanded customer base. Notable wins announced include Orange SA where HSBC was co-lead manager on the French retail offering for the €6.2 billion initial public offering, and advising on the management buyout of Picard Surgeles.

Trading income of US$115 million declined by US$121 million compared with the first half of 2000 and was US$136 million lower excluding CCF, reflecting the adverse market conditions during 2001.

Excluding the impact of CCF, operating expenses decreased by 10 per cent (at constant exchange rates 5 per cent lower) compared with the same period of 2000, reflecting reduced compensation expenses linked to lower profitability as well as an emphasis on cost containment during a period of turbulence in the equity markets. Investment in operations in New York led to increased costs compared with last year in North America, which have resulted in increased net income in the areas of build-up.

The asset management business continued to report positive net inflows into the funds under its management. Notable successes in 2001 have included the Mandatory Provident Fund Scheme in Hong Kong, a new range of liquidity funds, business development in the Middle East and the launch of the HSBC Global Demographics Capital Guaranteed Fund, the largest public closed-end fund ever launched in the Hong Kong SAR market. Falling global equity markets and the impact of the strong US dollar on our sterling and euro-denominated funds have, however, seen funds under management decrease by 4 per cent to US$131 billion compared with December 2000. Asset management profits of US$50 million increased US$8 million, or 19 per cent, against the first half of 2000 partly due to tight cost control.

HSBC entered into an agreement with China Development Bank Inc on 16 May 2001 to acquire its 52.87 per cent interest in China Securities Investment Trust for approximately US$103 million in cash. HSBC has now received acceptances to purchase an additional 44.13 per cent on similar terms. The completion of the acquisition of China Securities Investment Trust, Taiwan’s leading asset management company, will increase assets under management by approximately US$2.6 billion.

Group private banking has substantially completed the integration of the former Republic private banking operations and is in the process of integrating the CCF international private banking operations. The combined businesses continued to report net inflows into funds under management and client retention was good in the face of increasing competition in this market sector. By bringing substantially all of HSBC’s international private banking operations under a unified holding company structure based in Switzerland, the global network available to customers has been simplified in terms of access from an international perspective. The opportunity was also taken to improve the efficiency in the capital structure supporting these businesses. This contributed to a reduction in net interest income, which together with subdued market conditions, and the absence of the exceptional portfolio restructuring profits of 2000, resulted in a 24 per cent decrease in the first half of 2001 pre-tax profit compared to the same period in 2000.

Private Equity continued to fund investment opportunities in 2001 and the quality of the investment portfolio remains satisfactory. The results for 2001 included a contribution of US$31 million from the Charterhouse Development Capital business acquired with CCF.

Future accounting developments

The Accounting Standards Board (UK GAAP) and the Financial Accounting Standards Board (US GAAP) have issued the following accounting standards, which become effective in future financial statements. HSBC is currently reviewing the likely impact of these statements.

UK GAAP

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

FRS 17 prescribes the following:

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

FRS 17 will require additional disclosures in HSBC's 2001 and 2002 year-end financial statements, with the primary statement impact being initially recorded from 1 January 2003.

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

The objective of FRS 19 is to ensure that future tax consequences of past transactions and events are recognised as liabilities or assets in the financial statements and that the financial statements disclose any other special circumstances that may have an effect on future tax charges.

In practice deferred tax will generally be provided in the accounts for all timing differences, subject to recoverability of deferred tax assets. Currently deferred tax assets and liabilities are recognised only to the extent they are expected to crystallise.

Management are currently assessing the impact of FRS 17 and FRS 19 and the effect on HSBC's financial statements is not yet known.

US GAAP

SFAS No. 141 'Business Combinations' was issued in July 2001. The Statement is effective for all business combinations initiated after 30 June 2001 and for all business combinations accounted for by the purchase method that are completed after 30 June 2001. SFAS No. 141 prohibits the pooling-of-interests method of accounting for business combinations and prescribes the initial recognition and measurement of goodwill and other intangible assets, accounting for negative goodwill and the required disclosures in respect of business combinations.

SFAS No. 142 'Goodwill and Other Intangible assets' was issued in July 2001. SFAS No. 142 is effective for fiscal years beginning after 15 December 2001 and may not be retroactively applied to financial statements of prior periods. SFAS No. 142 requires that goodwill, including previously existing goodwill, and intangible assets with indefinite useful lives should not be amortised but should be tested for impairment annually. Goodwill and intangible assets with indefinite useful lives will no longer be tested for impairment under SFAS No. 121 'Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of'.

HSBC is required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 with effect from 1 January 2002. Any goodwill and any intangible asset determined to have an indefinite useful life acquired in a purchase business combination completed after 30 June 2001 will not be amortised and will continue to be evaluated initially for impairment under SFAS No. 121 until the date that SFAS No. 142 applies in its entirety. Goodwill and intangible assets acquired in business combinations completed before 1 July 2001 will continue to be amortised until the adoption of SFAS No. 142.

As at the date of adoption, HSBC expects to have unamortised goodwill of some US$16 billion, which will be subject to the transition provisions of SFAS No. 141 and No. 142. Amortisation expense related to goodwill on a US GAAP basis was US$888 million for the year ended 31 December 2000 and US$561 million for the six months ended 30 June 2001. Due to the extensive effort needed to comply with adopting SFAS No. 141 and No. 142, it is not practicable to estimate reasonably the impact of adopting these Statements on HSBC's financial statements at the date of this report.

Risk management

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

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

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

Credit risk management

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

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

- Formulation of high level credit policies. These are embodied in HSBC standards with which all HSBC subsidiaries are required to comply in formulating their own more detailed credit policies and procedures, which are written in each HSBC subsidiary's dedicated credit policy manuals. The credit policies and procedures are monitored by Group Credit and Risk.
- Establishment and maintenance of HSBC's large credit exposure policy which sets controls at the HSBC level on exposures to customers and customer groups and on other risk concentrations. HSBC's policy, which is designed to be more conservative than the internationally accepted regulatory standards, is required to be adopted by all the banking subsidiaries within HSBC.
- Issue of lending guidelines which provide HSBC subsidiaries with clear guidance on HSBC's attitude towards and appetite for lending to different market sectors, industries, products, etc. Each HSBC subsidiary and major business unit is required to produce its own lending guidelines which conform with the HSBC guidelines and which are regularly updated and provided to all credit and marketing executives.
- An independent review and objective assessment of risk. Group Credit and Risk undertakes an independent assessment of all commercial non-bank credit facilities over designated limits originated by all HSBC's subsidiaries, prior to the facilities being offered to the customer. The business may not proceed without the concurrence of Group Credit and Risk. Similarly, renewals and reviews of commercial non-bank facilities over designated levels are subject to review by and concurrence of Group Credit and Risk.
- Control of exposures to banks and financial institutions. HSBC's credit and settlement risk limits to counterparties in the financial and government sectors are approved centrally to optimise the use of credit availability and to avoid excessive risk concentration. A dedicated unit within Group Credit and Risk controls and manages these exposures on a global basis using centralised systems and automated processes. Full authority is devolved to this unit by the respective HSBC subsidiaries.
- Control of cross-border exposures. Control of country and cross-border risk is also managed by a dedicated unit within Group Credit and Risk using centralised systems, through the imposition of

country limits with sub-limits by maturity and type of business. Country limits are determined by taking into account economic and political factors, together with local business knowledge. Transactions with countries deemed to be higher risk are considered on a case-by-case basis.

- Control of exposure to certain industries. Group Credit and Risk controls HSBC's exposure to the shipping and aviation industries, and closely monitors exposures to other industries or products such as telecoms and commercial real estate. Controls, such as restrictions on new business or the capping of exposure within HSBC subsidiaries, may be introduced where necessary.

- Maintenance of HSBC's universal facility grading process. HSBC's grading structure contains seven grades, the first three of which are applied to differing levels of satisfactory risk. Of the four unsatisfactory grades, grades 6 and 7 are non-performing loans. In the case of banks, the grading structure involves 9 tiers, five of which cover satisfactory risk. It is the responsibility of the final approving executive to approve the facility grade. Facility grades are subject to frequent review and amendments, where necessary, are required to be undertaken promptly.

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

- Reporting to senior executives on aspects of the HSBC loan portfolio. Reports are produced for senior management, including the Group Executive Committee, Group Audit Committee and the Board, covering:
  - risk concentrations and exposures to industry sectors
  - large customer group exposures
  - emerging market debt and provisioning
  - large non-performing accounts and provisions
  - specific segments of the portfolio: commercial real estate, telecoms, aviation, shipping, credit cards, as well as ad hoc reviews as necessary
  - country limits and cross-border exposures.

- Management and direction of credit-related systems initiatives. HSBC has a centralised database of large corporate, sovereign and bank facilities and is currently rolling out a new standard corporate credit application system.

- Provision of advice and guidance to HSBC's subsidiaries. In order to promote best practice throughout HSBC, advice is given and procedures approved where necessary on numerous credit-related issues such as:
  - regulatory issues
  - environmental policy
  - credit scoring
  - new products
  - training courses
  - credit-related reporting.

- Primary interface for credit-related issues on behalf of HSBC Holdings with external parties including the Bank of England and the UK Financial Services Authority ('FSA'), the rating agencies and corporate analysts and counterparts in the world's major banks.

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

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

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

Regular audits of subsidiaries' credit processes are undertaken by HSBC's Internal Audit function.

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

Loan portfolio

Loans and advances to customers are spread across various industrial sectors, as well as geographically. Approximately 38 per cent of loans and advances to customers are to the personal banking sector, which consists predominantly of residential mortgages.

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

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans
	US$m	US$m	US$m	US$m	US$m	US$m	%
30 June 2001							
Personal:							
Residential mortgages	**23,952**	**22,970**	**4,105**	**20,992**	**1,078**	**73,097**	**23.6**
Hong Kong SAR Government Home Ownership Scheme	**—**	**8,063**	**—**	**—**	**—**	**8,063**	**2.6**
Other personal	**19,779**	**5,621**	**3,882**	**6,068**	**1,464**	**36,814**	**12.0**
Total personal	**43,731**	**36,654**	**7,987**	**27,060**	**2,542**	**117,974**	**38.2**
Corporate and commerical:							
Commercial, industrial and international trade	**37,312**	**10,567**	**11,188**	**9,046**	**3,024**	**71,137**	**23.1**
Commercial real estate	**8,895**	**8,259**	**2,362**	**7,091**	**117**	**26,724**	**8.7**
Other property-related	**3,264**	**3,988**	**2,007**	**4,138**	**150**	**13,547**	**4.4**
Government	**2,195**	**87**	**617**	**658**	**9**	**3,566**	**1.2**
Other commercial*	**21,764**	**6,950**	**5,083**	**4,741**	**889**	**39,427**	**12.8**
Total corporate and commercial	**73,430**	**29,851**	**21,257**	**25,674**	**4,189**	**154,401**	**50.2**
Financial:							
Non-bank financial institutions	**7,669**	**1,569**	**732**	**9,040**	**350**	**19,360**	**6.3**
Settlement accounts	**6,532**	**474**	**442**	**8,690**	**97**	**16,235**	**5.3**
Total financial	**14,201**	**2,043**	**1,174**	**17,730**	**447**	**35,595**	**11.6**
Total gross loans and advances to customers	**131,362**	**68,548**	**30,418**	**70,464**	**7,178**	**307,970**	**100.0**
Non-performing loans†	**3,346**	**2,337**	**2,859**	**634**	**749**	**9,925**	
Non-performing loans as a percentage of gross loans and advances to customers†	**2.5%**	**3.4%**	**9.4%**	**0.9%**	**10.4%**	**3.2%**	
Specific provisions outstanding against loans and advances	**2,047**	**1,143**	**1,822**	**263**	**500**	**5,775**	
Specific provisions outstanding as a percentage of non-performing loans†	**61.2%**	**48.9%**	**63.7%**	**41.5%**	**66.8%**	**58.2%**	

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

† *Net of suspended interest.*

Financial Review (continued)

