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

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

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

Bad and doubtful debts

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

By category:

	1999	*1998*
Loans and advances to customers		
- specific charge:		
new provisions	**2,993**	3,273
releases and recoveries	**(869)**	(655)
	2,124	2,618
- net general (release)/charge	**(47)**	10
Customer bad and doubtful debt charge	**2,077**	2,628
Loans and advances to banks		
- net specific (release)/charge	**(4)**	9
Total bad and doubtful debt charge	**2,073**	2,637

New and additional specific provisions against exposures to customer advances were 8.6 per cent lower than in 1998. Releases and recoveries also improved in 1999 and the bad and doubtful debt charge fell by 21.0 per cent to US$2,077 million representing 89 basis points of average loans and advances to customers.

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

Bad and doubtful debts (continued)

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

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

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

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

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

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

Customer loans and advances and provisions

Figures in US$m	*1999*	*1998*
Loans and advances to customers (gross)	**262,351**	242,489
Residential mortgages	**66,397**	62,212
Hong Kong SAR Government Home Ownership Scheme	**6,565**	6,291
Other personal	**31,706**	25,732
Total personal	**104,668**	94,235
Commercial, industrial and international trade	**60,843**	61,411
Commercial real estate	**24,823**	24,116
Other property-related	**8,208**	8,249
Government	**5,173**	5,285
Non-bank financial institutions	**17,125**	11,763
Settlement accounts	**3,769**	4,963
Other commercial ♦	**37,742**	32,467
Specific provisions outstanding against loans and advances	**5,692**	4,608
Non-performing loans ♦♦	**10,372**	8,871
Specific provisions outstanding as a percentage of non-performing loans ♦♦	**54.9%**	51.9 %
Non-performing loans as a percentage of gross loans and advances to customers ♦♦	**4.0%**	3.7 %
Customer bad and doubtful debt charge as a percentage of closing gross loans and advances ♦♦♦	**0.85%**	1.1 %

♦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

♦♦ *Net of suspended interest*

♦♦♦ *Excluding RNYC and SRH*

Country risk and cross-border exposure

Figures in US$bn	*Brazil*	*Indonesia*	*Malaysia*	*South Korea*	*Thailand*
At 31 December 1999					
In-country local currency obligations	**6.2**	**0.5**	**6.2**	**1.1**	**0.7**
In-country foreign currency obligations	**0.2**	**0.8**	**0.7**	**0.8**	**0.4**
Net cross-border obligations	**1.3**	**0.5**	**0.5**	**1.3**	**0.2**
	1.5	**1.3**	**1.2**	**2.1**	**0.6**
Claims under contracts in financial derivatives	**0.1**	**-**	**-**	**-**	**-**
Total exposure	**7.8**	**1.8**	**7.4**	**3.2**	**1.3**
Figures in US$m					
Non-performing customer loans♦	**80**	**551**	**992**	**316**	**358**
Specific provisions outstanding	**65**	**473**	**596**	**223**	**217**
At 30 June 1999					
Figures in US$bn					
Total exposure	6.0	1.7	7.5	3.9	1.6
Figures in US$m					
Non-performing customer loans♦	126	588	950	7	499
Specific provisions outstanding	82	443	550	5	333
At 31 December 1998					
Figures in US$bn					
Total exposure	9.2	1.4	7.4	3.6	2.3
Figures in US$m					
Non-performing customer loans♦	135	643	693	34	575
Specific provisions outstanding	89	410	357	23	350

♦ *Net of suspended interest*

Country risk and cross-border exposure (continued)

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

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

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

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

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

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

Country risk and cross-border exposure (continued)

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

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

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

Asset disposition

Figures in US$m	*At 31 December 1998*		*At 31 December 1999*	
Total assets		%		**%**
Europe	190,823	40.2	**211,222**	**37.7**
Hong Kong	149,127	31.3	**165,420**	**29.6**
Rest of Asia-Pacific	57,253	12.0	**55,291**	**9.9**
North America	63,903	13.4	**110,120**	**19.7**
Latin America	14,614	3.1	**17,181**	**3.1**
Group total	475,720	100.0	**559,234**	**100.0**

Asset disposition

Figures in US$m	*At 31 December 1998*	*RNYC/SRH*	*Other movements*	*At 31 December 1999*
Loans and advances to customers	235,295	18,449	(177)	**253,567**
Loans and advances to banks	85,315	8,766	5,996	**100,077**
Debt securities	69,185	32,060	8,823	**110,068**
Treasury bills and other eligible bills	21,980	222	1,011	**23,213**
Equity shares	4,221	443	(186)	**4,478**
Other	59,724	13,113	(5,006)	**67,831**
	475,720	73,053	10,461	**559,234**
HK SAR Government certificates of indebtedness	7,408			**9,905**
Total assets	483,128			**569,139**
Loans and advances to customers include:				
- reverse repos	2,951			**8,411**
- settlement accounts	4,959			**3,769**
Loans and advances to banks include:				
- reverse repos	7,411			**10,172**
- settlement accounts	2,207			**1,579**

Asset disposition (continued)

Total assets increased by US$86 billion, mostly as a result of the acquisitions of RNYC and SRH, made during the year.