30 June 2000	Europe US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	North America US$m	Latin America US$m	Gross loans and advances to customers US$m	Gross loans by customer type as a % of total gross loans %
Personal:							
Residential mortgages	21,505	23,360	3,360	18,049	847	67,121	24.9
Hong Kong SAR Government Home Ownership Scheme	—	7,254	—	—	—	7,254	2.7
Other personal	15,880	4,735	3,708	6,350	1,154	31,827	11.8
Total personal	37,385	35,349	7,068	24,399	2,001	106,202	39.4
Corporate and commercial:							
Commercial, industrial and international trade	27,312	10,052	11,812	9,375	2,769	61,320	22.7
Commercial real estate	6,549	9,499	2,997	5,797	130	24,972	9.2
Other property-related	2,292	2,392	1,913	4,099	195	10,891	4.0
Government	2,634	154	664	673	95	4,220	1.6
Other commercial*	16,282	6,566	5,423	4,125	833	33,229	12.3
Total corporate and commercial	55,069	28,663	22,809	24,069	4,022	134,632	49.8
Financial:							
Non-bank financial institutions	7,575	2,068	943	9,369	236	20,191	7.5
Settlement accounts	4,679	468	644	2,925	150	8,866	3.3
Total financial	12,254	2,536	1,587	12,294	386	29,057	10.8
Total gross loans and advances to customers	104,708	66,548	31,464	60,762	6,409	269,891	100.0
Non-performing loans†	2,474	2,784	3,362	589	645	9,854	
Non-performing loans as a percentage of gross loans and advances to customers†	2.4%	4.2%	10.7%	1.0%	10.1%	3.7%	
Specific provisions outstanding against loans and advances	1,312	1,351	2,096	264	419	5,442	
Specific provisions outstanding as a percentage of non-performing loans†	53.0%	48.5%	62.3%	44.8%	65.0%	55.2%	

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

† *Net of suspended interest.*

31 December 2000	Europe** US$m	Hong Kong US$m	Rest of Asia-Pacific US$m	North America US$m	Latin America US$m	Gross** loans and advances to customers US$m	Gross loans by customer type as a % of total gross loans %
Personal:							
Residential mortgages....................	24,048	23,121	3,723	19,641	1,099	71,632	24.0
Hong Kong SAR Government Home Ownership Scheme	—	7,353	—	—	—	7,353	2.5
Other personal................................	20,537	4,923	3,860	6,694	1,517	37,531	12.5
Total personal................................	44,585	35,397	7,583	26,335	2,616	116,516	39.0
Corporate and commerical:							
Commercial, industrial and international trade........................	38,012	9,584	11,644	8,831	3,246	71,317	23.9
Commercial real estate	10,053	8,293	2,773	6,865	127	28,111	9.4
Other property-related....................	3,121	3,850	1,816	4,053	175	13,015	4.4
Government...................................	2,572	130	574	710	55	4,041	1.4
Other commercial*..........................	19,570	7,459	5,516	3,710	980	37,235	12.4
Total corporate and commercial.....	73,328	29,316	22,323	24,169	4,583	153,719	51.5
Financial:							
Non-bank financial institutions	10,374	1,664	683	8,593	188	21,502	7.2
Settlement accounts.......................	3,946	142	361	2,464	41	6,954	2.3
Total financial	14,320	1,806	1,044	11,057	229	28,456	9.5
Total gross loans and advances to customers	132,233	66,519	30,950	61,561	7,428	298,691	100.0
Non-performing loans†..................	3,376	2,521	3,081	642	752	10,372	
Non-performing loans as a percentage of gross loans and advances to customers†	2.6%	3.8%	10.0%	1.0%	10.1%	3.5%	
Specific provisions outstanding against loans and advances........	2,135	1,241	1,929	262	498	6,065	
Specific provisions outstanding as a percentage of non-performing loans†	63.2%	49.2%	62.6%	40.8%	66.2%	58.5%	

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

† *Net of suspended interest.*

** *The figures for 31 December 2000 have been presented on a consistent basis with 30 June 2001 for residential mortgages and other personal lending.*

Customer loans and advances by principal area within rest of Asia-Pacific and Latin America

30 June 2001	Residential mortgages US$m	Other personal US$m	Property-related US$m	Commercial international trade and other US$m	Total US$m
Loans and advances to customers (gross)					
Singapore	**529**	**726**	**910**	**2,693**	**4,858**
Australia and New Zealand	**1,037**	**111**	**1,125**	**2,041**	**4,314**
Malaysia...	**799**	**393**	**524**	**2,441**	**4,157**
Middle East..	**30**	**1,444**	**775**	**2,715**	**4,964**
Indonesia	**4**	**26**	**33**	**776**	**839**
South Korea...	**574**	**37**	**37**	**686**	**1,334**
Thailand...	**30**	**45**	**39**	**757**	**871**
Japan...	**1**	**116**	**262**	**1,091**	**1,470**
Mainland China..	**26**	**-**	**296**	**1,351**	**1,673**
India	**113**	**230**	**11**	**1,038**	**1,392**
Taiwan	**770**	**332**	**5**	**744**	**1,851**
Other..	**192**	**422**	**352**	**1,729**	**2,695**
Total of rest of Asia-Pacific............................	**4,105**	**3,882**	**4,369**	**18,062**	**30,418**

Financial Review (continued)

	Residential mortgages	Other personal	Property-related	Commercial international trade and other	Total
	US$m	US$m	US$m	US$m	US$m
30 June 2001					
Loans and advances to customers (gross)					
Brazil	**285**	**1,058**	**53**	**1,983**	**3,379**
Argentina	**487**	**240**	**120**	**1,688**	**2,535**
Panama	**296**	**165**	**57**	**423**	**941**
Other	**10**	**1**	**37**	**275**	**323**
Total of Latin America	**1,078**	**1,464**	**267**	**4,369**	**7,178**

	Residential mortgages	Other personal	Property-related	Commercial international trade and other	Total
	US$m	US$m	US$m	US$m	US$m
30 June 2000					
Loans and advances to customers (gross)					
Singapore	463	828	1,206	3,234	5,731
Australia and New Zealand	1,091	97	1,294	2,250	4,732
Malaysia	567	332	593	2,666	4,158
Middle East	28	1,565	682	2,467	4,742
Indonesia	3	14	29	878	924
South Korea	262	41	27	992	1,322
Thailand	41	57	55	744	897
Japan	34	68	285	1,786	2,173
Mainland China	33	-	417	1,178	1,628
India	61	160	14	973	1,208
Taiwan	612	290	7	900	1,809
Other	165	256	301	1,418	2,140
Total of rest of Asia-Pacific	3,360	3,708	4,910	19,486	31,464
Brazil	370	862	111	1,706	3,049
Argentina	451	275	133	1,859	2,718
Panama	25	7	17	299	348
Other	1	10	64	219	294
Total of Latin America	847	1,154	325	4,083	6,409

	Residential mortgages	Other personal	Property-related	Commercial international trade and other	Total
	US$m	US$m	US$m	US$m	US$m
31 December 2000					
Loans and advances to customers (gross)					
Singapore	497	770	1,069	3,077	5,413
Australia and New Zealand	1,064	101	1,243	2,157	4,565
Malaysia	627	368	540	2,455	3,990
Middle East	29	1,602	666	2,750	5,047
Indonesia	3	17	34	821	875
South Korea	485	47	28	698	1,258
Thailand	34	49	48	753	884
Japan	4	92	265	1,332	1,693
Mainland China	29	-	332	1,226	1,587
India	85	214	15	1,119	1,433
Taiwan	696	298	7	790	1,791
Other	170	302	342	1,600	2,414
Total of rest of Asia-Pacific	3,723	3,860	4,589	18,778	30,950
Brazil	344	1,076	63	2,008	3,491
Argentina	459	285	145	1,808	2,697
Panama	290	153	48	444	935
Other	6	3	46	250	305
Total of Latin America	1,099	1,517	302	4,510	7,428

Areas of special interest

Telecoms industry exposure

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

Telecoms exposures as a percentage of total loans and advances were 2.1 per cent as at 30 June 2001 as compared to 2.2 per cent as at 31 December 2000. This exposure had the following characteristics:

	Percentage of telecoms industry exposure	
	At 30 June 2001	At 31 December 2000
Investment grade under HSBC gradings	**88**	95
Under one year remaining maturity	**58**	73
Telecom operators	**81**	81
Telecom manufacturers	**19**	19
Non-performing accounts	**2**	1
of which provided	**51**	66

Argentina

HSBC's exposure to Argentina as at 30 June 2001 amounted to US$4.9 billion. Of this amount, US$4.4 billion was in-country exposure. These figures are prepared in accordance with the Bank of England Country Exposure Report (Form C1) guidelines. Non-performing loans net of suspended interest were US$590 million and specific provisions outstanding were US$338 million.

Provisions for bad and doubtful debts

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

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

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

- where cash collateral is held covering the total of principal and interest due and the right to set-off is legally sound; or
- where the value of net realisable tangible security is considered more than sufficient to cover the full repayment of all principal and interest due and credit approval has been given to the rolling-up or capitalisation of interest payments. This exception is used infrequently.

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

Specific provisions

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

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

- the financial standing of the customer, including a realistic assessment of the likelihood of repayment of the loan within an acceptable period and the extent of HSBC's other commitments to the same customer;
- the realisable value of any security for the loan;
- the costs associated with obtaining repayment and realisation of the security; and
- if loans are not in local currency, the ability of the borrower to obtain the relevant foreign currency.

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

Financial Review (continued)

portfolio basis are credit cards and other unsecured consumer lending products. HSBC has in place a minimum provisioning standard for all consumer lending products based on time of delinquency. For portfolios of non-mortgage personal lending, the policy is to have provided 100 per cent after 180 days delinquency.

General provisions

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

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

Loans on which interest is suspended

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

Non-accrual loans

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

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

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange and provisions are based on any subsequent deterioration in its value.

Provisions against loans and advances

Half-year to 30 June 2001

	Specific US$m	General US$m	Total US$m	Suspended Interest US$m
At 1 January 2001	**6,095**	**2,102**	**8,197**	**1,016**
Amounts written off	**(816)**	**-**	**(816)**	**(162)**
Recoveries of advances written off in previous years	**198**	**-**	**198**	**-**
Charge/(credit) to profit and loss account	**450**	**(9)**	**441**	**-**
Interest suspended during the period	**-**	**-**	**-**	**304**
Suspended interest recovered	**-**	**-**	**-**	**(114)**
Exchange and other movements	**(130)**	**(45)**	**(175)**	**(32)**
At 30 June 2001	**5,797**	**2,048**	**7,845**	**1,012**

Provisions against loans and advances to customers

	30 June 2001 %	30 June 2000 %	31 December 2000 %
Total provisions to gross lending*			
Specific provisions	**2.06**	2.19	2.17
General provisions			
- held against Asian risk	**-**	0.07	—
- other	**0.73**	0.79	0.75
Total provisions	**2.79**	3.05	2.92

* *Net of suspended interest, reverse repo transactions and settlement accounts.*

Risk elements in the loan portfolio

The SEC requires disclosure of credit risk elements under the following headings that reflect US accounting practice and classifications:

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

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

Suspended interest

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

Assets acquired in exchange for advances

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

Troubled debt restructurings

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

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

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Potential problem loans

Credit risk elements also cover potential problem loans. These are loans where known information about possible credit problems of borrowers causes management serious doubts as to the borrowers' ability to comply with the loan repayment terms. At 30 June 2001, there were no significant potential problem loans, other than the amounts shown in the table opposite.

	30 June 2001 US$m	30 June 2000 US$m	31 December 2000 US$m
Non-performing loans and advances†			
Banks	**12**	37	23
Customers	**9,925**	9,854	10,372
Total non-performing loans and advances	**9,937**	9,891	10,395
Total provisions cover as a percentage of non-performing loans and advances	**78.9%**	76.7%	78.9%

† *Net of suspended interest.*

Total non-performing loans to customers decreased by US$447 million during the first half of 2001. At 30 June 2001, non-performing loans represented 3.2 per cent of total lending compared with 3.5 per cent at 31 December 2000.

Underlying credit quality remained stable both in the UK and in France although there was some weakening of business confidence.

In Hong Kong, non-performing loans decreased by US$184 million during the first half of 2001. This reflected some improvement in the corporate loan book offset partially by an increase in delinquency in credit card advances and residential mortgages in Hang Seng Bank.

In the Rest of Asia-Pacific, non-performing loans decreased by US$222 million during the first half of 2001, mainly due to the recovery achieved on the historical Olympia & York loans.

The level of non-performing loans in North America remained largely unchanged notwithstanding a weaker economic environment.

In Latin America, there was an increase in non-performing loans in the first half of 2001 in local currency terms in both Brazil and Argentina reflecting both targeted growth in consumer lending in Brazil and generally weaker economic conditions.