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

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

Capital resources

	At 31 December 1999	At 31 December 1998
Capital ratios	%	%
Total capital ratio	**13.2**	13.6
Tier 1 capital ratio	**8.5**	9.7
Composition of capital		
Figures in US$m		
Tier 1:		
Shareholders' funds and minorities less property revaluation reserves and goodwill capitalised	**28,533**	29,352
Tier 2:		
Property revaluation reserves	**2,353**	2,121
General provisions	**2,088**	1,807
Perpetual subordinated debt	**3,264**	3,276
Term subordinated debt	**10,151**	6,433
Minority interests in tier 2 capital	**577**	-
Total qualifying tier 2 capital	**18,433**	13,637
Unconsolidated investments	**(1,487)**	(1,266)
Investments in other banks	**(1,032)**	(503)
Other deductions	**(177)**	(128)
Total capital	**44,270**	41,092
Total risk-weighted assets	**336,126**	301,950

The above figures were computed in accordance with the EU Consolidated Supervision Directive.

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

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

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

HSBC European Operations

Figures in US$m	*1999*	*1998*
Profit before tax	**3,322**	2,884
Share of Group pre-tax profits	**41.6%**	43.9%
Total assets	**211,222**	190,823
Share of Group total assets	**37.7%**	40.2%
Year end staff numbers (FTE basis)	**53,861**	49,798
Cost:income ratio	**59.5%**	62.0%

Our European operations contributed US$3,322 million to the Group's profit before tax for 1999, an increase of 15.2 per cent over 1998, and represented 41.6 per cent of the Group's profit before tax. At constant exchange rates, Europe's profit before tax increased by 18.6 per cent over 1998.

HSBC Bank plc's **UK Banking** operating profit before provisions increased by 7.1 per cent from US$2,580 million in 1998 to US$2,764 million. Operating profit was US$2,184 million, an increase of 1.2 per cent compared with 1998. At constant exchange rates, the underlying increase in UK Banking's operating profit before provisions was 9.8 per cent. The following commentary on UK Banking's results is based on the underlying currency results.

HSBC Bank continued to focus on the delivery of wealth management services to personal customers, growing the bank's commercial business and extending the range of services available to our large corporate customers. Particular emphasis was placed on growing fee-based business and on making our product range competitive and transparent to our personal customers. This strategy was rewarded through growth in current accounts of US$6.0 billion or 13 per cent, an increase in savings and deposit accounts of US$2.1 billion or 28 per cent, and a 26.9 per cent increase in income from the sale of Life, Pensions and Investments products.

First Direct also continued to perform well with pre-tax profit increasing by US$29 million to US$81 million. First Direct acquired 117,000 new cheque account customers in 1999 bringing the total cheque account customer base to over 966,000. Additionally, First Direct was rated favourite on-line bank by Interactive Investor International in October 1999.

UK Banking's net interest income was US$138 million higher at US$3,257 million principally due to growth in personal and business current account and savings balances, supported by the simplification of the bank's product range and pricing in 1998.

HSBC European Operations (continued)

UK Banking's other operating income at US$2,981 million was US$319 million, or 12.0 per cent, higher.

During the year HSBC Bank gained an increased share of the Life, Pensions and Investments market with income increasing by US$79 million or 26.9 per cent compared to 1998. Income from sales of HSBC unit trusts and life investment bonds, boosted by a strong performance in sales of ISAs and offshore products, was 50.6 per cent higher than in 1998. Commission income on general insurance sales increased by US$26 million or 13.3 per cent. Higher mortgage sales led to increased cross sales of insurance and healthcare products. Card fee income rose by US$32 million. Private client income increased by US$18 million, or 21.9 per cent, with a strong performance in portfolio management and independent financial advice services. Growth in overdrafts contributed an additional US$52 million of fee income. In First Direct, a larger customer base contributed to increased fee income of US$23 million. Global Investor Services, the bank's specialist global custody division, benefited from a number of competitors leaving the market or changing control and increased its operating income by US$20 million, or 35.2 per cent. Assets held under custody rose to over US$1,108 billion, an increase of 19 per cent compared with 1998. Operating lease income was US$23 million higher than in 1998.