	30 June 2001 US$m	30 June 2000 US$m	31 December 2000 US$m
Loans accounted for on a non-accrual basis:			
Europe	**1,890**	1,139	1,985
Hong Kong	**142**	157	236
Rest of Asia-Pacific	**233**	343	429
North America	**603**	569	606
Latin America	**557**	507	571
Total non-accrual loans	**3,425**	2,715	3,827
Loans on which interest has been accrued but suspended:			
Europe	**1,442**	1,328	1,389
Hong Kong	**2,167**	2,611	2,259
Rest of Asia-Pacific	**2,595**	2,997	2,627
North America	**17**	10	18
Latin America	**191**	138	181
Total suspended interest loans	**6,412**	7,084	6,474
Assets acquired in exchange for advances:			
Europe	**26**	42	25
Hong Kong	**27**	16	26
Rest of Asia-Pacific	**31**	22	24
North America	**16**	12	19
Total assets acquired in exchange for advances	**100**	92	94
Total non-performing loans	**9,937**	9,891	10,395
Troubled debt restructurings:			
Hong Kong	**465**	186	395
Rest of Asia-Pacific	**165**	126	231
North America	**-**	4	5
Latin America	**179**	143	144
Total troubled debt restructurings	**809**	459	775
Accruing loans contractually past due 90 days or more as to principal or interest:			
Europe	**2**	38	11
Hong Kong	**110**	78	76
Rest of Asia-Pacific	**28**	92	66
North America	**56**	73	64
Latin America	**80**	163	82
Total accruing loans contractually past due 90 days or more	**276**	444	299
Total risk elements:			
Europe	**3,360**	2,547	3,410
Hong Kong	**2,911**	3,048	2,992
Rest of Asia-Pacific	**3,052**	3,580	3,377
North America	**692**	668	712
Latin America	**1,007**	951	978
Total risk elements	**11,022**	10,794	11,469
Provisions for bad and doubtful debts as a % of total risk elements	**71.2**	70.3	71.5

Liquidity management

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

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

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

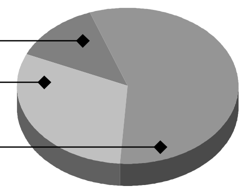
- projecting cash flows by major currency and a consideration of the level of liquid assets in relation thereto;
- maintenance of balance sheet liquidity ratios;
- monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors; and
- maintenance of liquidity contingency plans.

Current accounts and savings deposits payable on demand or at short notice form a significant part of HSBC's overall funding. HSBC places considerable importance on the stability of these deposits, which is achieved through HSBC's diverse geographical retail banking activities. Professional markets are accessed for the purposes of providing additional funding, maintaining a presence in local money markets and optimising asset and liability maturities.

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

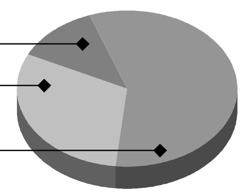
Customer accounts and deposits by banks at 30 June 2001

	%	*US$bn*
Deposits by banks	**12.7**	**64.3**
Current	**30.5**	**154.2**
Savings and other deposits	**56.8**	**287.6**
Total	**100.0**	**506.1**



Customer accounts and deposits by banks at 31 December 2000

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



Market risk management

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

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

HSBC manages market risk through risk limits approved by the Group Executive Committee. Traded Markets Development and Risk, an independent unit within the Investment Banking and Markets operation, develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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

Trading VAR

VAR is a technique that estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence.

HSBC’s VAR, predominantly calculated on a variance/covariance basis, uses historical movements in market rates and prices, a 99 per cent confidence level, a 10-day holding period and takes account of correlations between different markets and rates within the same risk type and is calculated daily. The movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

HSBC’s VAR should be viewed in the context of the limitations of the methodology used. These include:

- the model assumes that changes in risk factors follow a normal distribution. This may not be the case in reality and may lead to an underestimation of the probability of extreme market movements;
- the use of a 10-day holding period assumes that all positions can be liquidated or hedged in 10 days. This may not fully reflect the market risk arising from times of severe illiquidity, when a 10-day holding period may be insufficient to fully liquidate or hedge all positions;
- the use of a 99 per cent confidence level does not take account of any losses that might occur beyond this level of confidence;
- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the assumption of independence between risk types may not always hold and therefore result in VAR not fully capturing market risk where correlation between variables is exhibited;
- VAR is calculated at the close of business, with intra-day exposures not being subject to intra-day VAR calculations on an HSBC basis; and
- VAR does not necessarily capture all of the higher order market risks and may underestimate real market risk exposure.

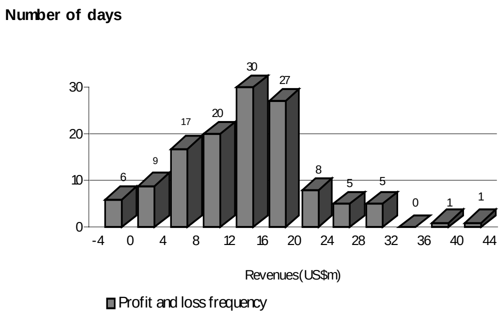
HSBC recognises these limitations by augmenting the VAR limits with other position and sensitivity limit structures, as well as with stress testing, both on individual portfolios and on a consolidated basis. HSBC’s stress testing regime provides senior management with an assessment of the impact of extreme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

Trading VAR for HSBC was:

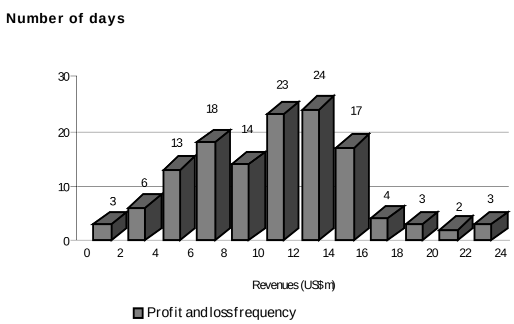
	At 30 June 2001	Minimum during the first half 2001	Maximum during the first half 2001	Average for the first half 2001	At 31 December 2000
	US$m	US$m	US$m	US$m	US$m
Total trading activities	**89.5**	**60.8**	**127.8**	**92.0**	75.0
Foreign exchange trading positions	**21.6**	**9.4**	**27.1**	**17.5**	19.1
Interest rate trading positions	**74.6**	**48.1**	**116.4**	**79.4**	58.9
Equities trading positions	**39.0**	**29.1**	**50.4**	**39.1**	39.9

The average daily revenue earned from market risk-related treasury activities in the first half of 2001, including accrual book net interest income and funding related to dealing positions, was US$13.6 million, compared with US$10.7 million for the first half of 2000 and US$9.2 million for the second half of 2000. The standard deviation of these daily revenues was US$8.3 million. An analysis of the frequency distribution of daily revenues shows that there were six days with negative revenues during the first half of 2001. The most frequent result was a daily revenue of between US$12 million and US$16 million with 30 occurrences. The highest daily revenue was US$41 million.

Daily distribution of market revenues
Half-year to 30 June 2001



Daily distribution of market revenues
Half-year to 30 June 2000



Foreign exchange exposure

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

Trading exposure

Foreign exchange trading exposures comprise those which arise from foreign exchange dealing within Treasury, and currency exposures originated by commercial banking businesses in HSBC. The latter are transferred to local treasury units where they are managed, together with exposures which result from dealing activities, within limits approved by the Group Executive Committee. VAR on foreign exchange trading positions is shown in the table on page 48.

Structural currency exposure

HSBC's main operations are in the United Kingdom, Hong Kong, France, the United States and Brazil, although it also has operations elsewhere in Europe, the rest of Asia-Pacific, North America and Latin America. The main operating (or functional) currencies in which HSBC's business is transacted are, therefore, sterling, Hong Kong dollars, euros, US dollars and Brazilian reais.

Since the currency in which HSBC Holdings prepares its consolidated financial statements is US dollars, HSBC Holdings' consolidated balance sheet is affected by movements in the exchange rates between these functional currencies and the US dollar. These currency exposures are referred to as structural currency exposures. Translation gains and losses arising from these exposures are recognised in the statement of total consolidated recognised gains and losses. These exposures are represented by the net asset value of the foreign currency equity and subordinated debt investments in subsidiaries, branches and associated undertakings.

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

As subsidiaries are generally able to balance adequately foreign currency tier 1 capital with foreign currency risk-weighted assets, HSBC's foreign currency structural exposures are usually unhedged, including exposures due to foreign-currency-denominated profits arising during the year. Selective hedges were, however, transacted during 2001. There was no material effect from foreign currency exchange rate movements on HSBC or subsidiary tier 1 capital ratios during the year.

Financial Review (continued)

Interest rate exposure

HSBC's interest rate exposures comprise those originating in its treasury trading activities and structural interest rate exposures; both are managed under limits described on pages 47 and 48. Interest rate risk arises on both trading positions and accrual books.

Trading exposure

The interest rate risk on interest rate trading positions is set out in the trading VAR table on page 48.

Structural interest rate risk

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

Assuming no management action in response to interest rate movements, an immediate hypothetical 100 basis points parallel fall in all yield curves worldwide on 1 July 2001 would increase planned net interest income for the 12 months to 30 June 2002 by US$149 million while a hypothetical 100 basis points parallel rise in all yield curves would decrease planned income by US$210 million.

Rather than assuming that all interest rates move together, HSBC's interest rate exposures can be grouped into currency blocs whose interest rates are considered more likely to move together. The sensitivity of net interest income for July 2001 to June 2002 can then be described as follows:

Figures in US$ m	US dollar bloc	Sterling bloc	Asian bloc	Latin American bloc	Euro bloc	Total 2001/2	Total 2001*
Change in July 2001/June 2002 projected net interest income							
+100 basis points shift in yield curves.......	**(1)**	**(57)**	**(129)**	**(1)**	**(22)**	**(210)**	(139)
-100 basis points shift in yield curves........	**(42)**	**28**	**140**	**1**	**22**	**149**	92

* *2001 data is for the sensitivity of net interest income for the twelve months to 31 December 2001 to changes in interest rates at 1 January 2001.*

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

Equities exposure

HSBC's equities exposure comprises trading equities, forming the basis of VAR, and long-term equity investments. The latter are reviewed annually by the Group Executive Committee and regularly monitored by the subsidiaries' ALCOs. VAR on equities trading positions is set out in the trading VAR table on page 48.

Operational risk management

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

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

Capital management

Capital measurement and allocation

The FSA is the supervisor of HSBC on a consolidated basis and, in this capacity, receives information on the capital adequacy of, and sets capital requirements for, HSBC as a whole. Individual banking subsidiaries are directly regulated by the appropriate local banking supervisors, which set and monitor capital adequacy requirements for them. Similarly, non-banking subsidiaries may be subject to supervision and capital requirements of relevant local regulatory authorities. Since 1988, when the governors of the Group of Ten central banks agreed to guidelines for the international convergence of capital measurement and standards, the banking supervisors of HSBC's major banking subsidiaries have exercised capital adequacy supervision in a broadly similar framework.

Under the European Union's Banking Consolidation Directive, the FSA requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets. The method the FSA uses to assess the capital adequacy of banks and banking groups has been modified as a result of its implementation of the European Union's Amending Directive (Directive 98/31/EC) to the Capital Adequacy Directive ('CAD2'). This modification allows banks to calculate capital requirements for market risk in the trading book using VAR techniques.

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

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

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

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

Financial Review (continued)

Capital structure

The table below sets out the analysis of regulatory capital.

	30 June 2001 US$m	30 June 2000 US$m	31 December 2000 US$m
Composition of capital			
Tier 1:			
Shareholders' funds	**46,035**	35,319	45,570
Minority interests	**4,436**	4,363	4,419
Innovative tier 1 securities	**3,421**	3,540	3,512
less : Property revaluation reserves	**(2,561)**	(2,290)	(2,611)
Goodwill capitalised and intangible assets	**(14,330)**	(8,283)	(15,597)
Own shares held*	**(640)**	-	(673)
Total qualifying tier 1 capital	**36,361**	32,649	34,620
Tier 2:			
Property revaluation reserves	**2,561**	2,290	2,611
General provisions	**2,077**	2,039	2,132
Perpetual subordinated debt	**3,330**	3,366	3,531
Term subordinated debt	**10,176**	10,209	10,224
Minority interest in tier 2 capital	**691**	698	697
Total qualifying tier 2 capital	**18,835**	18,602	19,195
Unconsolidated investments	**(1,560)**	(2,359)	(1,463)
Investments in other banks	**(740)**	(818)	(1,241)
Other deductions	**(164)**	(139)	(147)
Total capital	**52,732**	47,935	50,964
Total risk-weighted assets	**386,054**	339,444	383,687
Capital ratios (per cent):			
Total capital	**13.7**	14.1	13.3
Tier 1 capital	**9.4**	9.6	9.0

* *This principally reflects shares held in trust available to fulfil HSBC's obligations under employee share option plans.*

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

Tier 1 capital increased by US$1.7 billion during the first half of 2001. Retained profits contributed US$1.9 billion with scrip dividends contributing a further US$0.7 billion. The deduction for goodwill and intangible assets reduced US$1.3 billion, mainly reflecting currency translation differences of US$0.9 billion and amortisation of US$0.4 billion. These increases were partly offset by a reduction in tier 1 shareholders' funds of US$2.1 billion resulting from currency translation differences.