Productivity improvements were reflected in operating expenses rising less than the growth in operating income. Operating expenses increased by US$212 million or 6.5 per cent to US$3,474 million. UK Banking's cost:income ratio continued to improve from 56.4 per cent in 1998 to 55.7 per cent in 1999. Staff costs increased by US$108 million compared with 1998. This reflects annual pay awards and recruitment of employees, principally to support increased wealth management activities and business volumes and as a result of replacement of temporary IT staff with permanent IT staff.

The charge for bad and doubtful debts was US$502 million, representing 0.7 per cent of average advances to customers, and was US$188 million higher than 1998. The increased bad debt charge reflected the return to a more normal credit environment, specific provisions against a Korean corporate and mix factors reflecting a higher proportion of personal unsecured lending.

Provisions for contingent liabilities and commitments were US$24 million lower than 1998. Further charges of US$71 million were made for the amount of redress potentially payable to customers who may have been disadvantaged when transferring from, or opting out, of occupational pension schemes. The charge of US$47 million in the first half of 1999, was necessitated by changes to the FSA's financial assumptions and new guidance in respect of subsequent periods of employment. This was augmented by a further charge of US$24 million in the second half to reflect changes in the FSA's assumptions (particularly with regard to mortality rates) and new FSA requirements.

HSBC European Operations (continued)

UK Banking's share of the results of associated undertakings was an operating loss of US$71 million compared with a loss of US$16 million in 1998. This reflects the bank's 20 per cent shareholding in British Interactive Broadcasting ("BiB") and the costs of promoting the new digital interactive television service and connecting subscribers.

Treasury and Capital Markets operating profit was US$239 million, an increase of US$178 million compared with 1998. Other operating income was US$123 million higher than 1998 reflecting improved interest rate derivative and bond trading income following difficult trading conditions last year.

HSBC Bank plc's **International Banking** operating profit was US$142 million or 58.7 per cent higher than 1998, with particularly good results in Turkey, Greece and the offshore business in the Channel Islands and the Isle of Man. The drive to develop wealth management business was very successful in the Channel Islands and the Isle of Man, and also in Greece due to the strong stockbroking and fund management activities there. These results included the contribution of the 70.03 per cent interest in Mid-Med Bank plc (subsequently renamed HSBC Bank Malta plc), the largest commercial bank in Malta, acquired in June 1999.

In **Germany** HSBC Trinkaus und Burkhardt KGaA reported a satisfactory economic profit for the German banking market. In particular, institutional clients and corporate finance business benefited from closer co-operation with the investment bank in London. We plan to enter the retail market for the first time in Germany by establishing an internet brokerage company, "Pulsiv", that will commence operations in the first half of 2000.

In **Switzerland**, HSBC Guyerzeller reported an increase of 14.7 per cent in profits before tax compared to 1998. Buoyant conditions in the global equity markets led to increased fee and commission income and higher trading income. The emphasis for 2000 is directed towards the development of an enhanced wealth management service and the continuing growth of funds under management.

Total assets at 31 December 1999 were US$211.2 billion compared with US$190.8 billion at 31 December 1998, an increase of US$20.4 billion mainly from acquisitions.

Figures in US$m	*1999 Half year ended 30 June* ♦	*31 December* ♦	*1999*	*1998 Half year ended 30 June* ♦	*31 December* ♦	*1998*
Net interest income	2,080	2,151	4,231	1,970	2,037	4,007
Dividend income	38	55	93	38	41	79
Net fees and commissions	1,660	1,764	3,424	1,525	1,570	3,095
Dealing profits	371	172	543	220	122	342
Other income	412	464	876	399	454	853
Other operating income	2,481	2,455	4,936	2,182	2,187	4,369
Operating income	4,561	4,606	9,167	4,152	4,224	8,376
Staff costs	(1,613)	(1,607)	(3,220)	(1,459)	(1,451)	(2,910)
Premises and equipment	(260)	(285)	(545)	(259)	(452)	(711)
Other	(520)	(602)	(1,122)	(474)	(589)	(1,063)
Depreciation	(270)	(297)	(567)	(221)	(292)	(513)
Operating expenses	(2,663)	(2,791)	(5,454)	(2,413)	(2,784)	(5,197)
Operating profit before provisions	1,898	1,815	3,713	1,739	1,440	3,179
Customers:						
- new specific provisions	(321)	(443)	(764)	(247)	(376)	(623)
- releases and recoveries	127	216	343	166	140	306
	(194)	(227)	(421)	(81)	(236)	(317)
- net general (charge)	(19)	-	(19)	(27)	(21)	(48)
Customers bad and doubtful debt charge	(213)	(227)	(440)	(108)	(257)	(365)
Banks: net specific release/(charge)	-	2	2	1	(5)	(4)
Total bad and doubtful debt charge	(213)	(225)	(438)	(107)	(262)	(369)
Provisions for contingent liabilities and commitments	(47)	(67)	(114)	(105)	9	(96)
Amounts written off fixed asset investments	(4)	(16)	(20)	(6)	(10)	(16)
Operating profit	1,634	1,507	3,141	1,521	1,177	2,698
Income from associated undertakings	(8)	7	(1)	9	(9)	-
Investment and fixed asset disposal gains	93	89	182	141	45	186
Profit before tax	1,719	1,603	3,322	1,671	1,213	2,884