Risk-weighted assets were broadly unchanged at HSBC level with underlying increases offset by reductions resulting from currency translation differences.

Risk-weighted assets by principal subsidiary

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

	30 June 2001 US$m	30 June 2000 US$m	31 December 2000 US$m
Hang Seng Bank Limited	**31,954**	29,998	31,775
The Hongkong and Shanghai Banking Corporation Limited and other subsidiaries	**78,346**	75,093	77,107
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries	**110,300**	105,091	108,882
HSBC Bank plc (excluding CCF and HSBC Private Banking Holdings (Suisse) S.A.)	**110,110**	107,667	113,778
HSBC Private Banking Holdings (Suisse) S.A.*	**11,569**	9,280	10,433
CCF	**36,320**	-	35,460
HSBC Bank plc	**157,999**	116,947	159,671
HSBC USA Inc	**55,078**	54,404	54,220
HSBC Bank Middle East	**5,274**	6,244	5,243
HSBC Bank Malaysia Berhad	**4,075**	3,845	4,041
HSBC Bank Canada	**14,648**	13,881	14,241
HSBC Latin American operations	**10,150**	8,581	9,470
HSBC Holdings sub-group	**437**	1,181	420
Other	**28,093**	29,270	27,499
HSBC risk-weighted assets	**386,054**	339,444	383,687

* *The comparative figures for 30 June 2000 and 31 December 2000 relate to HSBC Republic. The private banking businesses of the Group were restructured during the period and the risk-weighted assets reported for HSBC Private Banking Holdings (Suisse) S.A. are not directly comparable to figures previously reported under HSBC Republic.*

Financial Statements

Consolidated profit and loss account for the half-year to 30 June 2001

	Notes	**Half-year to 30 June 2001 US$m**	Half-year to 30 June 2000 US$m	Half-year to 31 December 2000 US$m
Interest receivable		**19,219**	17,431	20,315
Interest payable		**(12,027)**	(10,747)	(13,276)
Net interest income		**7,192**	6,684	7,039
Other operating income		**5,609**	5,334	5,516
Total operating income		**12,801**	12,018	12,555
Operating expenses excluding goodwill		**(7,149)**	(6,404)	(7,173)
Goodwill amortisation		**(401)**	(172)	(338)
Operating profit before provisions		**5,251**	5,442	5,044
Provisions for bad and doubtful debts	*4*	**(441)**	(368)	(564)
Provisions for contingent liabilities and commitments		**(42)**	(40)	(31)
Amounts written off fixed asset investments		**(53)**	(14)	(22)
Operating profit		**4,715**	5,020	4,427
Share of operating loss in joint ventures		**(48)**	(2)	(49)
Share of operating profit in associates		**92**	27	48
Gains/(losses) on disposal of				
- investments		**667**	162	140
- tangible fixed assets		**9**	(1)	3
Profit on ordinary activities before tax		**5,435**	5,206	4,569
Tax on profit on ordinary activities	*5*	**(1,229)**	(1,263)	(975)
Profit on ordinary activities after tax		**4,206**	3,943	3,594
Minority interests:				
- equity		**(314)**	(290)	(268)
- non-equity		**(222)**	(128)	(223)
Profit attributable to shareholders		**3,670**	3,525	3,103
Dividends	*2*	**(1,764)**	(1,280)	(2,730)
Retained profit for the period		**1,906**	2,245	373
		US$	US$	US$
Basic earnings per ordinary share	*3*	**0.40**	0.42	0.34
Diluted earnings per ordinary share	*3*	**0.39**	0.41	0.34

Financial Statements (continued)

Consolidated balance sheet at 30 June 2001

	Notes	At 30 June 2001 US$m	At 30 June 2000 US$m	At 31 December 2000 US$m
ASSETS				
Cash and balances at central banks		**4,464**	3,494	5,006
Items in the course of collection from other banks		**7,519**	8,126	6,668
Treasury bills and other eligible bills		**20,896**	21,380	23,131
Hong Kong SAR Government certificates of indebtedness		**8,274**	7,910	8,193
Loans and advances to banks		**121,791**	112,667	126,032
Loans and advances to customers	*8*	**299,471**	261,593	289,837
Debt securities	*6*	**149,046**	104,143	132,818
Equity shares	*7*	**7,656**	5,503	8,104
Interests in joint ventures : gross assets		**2,054**	5	2,242
: gross liabilities		**(1,796)**	(1)	(1,959)
		258	4	283
Interests in associates		**1,072**	3,538	1,085
Other participating interests		**135**	128	126
Intangible fixed assets		**13,926**	6,372	15,089
Tangible fixed assets		**13,600**	12,505	14,021
Other assets		**36,404**	26,967	35,562
Prepayments and accrued income		**7,328**	5,950	7,859
Total assets		**691,840**	580,280	673,814
LIABILITIES				
Hong Kong SAR currency notes in circulation		**8,274**	7,910	8,193
Deposits by banks	*9,12*	**64,313**	37,026	60,053
Customer accounts	*10,12*	**441,828**	389,096	427,069
Items in the course of transmission to other banks		**5,903**	5,922	4,475
Debt securities in issue	*11*	**25,962**	20,680	27,956
Other liabilities		**65,284**	51,237	63,114
Accruals and deferred income		**7,036**	5,959	9,270
Provisions for liabilities and charges				
- deferred taxation		**1,161**	1,362	1,251
- other provisions		**3,225**	2,991	3,332
Subordinated liabilities				
- undated loan capital		**3,475**	3,337	3,546
- dated loan capital	*13*	**11,993**	12,091	12,676
Minority interests				
- equity		**2,281**	2,148	2,138
- non-equity		**5,070**	5,202	5,171
Called up share capital	*15*	**4,667**	4,266	4,634
Reserves	*16*	**41,368**	31,053	40,936
Shareholders' funds		**46,035**	35,319	45,570
Total liabilities		**691,840**	580,280	673,814

Statement of total consolidated recognised gains and losses for the half-year to 30 June 2001

	Half-year to 30 June 2001 US$m	Half-year to 30 June 2000 US$m	Half-year to 31 December 2000 US$m
Profit for the period attributable to shareholders	**3,670**	3,525	3,103
Unrealised surplus on revaluation of investment properties:			
- subsidiaries	**-**	-	6
- associates	**-**	-	8
Unrealised surplus on revaluation of land and buildings (excluding investment properties):			
- subsidiaries	**-**	-	357
- associates	**-**	-	4
Exchange and other movements	**(2,190)**	(819)	(245)
Total recognised gains and losses for the period	**1,480**	2,706	3,233

Reconciliation of movements in consolidated shareholders' funds for the half-year to 30 June 2001

	Half-year to 30 June 2001 US$m	Half-year to 30 June 2000 US$m	Half-year to 31 December 2000 US$m
Profit for the period attributable to shareholders	**3,670**	3,525	3,103
Dividends	**(1,764)**	(1,280)	(2,730)
	1,906	2,245	373
Other recognised gains and losses relating to the period	**(2,190)**	(819)	130
New share capital subscribed, net of costs	**19**	340	148
New share capital issued in connection with the acquisition of CCF	**-**	-	8,629
Reserve in respect of obligations under CCF share options	**(7)**	-	496
Amounts arising on shares issued in lieu of dividends	**737**	468	476
Capitalised reserves arising on issue of shares to a qualifying employee share ownership trust (QUEST)	**-**	(323)	(1)
Net addition to shareholders' funds	**465**	1,911	10,251
Shareholders' funds at beginning of period	**45,570**	33,408	35,319
Shareholders' funds at end of period	**46,035**	35,319	45,570

Financial Statements (continued)

Consolidated cash flow statement for the half-year to 30 June 2001

	Note	**Half-year to 30 June 2001 US$m**	Half-year to 30 June 2000 US$m	Half-year to 31 December 2000 US$m
Net cash inflow/(outflow) from operating activities	*17*	**5,261**	17,896	(2,673)
Dividends received from associated undertakings		**76**	67	21
Returns on investments and servicing of finance:				
Interest paid on finance leases and similar hire purchase contracts		**(12)**	(13)	(13)
Interest paid on subordinated loan capital		**(525)**	(533)	(684)
Dividends paid to minority interests:				
- equity		**(274)**	(245)	(198)
- non-equity		**(209)**	(42)	(63)
Net cash (outflow) from returns on investments and servicing of finance		**(1,020)**	(833)	(958)
Taxation paid		**(954)**	(994)	(1,296)
Capital expenditure and financial investments:				
Purchase of investment securities		**(79,212)**	(58,517)	(116,659)
Proceeds from sale and maturities of investment securities		**81,918**	62,501	117,543
Purchase of tangible fixed assets		**(809)**	(631)	(1,032)
Proceeds from sale of tangible fixed assets		**235**	102	281
Net cash inflow from capital expenditure and financial investments		**2,132**	3,455	133
Acquisitions and disposals:				
Net cash (outflow)/inflow from acquisition of and increase in stake in subsidiary undertakings		**(72)**	(31)	3,290
Net cash inflow from disposal of subsidiary undertakings		**28**	-	333
Payment to Republic and Safra Republic shareholders		**-**	(9,733)	-
Purchase of interest in associated undertakings and other participating interests		**(101)**	(2,626)	-
Proceeds from disposal of associated undertakings and other participating interests		**70**	140	(2)
Net cash (outflow)/inflow from acquisitions and disposals		**(75)**	(12,250)	3,621
Equity dividends paid		**(1,890)**	(1,286)	(907)
Net cash inflow/(outflow) before financing		**3,530**	6,055	(2,059)
Financing:				
Issue of ordinary share capital		**19**	17	147
Issue of perpetual preferred securities		**-**	3,614	12
Own shares acquired by employee share ownership trust		**-**	-	(556)
Subordinated loan capital issued		**251**	481	467
Subordinated loan capital repaid		**(583)**	(245)	(463)
Net cash (outflow)/inflow from financing		**(313)**	3,867	(393)
Increase/(decrease) in cash		**3,217**	9,922	(2,452)

Notes on the Financial Statements

1 Accounting Policies

The accounting policies adopted are consistent with those described in the 2000 *Annual Report and Accounts*.

In 2001, HSBC has adopted the provisions of the UK Financial Reporting Standard ('FRS') 18 'Accounting Policies'.

The accounts have been prepared in accordance with the Statements of Recommended Accounting Practice ('SORPs') issued jointly by the British Bankers' Association ('BBA') and Irish Bankers' Federation ('IBF').

2 Dividend

The Directors have declared a first interim dividend for 2001 of US$0.19 per ordinary share, an increase of 27 per cent. The dividend will be payable on 9 October 2001 to shareholders on the Register at the close of business on 24 August 2001. The dividend will be payable in cash, in US dollars, sterling or Hong Kong dollars, or a combination of these currencies, at the exchange rates on 1 October 2001, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 5 September 2001, and elections will be required to be made by 26 September 2001.

The dividend payable in cash on shares held through Euroclear France, the settlement and central depositary system for Euronext Paris, will be converted into euros at the exchange rate on 1 October 2001 and paid on 9 October 2001 through CCF, HSBC's paying agent.

The dividend payable to holders of American Depositary Shares ('ADSs'), each of which represents five ordinary shares, will be paid in cash in US dollars on 9 October 2001 or invested in additional ADSs for participants in the dividend reinvestment plan operated by the depositary.

HSBC Holdings' shares will be quoted ex-dividend in London and in Hong Kong on 22 August 2001 and in Paris on 27 August 2001. The ADSs will be quoted ex-dividend in New York on 22 August 2001.

3 Earnings and dividend per share

Figures in US$	**Half-year to 30 June 2001**	Half-year to 30 June 2000	Half-year to 31 December 2000
Basic earnings per share	**0.40**	0.42	0.34
Diluted earnings per share	**0.39**	0.41	0.34
Dividend per share	**0.19**	0.15	0.285

Basic earnings per ordinary share was calculated by dividing the earnings of US$3,670 million by the weighted average number of ordinary shares outstanding, excluding own shares held, of 9,210 million (first half of 2000: earnings of US$3,525 million and 8,455 million shares; second half of 2000: earnings of US$3,103 million and 9,096 million shares).

Diluted earnings per share was calculated by dividing the basic earnings, which require no adjustment for the effects of dilutive ordinary potential shares, by the weighted average number of ordinary shares outstanding, excluding own shares held, plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares (being share options outstanding not yet exercised) of 9,319 million (first half of 2000: 8,551 million shares; second half of 2000: 9,176 million shares).

Notes on the Financial Statements (continued)

4 Bad and doubtful debts

Figures in US$m	**Half-year to 30 June 2001**	Half-year to 30 June 2000	Half-year to 31 December 2000
Profit and loss account charge			
Loans and advances to customers:			
- specific charge:			
new provisions	**1,126**	995	1,298
releases and recoveries	**(676)**	(493)	(590)
	450	502	708
- net general release:			
special provision reflecting Asian risk raised in 1997	**-**	(116)	(58)
other	**(9)**	(16)	(90)
	(9)	(132)	(148)
Customer bad and doubtful debt charge	**441**	370	560
Loans and advances to banks:			
- net specific (release)/charge	**-**	(2)	4
Total bad and doubtful debt charge	**441**	368	564

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Total outstanding provisions			
Loans and advances to customers:			
- specific provisions	**5,775**	5,442	6,065
- general provisions	**2,048**	2,125	2,102
	7,823	7,567	8,167
Loans and advances to banks:			
- specific provisions	**22**	22	30
Total provisions	**7,845**	7,589	8,197
Interest in suspense	**1,012**	1,045	1,016

5 Taxation

Figures in US$m	**Half-year to 30 June 2001**	Half-year to 30 June 2000	Half-year to 31 December 2000
UK corporation tax charge	**400**	421	435
Overseas taxation	**879**	763	705
Deferred taxation	**(58)**	88	(166)
Joint ventures	**(7)**	-	(7)
Associates	**15**	(9)	8
Total charge for taxation	**1,229**	1,263	975
Effective tax rate (per cent)	**22.6**	24.3	21.3

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporation tax at 30 per cent, the rate for the calendar year 2001 (2000: 30 per cent). Overseas tax included Hong Kong profits tax of US$223 million (first half 2000: US$267 million; second half 2000: US$211 million) provided at the rate of 16.0 per cent (2000: 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 30 June 2001, there were potential future tax benefits of approximately US$370 million (31 December 2000: US$350 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	**Half-year to 30 June 2001**	Half-year to 30 June 2000	Half-year to 31 December 2000
Taxation at UK corporate tax rate of 30.0%	**1,631**	1,562	1,370
Impact of differently taxed overseas profits in principal locations	**(306)**	(263)	(235)
Previously unrecognised tax benefits	**(70)**	(53)	(84)
Other items	**(26)**	17	(76)
	1,229	1,263	975

6 Debt securities

Figures in US$m	**At 30 June 2001 Book value**	**At 30 June 2001 Market valuation**	At 30 June 2000 Book value	At 30 June 2000 Market valuation	At 31 December 2000 Book value	At 31 December 2000 Market valuation
Issued by public bodies						
Investment securities						
- government securities and US government agencies..	**37,645**	**38,023**	37,622	37,699	37,955	38,535
- other public sector securities........................	**3,822**	**3,917**	2,195	2,196	3,261	3,337
	41,467	**41,940**	39,817	39,895	41,216	41,872
Other securities						
- government securities and US government agencies..	**26,580**		13,661		22,134	
- other public sector securities........................	**1,219**		419		545	
	69,266		53,897		63,895	
Issued by other bodies						
Investment securities						
- bank and building society certificates of deposit..	**6,869**	**6,952**	13,073	13,074	13,745	13,759
- other debt securities	**35,736**	**35,909**	26,462	26,346	31,993	32,113
	42,605	**42,861**	39,535	39,420	45,738	45,872
Other securities						
- bank and building society certificates of deposit..	**11,976**		614		852	
- other debt securities	**25,199**		10,097		22,333	
	79,780		50,246		68,923	
	149,046		104,143		132,818	

Notes on the Financial Statements (continued)

Figures in US$m	At 30 June 2001 Book value	At 30 June 2001 Market valuation	At 30 June 2000 Book value	At 30 June 2000 Market valuation	At 31 December 2000 Book value	At 31 December 2000 Market valuation
Investment securities						
- listed on a recognised UK exchange	**12,285**	**12,340**	10,051	10,011	9,514	9,564
- listed in Hong Kong	**717**	**750**	834	1,389	795	830
- listed elsewhere	**40,767**	**41,142**	38,658	38,168	40,884	41,392
- unlisted	**30,303**	**30,569**	29,809	29,747	35,761	35,958
	84,072	**84,801**	79,352	79,315	86,954	87,744
Other securities						
- listed on a recognised UK exchange	**6,296**		3,496		5,309	
- listed in Hong Kong	**2,001**		1,213		1,788	
- listed elsewhere	**33,931**		15,027		26,923	
- unlisted	**22,746**		5,055		11,844	
	149,046		104,143		132,818	

The maturities of debt securities are analysed as follows:

Figures in US$m	At 30 June 2001	At 30 June 2000	At 31 December 2000
Investment securities			
- 1 year or less	**24,771**	29,163	32,640
- 5 years or less but over 1 year	**35,566**	25,206	28,147
- Over 5 years	**23,735**	24,983	26,167
	84,072	79,352	86,954
Other securities			
- 1 year or less	**22,072**	7,376	12,091
- 5 years or less but over 1 year	**27,526**	9,420	18,366
- Over 5 years	**15,376**	7,995	15,407
	64,974	24,791	45,864

7 Equity shares

Figures in US$m	At 30 June 2001 Book value	At 30 June 2001 Market valuation	At 30 June 2000 Book value	At 30 June 2000 Market valuation	At 31 December 2000 Book value	At 31 December 2000 Market valuation
Investment securities						
- listed on a recognised UK exchange	**706**	**759**	175	519	722	1,005
- listed in Hong Kong	**250**	**619**	273	704	270	742
- listed elsewhere	**1,118**	**1,347**	258	363	1,247	1,382
- unlisted	**2,397**	**2,497**	1,208	1,371	2,399	2,644
	4,471	**5,222**	1,914	2,957	4,638	5,773
Other securities						
- listed on a recognised UK exchange	**870**		1,713		1,071	
- listed in Hong Kong	**108**		70		228	
- listed elsewhere	**2,097**		1,726		1,953	
- unlisted	**110**		80		214	
	7,656		5,503		8,104	

8 Loans and advances to customers

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Remaining maturity:			
- repayable on demand or at short notice	**47,526**	43,131	45,726
- 3 months or less but not repayable on demand or at short notice	**66,604**	48,768	58,556
- 1 year or less but over 3 months	**36,719**	31,762	37,123
- 5 years or less but over 1 year	**77,488**	70,700	77,201
- over 5 years	**78,957**	74,799	79,398
General and specific bad and doubtful debt provisions (Note 4)	**(7,823)**	(7,567)	(8,167)
	299,471	261,593	289,837

Loans and advances to customers include balances which have been securitised. Certain of these balances meet the requirements for linked presentation under FRS 5 'Reporting the substance of transactions'. At 30 June 2001, US$1,607 million of non-recourse finance had been netted against customer loans of US$1,807 million in the balance sheet.

9 Deposits by banks

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Repayable on demand	**18,988**	14,807	16,154
With agreed maturity dates or periods of notice, by remaining maturity:			
- 3 months or less but not repayable on demand	**36,552**	18,422	36,909
- 1 year or less but over 3 months	**6,791**	2,828	4,992
- 5 years or less but over 1 year	**1,436**	744	1,433
- over 5 years	**546**	225	565
	64,313	37,026	60,053

10 Customer accounts

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Repayable on demand	**187,118**	155,943	182,582
With agreed maturity dates or periods of notice, by remaining maturity:			
- 3 months or less but not repayable on demand	**215,536**	193,511	207,101
- 1 year or less but over 3 months	**30,187**	29,435	27,867
- 5 years or less but over 1 year	**7,839**	8,933	8,229
- over 5 years	**1,148**	1,274	1,290
	441,828	389,096	427,069

Notes on the Financial Statements (continued)

11 Debt securities in issue

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Bonds and medium-term notes, by remaining maturity:			
- within 1 year	**2,651**	2,383	3,196
- between 1 and 2 years	**2,732**	1,884	2,259
- between 2 and 5 years	**1,610**	3,179	3,611
- over 5 years	**1,462**	406	1,530
	8,455	7,852	10,596
Other debt securities in issue, by remaining maturity:			
- 3 months or less	**8,926**	5,219	8,818
- 1 year or less but over 3 months	**3,108**	3,108	3,062
- 5 years or less but over 1 year	**4,501**	2,945	4,443
- over 5 years	**972**	1,556	1,037
	25,962	20,680	27,956

12 Liabilities

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Customer accounts include:			
- repos	**11,698**	8,196	10,485
- settlement accounts	**16,739**	8,852	5,441
Deposits by banks include:			
- repos	**6,505**	7,079	5,827
- settlement accounts	**9,307**	4,714	6,307

13 Subordinated liabilities

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Dated subordinated loan capital which is repayable:			
- within 1 year	**596**	961	953
- between 1 and 2 years	**1,573**	494	1,401
- between 2 and 5 years	**2,294**	2,760	2,263
- over 5 years	**7,530**	7,876	8,059
	11,993	12,091	12,676

14 Assets charged as security for liabilities

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

	Amount of liability secured		
	At 30 June	At 30 June	At 31 December
Figures in US$m	**2001**	2000	2000
Deposits by banks	**1,324**	790	260
Customer accounts	**6,878**	6,658	4,903
Debt securities in issue	**2,043**	4,175	3,090
Other liabilities	**3,259**	1,861	3,544
	13,504	13,484	11,797

The amount of assets pledged to secure these amounts was US$34,015 million (31 December 2000: US$30,432 million; 30 June 2000: US$18,835 million). This is mainly made up of items included in 'Debt securities' and 'Treasury bills and other eligible bills' of US$29,291 million (31 December 2000: US$26,466 million; 30 June 2000: US$13,752 million).

15 Called up share capital

	Half-year to 30 June	Half-year to 30 June	Half-year to 31 December
Figures in US$m	**2001**	2000	2000
At beginning of period	**4,634**	4,230	4,266
Shares issued to QUEST	-	14	2
Shares issued under other option schemes	**2**	1	10
Shares issued in lieu of dividends	**31**	21	17
Shares issued on acquisition of CCF	-	-	339
At end of period	**4,667**	4,266	4,634

16 Reserves

	Half-year to 30 June	Half-year to 30 June	Half-year to 31 December
Figures in US$m	**2001**	2000	2000
At beginning of period	**40,936**	29,178	31,053
Retained profit for the half-year	**1,906**	2,245	373
Arising on new shares issued, net of costs	**-**	309	63
New share capital issued in connection with the acquistion of CCF	**-**	-	8,290
Reserve in respect of obligations under CCF share options	**(7)**	-	496
Arising on shares issued in lieu of dividends	**737**	468	476
Unrealised deficit on revaluation of investment properties:			
- subsidiaries	**-**	-	6
- associates	**-**	-	8
Unrealised surplus on revaluation of land and buildings (excluding investment properties)	**-**	-	361
Share options	**17**	16	73
Capitalised on issue of shares to QUEST	**-**	(323)	(1)
Capitalisation of share premium account on scrip dividend issue and associated costs	**(31)**	(21)	(17)
Exchange and other movements	**(2,190)**	(819)	(245)
At end of period	**41,368**	31,053	40,936

The reserves of HSBC include property revaluation reserves amounting to US$2,561 million (31 December 2000: US$2,611 million; 30 June 2000: US$2,292 million).

Notes on the Financial Statements (continued)

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

Figures in US$m	**Half-year to 30 June 2001**	Half-year to 30 June 2000	Half-year to 31 December 2000
Operating profit	**4,715**	5,020	4,427
Change in prepayments and accrued income	**626**	(157)	(615)
Change in accruals and deferred income	**(2,372)**	(231)	2,094
Interest on finance leases and similar hire purchase contracts	**14**	13	13
Interest on subordinated loan capital	**581**	595	621
Depreciation and amortisation	**955**	683	908
Amortisation of discounts and premiums	**(511)**	(106)	(621)
Provisions for bad and doubtful debts	**441**	368	564
Loans written off net of recoveries	**(618)**	(647)	(1,006)
Provisions for liabilities and charges	**320**	385	338
Provisions utilised	**(307)**	(260)	(250)
Amounts written off fixed asset investments	**53**	14	22
Net cash inflow from trading activities	**3,897**	5,677	6,495
Change in items in the course of collection from other banks	**(740)**	(2,300)	2,956
Change in treasury bills and other eligible bills	**34**	1,833	(2,659)
Change in loans and advances to banks	**8,257**	2,766	(1,928)
Change in loans and advances to customers	**(7,617)**	(7,598)	(2,667)
Change in other securities	**(17,769)**	(3,694)	(12,312)
Change in other assets	**(419)**	2,421	(4,279)
Change in deposits by banks	**2,358**	(1,077)	(1,256)
Change in customer accounts	**13,111**	29,124	13,029
Change in items in the course of transmission to other banks	**1,301**	1,050	(2,626)
Change in debt securities in issue	**(2,339)**	(13,100)	(3,919)
Change in other liabilities	**2,135**	1,734	5,270
Elimination of exchange differences†	**3,052**	1,060	1,223
Net cash inflow/(outflow) from operating activities	**5,261**	17,896	(2,673)

† *Adjustment to bring changes between opening and closing balance sheet amounts to average rates. This is not done on a line-by-line basis, as it cannot be determined without unreasonable expense.*

18 Financial instruments, contingent liabilities and commitments

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Contract amounts			
Contingent liabilities			
Acceptances and endorsements	**3,698**	4,379	5,160
Guarantees and assets pledged as collateral security	**37,934**	27,340	33,968
Other	**11**	13	14
	41,643	31,732	39,142
Commitments			
Documentary credits and short-term trade-related transactions	**6,275**	7,104	6,513
Forward asset purchases and forward forward deposits placed	**586**	498	655
Undrawn note issuing and revolving underwriting facilities	**259**	90	302
Undrawn formal standby facilities, credit lines and other commitments to lend:			
over 1 year	**36,369**	33,288	36,567
1 year and under	**139,264**	130,656	138,679
	182,753	171,636	182,716

The table above gives the nominal principal amounts of third party off-balance-sheet transactions.