♦ *unaudited*

Figures in US$m	*At 31 December 1999*	*At 31 December 1998*
Assets		
Loans and advances to customers (net)	**103,824**	91,559
Loans and advances to banks (net)	**29,370**	22,685
Debt securities, treasury bills and other eligible bills	**44,781**	38,390
Liabilities		
Deposits by banks	**23,442**	19,462
Customer accounts	**129,237**	110,197
Customer loans and advances and provisions		
Loans and advances to customers (gross)	**106,075**	93,564
Residential mortgages	**22,047**	20,716
Other personal	**16,668**	12,000
Total personal	**38,715**	32,716
Commercial, industrial and international trade	**27,380**	28,224
Commercial real estate	**6,519**	6,418
Other property-related	**2,020**	2,110
Government	**3,405**	3,381
Non-bank financial institutions	**7,227**	4,638
Settlement accounts	**2,827**	877
Other commercial✦	**17,982**	15,200
Specific provisions outstanding against loans and advances	**1,411**	1,286
Non-performing loans✦✦	**2,679**	2,326
Specific provisions outstanding as a percentage of non-performing loans✦✦	**52.7%**	55.3%
Non-performing loans as a percentage of gross loans and advances to customers✦✦	**2.5%**	2.5%
Customer bad debt charge as a percentage of closing gross loans and advances	**0.4%**	0.4%

✦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

✦✦ *Net of suspended interest*

HSBC Hong Kong Operations

Figures in US$m	*1999*	*1998*
Profit before tax	**3,054**	2,427
Share of Group pre-tax profits	**38.3 %**	36.9%
Total assets	**165,420**	149,127
Share of Group total assets	**29.6 %**	31.3%
Year end staff numbers (FTE basis)	**23,932**	24,447
Cost:income ratio	**35.9 %**	36.7%

Our Hong Kong operations contributed US$3,054 million to the Group's profit before tax for 1999, an increase of 25.8 per cent over 1998, and representing 38.3 per cent of the Group's profit before tax.

Net interest income increased by US$263 million, or 7.6 per cent, through an increase in the level of average interest-earning assets and an improved spread.

The increase in average interest-earning assets was primarily in lower yielding short-term assets reflecting the deployment of surplus funds as a result of increased customer deposits in an environment of limited lending opportunities.

For the bank in Hong Kong, spread widened by 18 basis points compared with 1998 despite the adverse effect of a fall in the average advances to deposits ratio. The improved spread was due to a more favourable funding mix achieved through growth in savings accounts and an increased spread on time deposits, and the widening of the gap between Hong Kong best lending rate and interbank rates. The contribution from net free funds fell by 12 basis points due to lower average interest rates in 1999 partly offset by an increase in net free funds. Overall, the net interest margin improved from 2.41 per cent in 1998 to 2.47 per cent in 1999, an increase of six basis points.

In Hang Seng Bank, the net interest margin reduced from 2.96 per cent in 1998 to 2.87 per cent in 1999. This was due to a reduction in contribution from net free funds, reflecting lower average interest rates in 1999 and the payment of a special interim dividend, which outweighed a 14 basis point improvement in spread for similar reasons to the bank.

Other operating income decreased slightly compared with 1998 mainly from lower dealing profits. Fees and commissions increased by 15.3 per cent, with increased income earned in securities, credit facilities and cards, as well as from structured finance and corporate finance in the investment bank.