For contingent liabilities and commitments, the contract amount represents the amount at risk should the contract be fully drawn upon and the client default. The total of the contract amounts is not representative of future liquidity requirements.

The following table summarises the contract amount of third party and internal derivatives held for trading purposes by product type.

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Exchange rate	**923,684**	710,617	759,547
Interest rate	**1,386,945**	890,572	1,266,445
Equities	**40,454**	36,540	45,484

The following table summarises the contract amount of third party and internal derivatives held for risk management purposes by product type.

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Exchange rate	**65,876**	69,157	80,142
Interest rate	**151,262**	153,864	182,043
Equities	**848**	642	590

For exchange rate, interest rate and equities contracts, the notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The increase in the nominal value of exchange rate and interest rate contracts since 31 December 2000 reflects growth in business volumes.

Notes on the Financial Statements (continued)

19 Off-balance-sheet risk-weighted and replacement cost amounts

Figures in US$m	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
Risk-weighted amounts			
Contingent liabilities	**27,403**	23,304	26,429
Commitments	**18,435**	17,394	18,838
Replacement cost amounts			
Exchange rate	**12,779**	7,977	12,709
Interest rate	**10,403**	5,372	10,099
Equities	**1,604**	2,098	2,145
Benefit of netting	**(9,691)**	(4,349)	(8,468)
	15,095	11,098	16,485

Risk-weighted amounts are assessed in accordance with the Financial Services Authority's guidelines which implement the Basel agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

Replacement cost of contracts represents the mark-to-market assets on all third party contracts with a positive value, i.e. an asset to HSBC. Replacement cost is, therefore, a close approximation of the credit risk for these contracts as at the balance sheet date. The actual credit risk is measured internally and is the sum of the positive mark-to-market value and an estimate for the future fluctuation risk, using a future risk factor.

20 Market risk management

HSBC's market risk management process is discussed in the 'Financial Review' section on pages 47 and 48 from the paragraph under the heading 'Market risk management' to the paragraph ended 'impact of extreme events on the market risk exposures of HSBC'.

Trading VAR for HSBC at 30 June 2001was US$89.5 million, compared with US$75.0 million at 31 December 2000.

	At 30 June 2001 US$m	**Minimum during the first half 2001 US$m**	**Maximum during the first half 2001 US$m**	**Average for the first half 2001 US$m**	At 31 December 2000 US$m
Total trading activities	**89.5**	**60.8**	**127.8**	**92.0**	75.0
Foreign exchange trading positions	**21.6**	**9.4**	**27.1**	**17.5**	19.1
Interest rate trading positions	**74.6**	**48.1**	**116.4**	**79.4**	58.9
Equities trading positions	**39.0**	**29.1**	**50.4**	**39.1**	39.9

21 Litigation

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

As described in Note 43 to the Financial Statements contained in HSBC's 2000 Annual Report and Accounts ('the 2000 Report') certain of HSBC's subsidiaries are defendants in a number of legal actions arising out of the Princeton Note Matter (as defined in the 2000 Report). Regulatory and law enforcement agencies, including the US Attorney for the Southern District of New York, the Securities and Exchange Commission and the Commodity Futures Trading Commission, are continuing to investigate the Princeton Note Matter, including the activities of Republic New York Securities Corporation ('RNYSC') and Republic New York Corporation ('RNYC'), now HSBC USA Inc.. HSBC understands that RNYSC is a target of the federal grand jury investigation being conducted by the US Attorney for the Southern District of New York. In light of a probable law enforcement proceeding against RNYSC in connection with the Princeton Note Matter, a matter that came to light before the acquisition of RNYC, a provision of US$79 million, the amount of shareholder's equity of RNYSC, was taken in the financial statements of HSBC USA Inc. at 31 December 2000 as part of the goodwill cost of the acquisition of RNYC. During the course of the US Attorney's investigation, with which HSBC USA Inc. has been cooperating fully, discussions have been initiated to attempt to resolve the grand jury investigation and regulatory investigations, and such resolution if it occurs may also encompass resolution of some of the civil actions noted below. At the present time it is not possible to predict whether a resolution will be reached or to estimate the amount of its additional cost to HSBC.

In addition to the regulatory and law enforcement investigations, nineteen separate civil actions have been brought to date in the United States District Court for the Southern District of New York against HSBC USA Inc. and RNYSC by Japanese entities in connection with the Princeton Note Matter. The first eighteen of these actions are described in Note 43 to the 2000 Report. The nineteenth action, PG Star, Ltd v RNYSC, et al., was filed on 28 March 2001. It alleges an unpaid note in the amount of Yen 450 million (approximately US$3.35 million). The complaint asserts common law claims and claims under the federal commodities laws. At the present time it is not possible to assess the outcome of the civil proceedings relating to the Princeton Note Matter.

22 Interim Report and statutory accounts

The information in this *Interim Report* is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 (the Act). The 2001 Interim Report was approved by the Board of Directors on 6 August 2001. The statutory accounts for the year ended 31 December 2000 have been delivered to the Registrar of Companies in England and Wales in accordance with section 242 of the Act and filed with the US Securities and Exchange Commission. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 237(2) or (3) of the Act.

23 Differences between UK GAAP and US GAAP

The consolidated financial statements of HSBC are prepared in accordance with UK generally accepted accounting principles ('GAAP') which differ in certain significant respects from US GAAP. The following is a summary of the significant differences applicable to HSBC:

UK GAAP	US GAAP
Leasing	
Finance lease income is recognised so as to give a constant rate of return on the net cash investment in the lease, taking into account tax payments and receipts associated with the lease.	Unearned income on finance leases is taken to income at a rate calculated to give a constant rate of return on the investment in the lease, but no account is taken of the tax flows generated by the lease.
Leases are categorised as finance leases when the substance of the agreement is that of a financing transaction and the lessee assumes substantially all of the risks and benefits relating to the asset. All other leases are categorised as operating leases.	Leases are classified as capital leases when any of the criteria outlined under Statement of Financial Accounting Standards ('SFAS') No. 13 'Accounting for Leases' are met.
Operating leased assets are depreciated over their	Operating leased assets are depreciated such that in

Notes on the Financial Statements (continued)

useful lives such that, for each asset, rentals less depreciation are recognised at a constant periodic rate of return on the net cash invested in that asset. Rentals receivable under operating leases are accounted for on a straight-line basis over the lease term.

each period the depreciation charge is at least equal to that which would have arisen on a straight-line basis.

Debt swaps

Assets acquired in exchange for other advances in order to achieve an orderly realisation are reported as advances. The assets acquired are recorded at the carrying value of the advances disposed of at the date of the exchange, with any provision having been duly updated. Any subsequent deterioration in their value will be recorded as an additional provision.

Under SFAS No. 15 ‘Accounting by Debtors and Creditors for Troubled Debt Restructurings’, debt securities and equity shares acquired in exchange for advances in order to achieve an orderly realisation are required to be accounted for at their fair value, usually their secondary market value, at the date of exchange. Under SFAS No. 115 ‘Accounting for Certain Investments in Debt and Equity Securities’, certain of these debt swaps qualify as securities and accordingly are classified as available for sale.

Shareholder’s interest in the long-term assurance fund

The shareholders’ interest in the in-force life assurance and fund pensions policies of the long-term assurance fund is valued at the net present value of the profits inherent in such policies.

The net present value of these profits is not recognised. An adjustment is made to amortise acquisition costs and fees in accordance with SFAS No. 97 ‘Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments’.

Pension costs

Pension costs, based on actuarial assumptions and methods, are charged so as to allocate the cost of providing benefits over the average remaining service lives of employees.

SFAS No. 87 ‘Employers’ Accounting for Pensions’ prescribes a similar method of actuarial valuation but requires assets to be assessed at fair value and the assessment of liabilities to be based on current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining service lives of current employees.

Share compensation schemes

For executive share option schemes, such options are granted at fair value and no compensation costs are recognised under the ‘intrinsic value method’.

For Save-As-You-Earn schemes, employees are granted shares at a 20 per cent (15 per cent until 31 December 2000) discount to fair value at the date of grant. No compensation cost is recognised for such awards.

SFAS No. 123 ‘Accounting for Stock Based Compensation’ encourages a fair value based method of accounting for stock-based compensation plans. However, entities are permitted to continue with the Accounting Principles Board opinion (‘APB’) No. 25 ‘Accounting for Stock Issued to Employees’ intrinsic value method where compensation cost is based on the difference between the market value of the stock and any contribution made by the employee.

For longer term and other restricted share award schemes, the fair value of the shares awarded is charged to compensation cost over the period in respect of which performance conditions apply. To the extent the award is adjusted by virtue of performance conditions being met or not, the compensation cost is adjusted in line with this.

Costs of software for internal use

HSBC generally expenses costs of software developed for internal use. If it can be demonstrated that conditions for capitalisation are met under FRS 10 ‘Goodwill and intangible assets’ or FRS 15 ‘Tangible fixed assets’, purchased software can be capitalised and amortised over its useful life.

Website design and content development costs should be capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised.

The American Institute of Certified Public Accountants’ (‘AICPA’) Statement of Position (‘SOP’) 98-1 ‘Accounting for the costs of computer software developed or obtained for internal use’ was issued in March 1998, to be effective for fiscal years beginning after 15 December 1998. It requires that all costs incurred in the preliminary project and post implementation stages of internal software development be expensed. Costs incurred in the application development stage must be capitalised and amortised over the estimated useful life.

Goodwill

For acquisitions prior to 1998, goodwill arising on the acquisition of subsidiary undertakings, associates or joint ventures was charged against reserves in the year of acquisition.

In 1998, HSBC adopted FRS 10. For acquisitions made on or after 1 January 1998, goodwill is included in the balance sheet and amortised over its estimated useful life on a straight-line basis. FRS 10 allows goodwill previously eliminated against reserves to be reinstated, but does not require it. In common with many other UK companies, HSBC elected not to reinstate such goodwill. HSBC considered whether reinstatement would materially assist the understanding of readers of its accounts who were already familiar with UK GAAP and decided that it would not.

At the date of disposal of subsidiary undertakings, associates or joint ventures, any unamortised goodwill or goodwill charged directly against reserves is included in HSBC’s share of total net assets of the undertaking in the calculation of the profit on disposal of the undertaking.

Goodwill is capitalised and amortised over its estimated useful life but not more than 25 years. Goodwill is written off when judged to have no recoverable value.

Notes on the Financial Statements (continued)

Property

HSBC values its properties on an annual basis and adjustments arising from such revaluations are taken to reserves.

HSBC depreciates non-investment properties based on cost or the revalued amounts. No depreciation is charged on investment properties other than leaseholds with 20 years or less to expiry.

US GAAP does not permit revaluations of property although it requires recognition of asset impairment. Any realised surplus or deficit is therefore reflected in income on disposal of the property.

Depreciation is charged on all properties based on cost.

Investment securities

Debt securities and equity shares intended to be held on a continuing basis are disclosed as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value. Other participating interests are accounted for on the same basis. Where dated investment securities are purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from date of purchase to date of maturity and included in ‘interest income’. Any profit or loss on realisation of these securities is recognised in the profit and loss account as it arises and included in ‘Gains on disposal of investment securities’.

Other debt securities and equity shares held for trading purposes are included in the balance sheet at market value. Changes in the market value of such assets are recognised in the profit and loss account as ‘Dealing profits’.

Under SFAS No. 115 ‘Accounting for Certain Investments in Debt and Equity Securities’ all debt securities and equity shares are classified and disclosed within one of the following three categories: held-to-maturity; available for sale; or trading. Held-to-maturity debt securities are measured at amortised cost. Available for sale securities are measured at fair value with unrealised holding gains and losses excluded from earnings and reported net of applicable taxes and minority interests in a separate component of shareholders’ funds. Trading securities are measured at fair value with unrealised holding gains and losses included in earnings. Foreign exchange gains or losses on foreign currency denominated available for sale securities are also excluded from earnings and recorded as part of the same separate component of shareholders’ funds.

Accruals accounted derivatives

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

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

To qualify as a hedge, a derivative must effectively reduce the price or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with

SFAS No. 133 ‘Accounting for Derivative Instruments and for Hedging Activities’ requires that all derivatives be recognised as either assets or liabilities in the balance sheet and that those instruments be measured at fair value. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation as described below:

– For a derivative designated as hedging the exposures to changes in the fair value of a recognised asset or liability or a firm commitment, the gain or loss is recognised in earnings in the period of change together with the associated loss or gain on the hedged item attributable to the risk being hedged.

– For a derivative designated as hedging the exposure to variable cash flows of a recognised asset or liability, or of a forecasted transaction, the changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. If these criteria are met, the derivative is accounted for on the same basis as the underlying hedged item. Derivatives used for hedging purposes include swaps, forwards and futures.

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

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

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

derivatives gain or loss associated with the effective portion of the hedge is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion is reported in earnings immediately.

– For net investment hedges, in which derivatives hedge the foreign currency exposure of a net investment in a foreign operation, the change in fair value of the derivative associated with the effective portion of the hedge is included as a component of other comprehensive income, together with the associated loss or gain on the hedged item. The ineffective portion is reported in earnings immediately.

– For a derivative not designated as a hedging instrument, the gain or loss is recognised in earnings in the period of change in fair value.

Derivative contracts which qualify for hedge accounting under UK GAAP but do not meet the hedging requirements of SFAS No. 133 are carried at fair value with changes in value included in earnings under US GAAP.

Own shares held

UK GAAP allows for the inclusion of own shares held within equity shares.

US GAAP requires a reduction in shareholders’ equity for own shares held.

Dividends payable

Dividends declared after the period end are recorded in the period to which they relate.

Dividends are recorded in the period in which they are declared.

Deferred taxation

Deferred taxation is provided on timing differences using the liability method only to the extent that it is probable that an actual liability or asset will crystallise.

As provided by SFAS No. 109 ‘Accounting for Income Taxes’, deferred tax liabilities and assets are recognised in respect of all temporary differences. A valuation allowance is raised against any deferred tax asset where it is more likely than not that the asset, or a part thereof, will not be realised.

Notes on the Financial Statements (continued)

Sale and repurchase transactions (‘repos’) and reverse repos	
Repos and reverse repos are accounted for as if the collateral involved remains with the transferor. On the balance sheet, repos are included within ‘Deposits by banks’ and ‘Customer accounts’ and reverse repos are included within ‘Loans and advances to banks’ or ‘Loans and advances to customers’.	Under SFAS No. 140 ‘Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities’, repos and reverse repos transacted under agreements that give the transferee the right by contract or custom to sell or repledge the collateral give rise to the following adjustments and disclosures. For repos, where the transferee has the right to sell or repledge the collateral, the transferor would report the securities separately in the Financial Statements from other securities not so encumbered. For reverse repos, where the transferee has the right to sell or repledge the collateral, the transferee should not recognise the pledged asset but should disclose the fair value of the collateral and if the transferee sells collateral pledged to it, the proceeds from the sale and the transferee’s obligation to return the collateral should be recognised.
Acceptances	
Acceptances outstanding are not included in the consolidated balance sheet.	Acceptances outstanding and the matching customer liabilities are included in the consolidated balance sheet.
Profit and loss presentation	
The following items are separately disclosed in the profit and loss account:	
Provisions for contingent liabilities and commitments.	Classified as ‘Operating expenses’.
Amounts written off fixed asset investments.	Classified as ‘Other operating income’.
Gains on disposal of investments and tangible fixed assets.	Classified as ‘Other operating income’.

The following tables summarise the significant adjustments to consolidated net income and shareholders' equity which would result from the application of US GAAP.

	Half-year to 30 June 2001		Half-year to 30 June 2000		Half-year to 31 December 2000	
NET INCOME	**US$m**	**US$m**	US$m	US$m	US$m	US$m
Attributable profit of HSBC (UK GAAP)		**3,670**		3,525		3,103
Lease financing		**(22)**		(25)		(28)
Debt swaps		**4**		99		(2)
Shareholders' interest in long-term assurance fund		**(60)**		(51)		(89)
Pension costs		**(52)**		(60)		(53)
Stock-based compensation		**(148)**		(97)		(137)
Goodwill		**(156)**		(145)		(218)
Internal software costs		**183**		65		120
Revaluation of property		**16**		30		39
Purchase accounting adjustments		**(38)**		(50)		118
Accruals accounted derivatives		**(212)**		-		116
Investment securities		**317**		-		-
Taxation:US GAAP	**(89)**		(74)		66	-
: on reconciling items	**98**		28		(60)	
		9		(46)		6
Minority interest in reconciling items		**31**		(1)		17
Estimated net income (US GAAP)		**3,542**		3,244		2,992
Per share amounts (US GAAP)						
Basic earnings per ordinary share		**0.38**		0.38		0.33
Diluted earnings per ordinary share		**0.38**		0.38		0.33

	At 30 June 2001		At 30 June 2000		At 31 December 2000	
	US$m	**US$m**	US$m	US$m	US$m	US$m
SHAREHOLDERS' EQUITY						
Shareholders' funds (UK GAAP)		**46,035**		35,319		45,570
Lease financing		**(273)**		(242)		(267)
Debt swaps		**-**		(6)		(4)
Shareholders' interest in long-term assurance fund		**(687)**		(579)		(662)
Pension costs		**(1,119)**		(1,079)		(1,151)
Goodwill		**2,277**		2,886		2,562
Internal software costs		**481**		194		313
Revaluation of property		**(2,994)**		(2,700)		(3,044)
Purchase accounting adjustments		**160**		80		198
Accruals accounted derivatives		**(96)**		-		116
Fair value adjustment for securities available for sale		**1,254**		505		1,316
Own shares held		**(640)**		-		(650)
Dividend payable		**1,764**		1,280		2,627
Taxation: US GAAP	**615**		630		737	
: on reconciling items	**218**		425		119	
		833		1,055		856
Minority interest in reconciling items		**320**		279		292
Estimated shareholders' equity (US GAAP)		**47,315**		36,992		48,072

TOTAL ASSETS

Total assets at 30 June 2001, incorporating adjustments arising from the application of US GAAP, are estimated to be US$693,065 million (30 June 2000: US$591,860 million; 31 December 2000: US$680,076 million).

Independent review report by KPMG Audit plc, to HSBC Holdings plc

Introduction

We have been instructed by HSBC Holdings plc to review the financial information set out on pages 53 to 73 and we have read the other information contained in the *Interim Report* and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The *Interim Report*, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Listing Rules of the Financial Services Authority require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where they are to be changed in the next annual accounts in which case any changes, and the reasons for them, are to be disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in *Bulletin 1999/4: Review of interim financial information* issued by the Auditing Practices Board and with standards established by the American Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards in the United Kingdom and the United States (the objective of which is the expression of an opinion regarding the financial statements taken as a whole) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

United Kingdom review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2001.

United States review conclusion

Based on our review, we are not aware of any material modifications that should be made to the financial information referred to above for them to be in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States as discussed in Note 23.

KPMG Audit Plc
Chartered Accountants
London

6 August 2001

Additional Information

1 Cash basis attributable profit by subsidiary and by line of business

	Half-year to 30 June 2001 US$m	Half-year to 30 June 2000 US$m	Half-year to 31 December 2000 US$m
Hang Seng Bank Limited	**689**	667	618
less minority interests	**(261)**	(253)	(234)
	428	414	384
HSBC Investment Bank Asia Holdings Limited	**30**	99	96
The Hongkong and Shanghai Banking Corporation Limited and other subsidiaries	**1,364**	1,165	1,174
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries	**1,822**	1,678	1,654
HSBC Bank plc (excluding CCF and HSBC Private Banking Holdings (Suisse) S.A.)	**1,245**	1,032	978
less preference dividend	**(38)**	(39)	(37)
	1,207	993	941
HSBC Private Banking Holdings (Suisse) S.A.	**103**	149	113
CCF	**233**	7	136
HSBC USA Inc	**450**	367	358
HSBC Bank Middle East	**93**	88	65
HSBC Bank Malaysia Berhad	**76**	62	53
HSBC Bank Canada	**69**	64	52
HSBC Latin American operations	**95**	92	91
HSBC Holdings sub-group	**(111)**	(21)	(34)
Other commercial banking entities	**(20)**	51	(69)
UK GAAP adjustments	**20**	16	17
Investment banking profits in above	**(280)**	(320)	(266)
Commercial banking	**3,757**	3,226	3,111
Investment banking	**318**	471	345
Attributable profit – cash basis	**4,075**	3,697	3,456
Goodwill amortisation	**(405)**	(172)	(353)
Attributable profit	**3,670**	3,525	3,103

Additional information (continued)

2 Directors' interests

According to the registers of Directors' interests maintained by HSBC Holdings pursuant to section 325 of the Companies Act 1985 and section 29 of the Securities (Disclosure of Interests) Ordinance, the Directors of HSBC Holdings at 30 June 2001 had the following interests, all beneficial unless otherwise stated, in the shares and loan capital of HSBC Holdings:

	At 1 January 2001	*At 30 June 2001*				
		Personal	*Family*	*Corporate*	*Other*	*Total*
Ordinary shares of US$0.50						
Sir John Bond[1]	265,767	270,594	3,112	-	-	273,706
R K F Ch'ien	23,116	23,671	-	-	-	23,671
C F W de Croisset[1]	32,847	33,637	-	-	-	33,637
W R P Dalton[1]	12,534	20,927	-	-	-	20,927
Baroness Dunn	127,316	105,798	-	-	24,000[2]	129,798
D G Eldon[1]	3,819	12,592	827	-	-	13,419
D J Flint[1]	19,643	29,251	838	-	-	30,089
W K L Fung	328,000	328,000	-	-	-	328,000
S K Green[1]	13,414	114,053	13,736	-	-	127,789
A W Jebson[1]	-	5,533	-	-	-	5,533
Sir John Kemp-Welch	256,800	25,000	-	-	256,800[2]	281,800
Lord Marshall	6,980	7,147	-	-	-	7,147
C Miller Smith	452	452	-	-	-	452
Sir Brian Moffat	5,289	5,289	-	-	-	5,289
Sir Mark Moody-Stuart	5,840[3]	5,000	840	-	-	5,840
C E Reichardt	30,000	30,000	-	-	-	30,000
H Sohmen	2,715,144	-	372,656	2,432,488[4]	-	2,805,144
Sir Adrian Swire	44,000	-	20,000	-	24,000[2]	44,000
K R Whitson[1]	15,413	101,469	20,000	-	-	121,469
11.69 per cent subordinated bonds 2002 of £1						
Sir John Bond	500,000	500,000	-	-	-	500,000
A W Jebson	100,000	100,000	-	-	-	100,000
Lord Marshall	975	975	-	-	-	975

1 *Details of additional interests in ordinary shares of US$0.50 each under the Share Option Plans and Restricted Share Plan are set out below.*
2 *Non-beneficial.*
3 *Interests at 1 March 2001 – date of appointment.*
4 *Interests held by private investment companies.*

Share options

At 30 June 2001, the undernamed Directors held options to acquire the number of ordinary shares of US$0.50 each set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award, except that options awarded under the Savings-Related Share Option Plan in 2001 are exercisable at a 20 per cent discount to the market value at the date of award and those awarded before 2001 at a 15 per cent discount. There are no remaining performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares at 30 June 2001 was £8.425. The highest and lowest market values during the period were £10.92 and £7.77. Market value is the mid-market price derived from the London Stock Exchange Daily Official List on the relevant date.