In a shrinking and increasingly competitive market for credit, increased focus was put on generating fee income and there was an encouraging improvement in income from wealth management initiatives which include the sale of investment and insurance products. Considerable investment was made during 1999 in preparing people, systems and marketing for the Mandatory Provident Fund launch during 2000 and this investment will continue well into the current year. Dealing profits were lower, with reductions in profits on foreign exchange and interest rate derivatives. Additionally, there was a sharp reduction in profit on debt securities in 1999 as a result of provisions made in respect of Korean bonds.

Operating expenses increased by 2.4 per cent over 1998. Staff costs increased by 2.2 per cent, with an increase in salaries and other staff costs reflecting grade and performance uplifts against a background of a pay and headcount freeze together with a reduction in retirement benefit costs. Stronger operating profits led to a higher provision for profit-related remuneration in the investment bank. Premises and equipment expenses increased by 2.3 per cent mainly due to office relocations. The cost:income ratio improved by 0.8 per cent to 35.9 per cent.

The net charge for bad and doubtful debts decreased by US$162 million, or 21.7 per cent, to US$585 million. During the year, new specific provisions were made in respect of lending to mainland China related companies and a Korean borrower in Hong Kong. In addition, the provisions charge for home mortgage loans increased to 35 basis points of residential mortgage lending but the delinquency rate still remained low. These costs were partly offset by a higher level of releases and recoveries of specific provisions. In the second half of 1999, the rate of formation of non-performing loans slowed and at 31 December 1999 they amounted to US$3,133 million.

The gain on disposal of fixed assets and investments principally related to the profit on the partial disposal of an investment held by the investment bank.

Figures in US$m	*1999 Half year ended 30 June* ✦	*31 December* ✦	*1999*	*1998 Half year ended 30 June* ✦	*31 December* ✦	*1998*
Net interest income	1,815	1,920	3,735	1,732	1,740	3,472
Dividend income	17	22	39	27	17	44
Net fees and commissions	430	534	964	415	421	836
Dealing profits	134	77	211	124	186	310
Other income	169	169	338	167	216	383
Other operating income	750	802	1,552	733	840	1,573
Operating income	2,565	2,722	5,287	2,465	2,580	5,045
Staff costs	(554)	(591)	(1,145)	(539)	(581)	(1,120)
Premises and equipment	(119)	(143)	(262)	(129)	(127)	(256)
Other	(126)	(173)	(299)	(134)	(163)	(297)
Depreciation	(95)	(95)	(190)	(89)	(89)	(178)
Operating expenses	(894)	(1,002)	(1,896)	(891)	(960)	(1,851)
Operating profit before provisions	1,671	1,720	3,391	1,574	1,620	3,194
Customers:						
- new specific provisions	(397)	(323)	(720)	(337)	(499)	(836)
- releases and recoveries	56	45	101	15	56	71
	(341)	(278)	(619)	(322)	(443)	(765)
- net general releases	22	12	34	12	6	18
Total bad and doubtful debt charge	(319)	(266)	(585)	(310)	(437)	(747)
Provisions for contingent liabilities and commitments	2	-	2	1	(1)	-
Amounts written off fixed asset investments	(4)	(1)	(5)	2	(59)	(57)
Operating profit	1,350	1,453	2,803	1,267	1,123	2,390
Income from associated undertakings	11	4	15	12	11	23
Investments and fixed asset disposal gains	30	206	236	6	8	14
Profit before tax	1,391	1,663	3,054	1,285	1,142	2,427

✦ *unaudited*

Figures in US$m	*At 31 December 1999*	*At 31 December 1998*
Assets		
Loans and advances to customers (net)	**62,565**	66,710
Loans and advances to banks (net)	**53,778**	44,937
Debt securities, treasury bills and other eligible bills	**27,233**	21,307
Liabilities		
Deposits by banks	**3,846**	2,617
Customer accounts	**131,084**	120,455
Customer loans and advances and provisions		
Loans and advances to customers (gross)	**64,820**	68,484
Residential mortgages	**23,614**	25,051
Hong Kong SAR Government Home Ownership Scheme	**6,565**	6,291
Other personal	**4,409**	4,257
Total personal	**34,588**	35,599
Commercial, industrial and international trade	**9,762**	10,952
Commercial real estate	**8,987**	9,420
Other property-related	**2,093**	2,248
Government	**140**	551
Non-bank financial institutions	**2,262**	2,259
Settlement accounts	**114**	78
Other commercial ♦	**6,874**	7,377
Specific provisions outstanding against loans and advances	**1,428**	1,059
Non-performing loans ♦♦	**3,133**	2,520
Specific provisions outstanding as a percentage of non-performing loans ♦♦	**45.6 %**	42.0%
Non-performing loans as a percentage of gross loans and advances to customers ♦♦	**4.8 %**	3.7%
Customer bad debt charge as a percentage of closing gross loans and advances	**0.9 %**	1.1%