	Options held at 1 January 2001	*Options awarded during period*	*Options exercised during period*	*Options held at 30 June 2001*	*Exercise price in £*	*Date of award*	*Exercisable from*[1]	*Exercisable until*
Sir John Bond	75,000	-	-	75,000[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	-	-	2,798[3]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
C F W de Croisset....	-	206,000[4]	-	206,000	8.712	23 Apr 2001	23 Apr 2004	23 Apr 2011
W R P Dalton...........	22,704	-	-	22,704	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	30,273	-	-	30,273	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	36,000	-	-	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	36,000	-	-	36,000[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	-	-	2,798[3]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006
D G Eldon................	36,000	-	-	36,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	40,500	-	-	40,500[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
D J Flint..................	27,000	-	-	27,000[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	3,813	-	-	3,813[3]	4.5206	9 Apr 1997	1 Aug 2002	31 Jan 2003
S K Green	24,216	-	24,216[5]	-	2.4062	12 Oct 1993	12 Oct 1996	12 Oct 2003
	36,324	-	36,324[5]	-	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	45,000	-	45,000[5]	-	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	45,000	-	-	45,000[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	5,637	-	-	5,637[3]	3.0590	3 Apr 1996	1 Aug 2001	31 Jan 2002
	-	2,498[3]	-	2,498	6.7536	11 Apr 2001	1 Aug 2006	31 Jan 2007
A W Jebson.............	15,000	-	-	15,000	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	22,500	-	-	22,500[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	-	1,434[3]	-	1,434	6.7536	11 Apr 2001	1 Aug 2004	31 Jan 2005
K R Whitson	37,839	-	37,839[6]	-	2.8376	8 Mar 1994	8 Mar 1997	8 Mar 2004
	60,000	-	60,000[6]	-	2.1727	7 Mar 1995	7 Mar 1998	7 Mar 2005
	60,000	-	-	60,000[2]	3.3334	1 Apr 1996	1 Apr 1999	1 Apr 2006
	2,798	-	-	2,798[3]	6.0299	10 Apr 2000	1 Aug 2005	31 Jan 2006

1 *May be advanced to an earlier date in certain circumstances, e.g. retirement.*

2 *The exercise of these options was conditional upon the growth in earnings per share over a three-year period being equal to or greater than a composite rate of inflation (comprising 50 per cent of the Hong Kong Composite Consumer Price Index, 35 per cent of the UK Retail Price Index and 15 per cent of the USA All Urban Consumer Price Index), plus 2 per cent per annum. This condition has been satisfied.*

3 *Options awarded under the HSBC Holdings Savings-Related Share Option Plan.*

4 *Options awarded under the HSBC Holdings Group Share Option Plan.*

5 *At the date of exercise, 1 March 2001, the market value per share was £9.04.*

6 *At the date of exercise, 14 March 2001, the market value per share was £8.22.*

Additional information (continued)

Upon acquisition of CCF, outstanding options over CCF shares of €5 each granted (at nil consideration) to employees between 1994 and 1999 vested and options granted in 2000 will, subject to continued employment, vest on 1 January 2002. On exercise of the options, the CCF shares are exchangeable either for cash or HSBC Holdings ordinary shares of US$0.50 in the same ratio as the Exchange Offer (13 ordinary shares of US$0.50 for each CCF share). To satisfy the exercise of these employee share options HSBC Holdings has purchased ordinary shares of US$0.50 each. These shares are held through the HSBC Holdings General Employee Benefit Trust and, as a potential beneficiary of the Trust, C F W de Croisset has a technical interest in all of the shares held by the Trust. At 30 June 2001, the Trust held 39,317,825 HSBC Holdings ordinary shares of US$0.50 each.

At 30 June 2001, C F W de Croisset held the following options to acquire CCF shares of €5 each. On exercise of these options each CCF share will be exchanged for 13 ordinary shares of US$0.50 each. The options were granted by CCF for nil consideration at a 5 per cent discount to the market value at the date of award. Except where indicated, there are no performance criteria conditional upon which the outstanding options are exercisable.

Credit Commercial de France shares of €5 each

Options held at 1 January 2001	*Exercise price per share*	*Options held at 30 June 2001*	*Equivalent HSBC Holdings ordinary shares of US$0.50 each at 30 June 2001*	*Date of award*	*Exercisable until*
10,000	FFr215 (€32.78)	10,000	130,000	23 Jun 1994	23 Jun 2004
30,000	FFr223 (€34.00)	30,000	390,000	22 Jun 1995	22 Jun 2005
30,000	FFr233 (€35.52)	30,000	390,000	9 May 1996	9 May 2006
30,000	FFr243 (€37.05)	30,000	390,000	7 May 1997	7 May 2007
30,000	FFr482 (€73.50)	30,000	390,000	29 Apr 1998	29 Apr 2008
28,000	€81.71	28,000	364,000	7 Apr 1999	7 Apr 2009
28,000	€142.50	28,000[1]	364,000	12 Apr 2000	12 Apr 2010

1 *The exercise of this option is conditional upon continued employment with CCF until 1 January 2002.*

No options over CCF shares of €5 each were awarded to or exercised by C F W de Croisset during the period.

Restricted Share Plan

	Awards held at 1 January 2001	*Awards made during period*	*Monetary value of awards made during period (£000)*	*Awards vested during period* [1]	*Awards held at 30 June 2001* [2]	*Year in which awards may vest*
Ordinary shares of US$0.50						
Sir John Bond	25,921	-	-	12,961	-	-
	27,397	-	-	-	28,056	2002 or 2003
	53,210	-	-	-	54,488	2004
	78,624	-	-	-	80,513	2005
	-	73,683	700	-	75,454	2006
W R P Dalton............	16,211	-	-	8,106	-	-
	18,267	-	-	-	18,706	2002 or 2003
	31,039	-	-	-	31,785	2004
	35,739	-	-	-	36,597	2005
	-	42,105	400	-	43,117	2006
D G Eldon.................	19,453	-	-	9,727	-	-
	21,917	-	-	-	22,443	2002 or 2003
	31,039	-	-	-	31,785	2004
	6,805	-	-	-	6,968 [3]	2003
	35,739	-	-	-	36,597	2005
	-	42,105	400	-	43,117	2006
	-	6,353	59	-	6,353 [3]	2004
D J Flint....................	16,211	-	-	8,106	-	-
	18,267	-	-	-	18,706	2002 or 2003
	31,039	-	-	-	31,785	2004
	32,164	-	-	-	32,937	2005
	-	52,631	500	-	53,896	2006
S K Green	19,453	-	-	9,727	-	-
	21,917	-	-	-	22,443	2002 or 2003
	31,039	-	-	-	31,785	2004
	35,739	-	-	-	36,597	2005
	-	73,683	700	-	75,454	2006
A W Jebson...............	10,808	-	-	5,404	-	-
	9,134	-	-	-	9,353	2002 or 2003
	26,605	-	-	-	27,244	2004
	28,590	-	-	-	29,277	2005
	-	63,157	600	-	64,675	2006
K R Whitson.............	19,453	-	-	9,727	-	-
	21,917	-	-	-	22,443	2002 or 2003
	44,342	-	-	-	45,407	2004
	50,034	-	-	-	51,236	2005
	-	57,894	550	-	59,286	2006

Unless otherwise indicated, vesting of these shares is subject to the performance tests described in the 'Report of the Directors' in the 1997, 1998, 1999 and 2000 Annual Report and Accounts *being satisfied.*

1 *Based on performance over the four-year period to 31 December 2000, 50 per cent of share awards vested and 50 per cent was forfeited.*

2 *Includes additional shares arising from scrip dividends.*

3 *50 per cent of D G Eldon's discretionary bonus was awarded in Restricted Shares with a three-year restricted period. The vesting of these shares is not subject to further performance conditions.*

Additional information (continued)

Sir John Bond has a personal interest in £290,000 of HSBC Capital Funding (Sterling 1) L.P. 8.208 per cent Non-cumulative Step-up Perpetual Preferred Securities, which he held throughout the period.

D G Eldon has a personal interest in 300 Hang Seng Bank Limited ordinary shares of HK$5.00 each, which he held throughout the period.

S K Green has a personal interest in €75,000 of HSBC Holdings plc 5 ½ per cent Subordinated Notes 2009 and in £100,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005, which he held throughout the period.

H Sohmen has a corporate interest in £1,200,000 of HSBC Bank plc 9 per cent Subordinated Notes 2005 and in US$3,000,000 of HSBC Bank plc Senior Subordinated Floating Rate Notes 2009, which he held throughout the period. Dr Sohmen also has a corporate interest in US$3,000,000 of HSBC Capital Funding (Dollar 1) L.P. 9.547 per cent Non-cumulative Step-up Perpetual Preferred Securities, Series 1 and in US$2,900,000 of HSBC Finance Nederland BV 7.40 per cent securities 2003, which he held throughout the period.

As Directors of CCF, C F W de Croisset, W R P Dalton and S K Green each have a personal interest in 10 shares of €5 each in that company but have waived their rights to receive dividends on those shares. Mr de Croisset held his interest throughout the period and Mr Dalton and Mr Green acquired their interest during the period. On cessation of this directorship, each Director has undertaken to transfer his shares to HSBC.

Save as stated above, none of the Directors had an interest in any shares or debentures of any HSBC company at the beginning or at the end of the period and none of the Directors, or members of their immediate families, was awarded or exercised any right to subscribe for any shares or debentures during the period. No options held by Directors lapsed during the period.

3 Exchange rates

The exchange rates used by HSBC for the purpose of consolidation of its results for the following currencies are:

Period-end	**At 30 June 2001**	At 30 June 2000	At 31 December 2000
HK$/US$	**7.800**	7.795	7.800
£/US$	**0.712**	0.660	0.670
€/US$	**1.180**	1.045	1.076
BRL/US$	**2.311**	1.799	1.950

Average	**Half-year to 30 June 2001**	Half year to 30 June 2000	Half year to 31 December 2000
HK$/US$	**7.800**	7.786	7.798*
£/US$	**0.694**	0.637	0.683*
€/US$	**1.114**	1.041	1.129*
BRL/US$	**2.150**	1.786	1.872*

* *Average for the second half of 2000.*

4 Segmental analysis

The allocation of earnings reflects the benefit of shareholders’ funds to the extent that these are actually allocated to businesses in the segment by way of intra-HSBC capital and funding structures. Common costs are included in segments on the basis of the actual recharges made.

Geographical information has been classified by the location of the principal operations of the subsidiary undertaking, or in the case of The Hongkong and Shanghai Banking Corporation Limited, HSBC Bank plc, CCF, HSBC Bank Middle East and HSBC Bank USA operations, by the location of the branch responsible for reporting the results or for advancing the funds. Due to the nature of HSBC’s structure, the analysis of profits includes intra-HSBC items between geographical regions. The ‘rest of Asia-Pacific’ geographical segment includes the Middle East, India and Australasia.

5 Substantial interests in share capital

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

6 Dealings in HSBC Holdings shares

Save for dealings by HSBC Investment Bank plc, trading as an intermediary in HSBC Holdings' shares in London, neither HSBC Holdings nor any subsidiary undertaking has bought, sold or redeemed any securities of HSBC Holdings during the six months ended 30 June 2001.

7 Registers of shareholders

The Overseas Branch Register of shareholders in Hong Kong will be closed for one day, on Friday 24 August 2001. Any person who has acquired shares registered on the Hong Kong Branch Register but who has not lodged the share transfer with the Branch Registrar should do so before 4.00 pm on Thursday 23 August 2001 in order to receive the dividend.

Any person who has acquired shares registered on the Principal Register in the United Kingdom but who has not lodged the share transfer with the Principal Registrar should do so before 4.00 pm on Friday 24 August 2001 in order to receive the dividend. Transfers between the Principal Register and the Branch Register may not be made while the Branch Register is closed.

Similarly, transfers of American Depositary Shares must be lodged with the depositary by noon on Friday 24 August 2001 in order to receive the dividend.

8 Corporate governance

HSBC is committed to high standards of corporate governance. HSBC Holdings has complied throughout the six months to 30 June 2001 with the best practice provisions of the Combined Code on corporate governance appended to the Listing Rules of the Financial Services Authority and with the provisions of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

There have been no material changes to the information disclosed in the *Annual Report and Accounts 2000* in respect of the number and remuneration of employees, remuneration policies and share option plans.

9 Copies of the *Interim Report*

Further copies of the *Interim Report* may be obtained from Group Corporate Affairs, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE, United Kingdom; or from Group Public Affairs, The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or from HSBC Bank USA, 452 Fifth Avenue, New York, NY 10018, USA; or from the HSBC web site, www.hsbc.com.

A Chinese translation of the report may be obtained on request from Central Registration Hong Kong Limited, Rooms 1901-1905, Hopewell Centre, 183 Queen's Road East, Hong Kong.

本中期業績報告備有中譯本，請向香港中央證券登記有限公司索取，地址：香港皇后大道東183號合和中心1901-5室。

A French translation of the report may be obtained by writing to Direction de la Communication, CCF (Crédit Commercial de France), 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France; or from the CCF web site, www.ccf.com.

La version française de ce document est disponible sur demande écrite auprès du CCF, Direction de la Communication, 103 avenue des Champs Elysées, 75419 Paris Cedex 08, France; ou sur le site internet du CCF, www.ccf.com.

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