♦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

♦♦ *Net of suspended interest*

HSBC Rest of Asia-Pacific Operations

Figures in US$m	*1999*	*1998*
Profit before tax	**329**	39
Share of Group pre-tax profits	**4.1%**	0.6%
Total assets	**55,291**	57,253
Share of Group total assets	**9.9%**	12.0%
Year end staff numbers (FTE basis)	**21,375**	21,116
Cost:income ratio	**52.3%**	46.4%

Most countries in the region are now recovering from the 1997-98 Asian economic crisis although the speed and extent of recovery has varied. Easier fiscal policy, accommodative monetary policy and depreciated real exchange rates have all helped recovery. Economic restructuring continues but is expected to be gradual with the greatest risks related to potential rises in US inflation, interest rates and currency. China's prospective entry into the World Trade Organisation boosts the medium-term growth prospects for China and the region as a whole.

Against this backdrop, our operations in the rest of Asia-Pacific significantly improved profitability contributing US$329 million, or 4.1 per cent, of the Group's profit before tax. Provisions for bad and doubtful debts decreased markedly, especially in Indonesia and Thailand.

Net interest income remained broadly at the same level as in 1998 as the positive impact of an increase in average interest-earning assets was offset by lower margins as the exceptional spreads available in the first half of 1998 were not repeated.

Within other operating income, fees and commissions grew steadily through 1999 in particular in Taiwan and Australia in credit cards, securities and trade services. Investment banking operations also performed well, with higher fees from equities operations in Japan and Korea, together with increased fees from private client business in Singapore. Dealing profits decreased by US$113 million, or 27.4 per cent, mainly in foreign exchange as the exceptionally wide spreads earned on Asian currencies in 1998 were not repeated.

Operating expenses increased by US$110 million or 10.5 per cent. As the Asian economic downturn stabilised, we resumed building our infrastructure in the region. Staff numbers increased in Taiwan, India, Australia and elsewhere in the rest of Asia-Pacific to support business expansion. Staff costs increased by US$80 million. Premises and equipment expenses increased by 9.5 per cent whilst depreciation increased by 12.0 per cent mainly because of branch openings and office relocations.

We continue to invest in regional processing for Asia-Pacific to enhance productivity through economies of scale and processing efficiencies. During 1999, the processing for Kazakhstan, Macau, Sri Lanka and Thailand was moved to Hong Kong and the majority of sales processing for the Middle East is now undertaken in Dubai. Back office sites are being developed both in mainland China and in India, which will undertake routine processing from any part of the world, allowing all parts of the Group to benefit from cost efficiencies.

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

Non-performing loans increased from 9.4 per cent of gross advances to customers at the end of 1998 to 11.1 per cent at the end of 1999, reflecting both an increase in the quantum of non-performing loans and the reduction in total advances.

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

Net interest income declined due to lower margins as the asset mix was biased towards lower yielding Central Bank advances due to limited quality lending opportunities, and a substantial increase in the level of interest suspended on non-performing loans. Average interest-earning assets increased primarily due to surplus funds attracted as a result of regulated minimum deposit rates which were on-lent to the Central Bank.

Other operating income decreased due to more stable market conditions. Market volatility in 1998 prior to the imposition of selective capital controls resulted in exceptionally high foreign exchange trading profits which were not repeated in 1999. In view of the declining operating income, a voluntary separation scheme at a cost of US$16 million was negotiated to reduce the ongoing cost base.

Operating profits before provisions reported by the **Middle Eastern** operations of HSBC Bank Middle East were in line with those earned in 1998. Higher charges for bad and doubtful debts in the current year reflected raising a small number of significant individual provisions and a higher proportion of personal lending. The higher level of personal lending had a favourable effect on interest spreads.

In **Singapore**, our operations returned to profit in 1999 benefiting from the faster than expected rebound in the Singapore economy. Provisions for bad and doubtful debts and contingent liabilities were significantly lower than in 1998. During the year our investment in personal banking business continued, with an emphasis on upgrading and expanding distribution channels, products and services. We have begun to upgrade our call centre and are planning to introduce mobile phone and internet banking during the coming year.

The results of our operations in **India** were satisfactory. We continue to make encouraging progress from our continuing investment in personal banking and wealth management products. In August 1999, we rationalised the Group's operations by incorporating the three Indian branches of HSBC Bank Middle East into The Hongkong and Shanghai Banking Corporation Limited network. The rationalisation of the branch network will allow us to better service the needs of our customers and achieve cost efficiencies.

In mainland **China**, our operations had a difficult year as the rate of economic growth declined. The net charge for bad and doubtful debts in 1999, relating to lending to mainland China related companies in Hong Kong, mainland China and Macau was US$220 million higher than in 1998. Nonetheless, we continue to hold a very positive view of the long-term potential of China.

Bad and doubtful debts in 1999 in respect of exposure to **Indonesia and Thailand** amounted to US$73 million against US$613 million in 1998 contributing substantially to the turnaround in the region's profitability.

Figures in US$m	*1999 Half year ended 30 June* ♦	*31 December* ♦	*1999*	*1998 Half year ended 30 June* ♦	*31 December* ♦	*1998*
Net interest income	619	621	1,240	655	600	1,255
Dividend income	1	1	2	1	1	2
Net fees and commissions	304	341	645	294	272	566
Dealing profits	160	140	300	264	149	413
Other income	17	19	36	18	15	33
Other operating income	482	501	983	577	437	1,014
Operating income	1,101	1,122	2,223	1,232	1,037	2,269
Staff costs	(318)	(324)	(642)	(284)	(278)	(562)
Premises and equipment	(61)	(66)	(127)	(56)	(60)	(116)
Other	(135)	(174)	(309)	(144)	(155)	(299)
Depreciation	(34)	(50)	(84)	(39)	(36)	(75)
Operating expenses	(548)	(614)	(1,162)	(523)	(529)	(1,052)
Operating profit before provisions	553	508	1,061	709	508	1,217
Customers:						
- new specific provisions	(569)	(515)	(1,084)	(648)	(713)	(1,361)
- releases and recoveries	130	129	259	46	93	139
	(439)	(386)	(825)	(602)	(620)	(1,222)
- net general releases/(charge)	14	-	14	(3)	11	8
Customers bad and doubtful debt charge	(425)	(386)	(811)	(605)	(609)	(1,214)
Banks: net specific release/(charge)	2	-	2	-	(5)	(5)
Total bad and doubtful debt charge	(423)	(386)	(809)	(605)	(614)	(1,219)
Provisions for contingent liabilities and commitments	(7)	(23)	(30)	(73)	36	(37)
Amounts written off fixed asset investments	(2)	1	(1)	(1)	(10)	(11)
Operating profit	121	100	221	30	(80)	(50)
Income from associated undertakings	44	50	94	44	47	91
Investments and fixed asset disposal gains/(losses)	15	(1)	14	(1)	(1)	(2)
Profit before tax	180	149	329	73	(34)	39

♦ *unaudited*

Figures in US$m	*At 31 December 1999*	*At 31 December 1998*
Assets		
Loans and advances to customers (net)✦	**28,866**	29,980
Loans and advances to banks (net)	**10,024**	11,430
Debt securities, treasury bills and other eligible bills	**13,216**	9,757
Liabilities		
Deposits by banks	**3,017**	5,367
Customer accounts	**37,002**	35,472
Customer loans and advances and provisions		
Loans and advances to customers (gross)	**31,825**	32,380
Residential mortgages	**3,028**	2,746
Other personal	**3,748**	3,322
Total personal	**6,776**	6,068
Commercial, industrial and international trade	**12,317**	13,189
Commercial real estate	**3,353**	3,601
Other property-related	**2,034**	2,126
Government	**749**	567
Non-bank financial institutions	**1,047**	1,527
Settlement accounts	**200**	231
Other commercial✦✦	**5,349**	5,071
Specific provisions outstanding against loans and advances	**2,221**	1,701
Non-performing loans✦✦✦	**3,534**	3,032
Specific provisions outstanding as a percentage of non-performing loans✦✦✦	**62.8%**	56.1%
Non-performing loans as a percentage of gross loans and advances to customers✦✦✦	**11.1%**	9.4%
Customer bad debt charge as a percentage of closing gross loans and advances	**2.5%**	3.7%

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

✦✦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

✦✦✦ *Net of suspended interest*

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

Figures in US$m	*Residential mortgages*	*Other personal*	*Property related*	*Commercial international trade & other*	*Total*
At 31 December 1999					
Loans and advances to customers (gross)					
Singapore	469	654	1,429	3,261	5,813
Australia & New Zealand	1,113	112	1,389	2,326	4,940
Malaysia	551	341	681	2,749	4,322
Middle East	27	1,621	597	2,974	5,219
Indonesia	3	17	19	848	887
South Korea	48	17	31	754	850
Thailand	45	45	67	786	943
Japan	41	6	276	1,448	1,771
Mainland China	36	-	479	1,246	1,761
Other	695	935	419	3,270	5,319
Total of Rest of Asia-Pacific	3,028	3,748	5,387	19,662	31,825

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

Figures in US$m	*Residential mortgages*	*Other personal*	*Property related*	*Commercial international trade & other*	*Total*
At 31 December 1998					
Loans and advances to customers (gross)					
Singapore	464	673	1,754	3,350	6,241
Australia & New Zealand	1,105	66	1,432	2,277	4,880
Malaysia	525	353	728	3,148	4,754
Middle East	26	1,590	276	2,877	4,769
Indonesia	2	15	26	908	951
South Korea	19	25	13	488	545
Thailand	56	57	110	1,054	1,277
Japan	37	7	210	2,152	2,406
Mainland China	41	-	711	1,395	2,147
Other	471	536	467	2,936	4,410
Total of Rest of Asia-Pacific	2,746	3,322	5,727	20,585	32,380

HSBC North American Operations

Figures in US$m	*1999*	*1998*
Profit before tax	**959**	987
Share of Group pre-tax profits	**12.0 %**	15.0%
Total assets	**110,120**	63,903
Share of Group total assets	**19.7 %**	13.4%
Year end staff numbers (FTE basis)	**19,498**	14,500
Cost:income ratio	**60.1 %**	57.2%

The Group's operations in North America contributed US$959 million to the HSBC Group's profit before tax, after charging US$164 million of restructuring costs for the integration of RNYC's operations with our existing operations, a slight decrease from the level achieved in 1998. The level of net interest income benefited from investing the capital raised earlier in the year to fund the RNYC and SRH acquisitions completed at the year end.

USA

The acquisition of RNYC was completed on 31 December and strengthened our US operations with significant private banking, treasury and capital markets, and factoring businesses, and additional New York City retail branches. HSBC Bank USA now has the largest branch network in New York State and the second largest branch network in New York City. Our banking operations now reach 2.4 million households in the state. The rating agencies improved the ratings of HSBC Bank USA to the AA level. Detailed integration planning has been completed and progress is on-track to achieve the synergies highlighted at the time the acquisition was announced.

Our commercial banking operations increased full year pre-tax profits, before one-off events, by 9 per cent. These results included a US$15 million gain on the sale of a loan portfolio and the benefit of a US$13 million settlement with the US Internal Revenue Service on Brazilian tax credits disallowed in the 1980s. The results for 1998 included a US$33 million settlement on Brazilian tax credits with US$28 million arising from the sale of credit card portfolios.

Other operating income, before one-off events, increased 9 per cent with a greater contribution from wealth management products, including insurance, and from deposit service charges and commercial loan fees. Insurance revenues were US$10 million higher than 1998. Over 1,100 bank employees were licensed to sell insurance products with this number planned to almost double over the next year.

Overall, costs continued to be carefully controlled and the underlying increase was less than 3 per cent.

Our treasury and investment banking operations in the US produced an improved operating performance in 1999 largely reflecting a refocusing and rationalisation of activities mainly completed during 1998.

Canada

Profit before tax from banking operations in Canada for 1999 increased by 9 per cent over 1998. However, the comparative included in HSBC's results was for the 14 months ended 31 December 1998. Adjusting for this, the increase in pre-tax profit on an annualised basis was 27 per cent.

Net interest income grew by 4 per cent on an annualised basis over the comparative period in 1998 despite continuing market pressures on interest spreads during 1999. The increase was due to steady growth in both the bank's retail and commercial loan portfolios. The net interest margin on average interest-earning assets also improved year on year from 2.27 per cent to 2.32 per cent.

Other income was 36 per cent higher than the comparative period of 1998 on an annualised basis. Securities commissions increased significantly year on year following the acquisition of Gordon Capital Corporation in January 1999. Strong contributions were recorded by equity structured trading and, assisted by NetTrader, the first internet trading website in Canada, discount brokerage business volumes doubled and revenues increased by 80 per cent. Increased revenues from foreign exchange trading and a higher volume of bankers' acceptance and guarantee business were partially offset by lower fee income from mutual funds.

Non-interest expenses rose during the year ended 31 December 1999. The Gordon Capital Corporation and Moss Lawson acquisitions resulted in higher staff, services and other acquisition-related costs. Growth of the bank's core retail operations and investment in new delivery channels also added to total employee, premises and equipment costs. A focus on improving the efficiency of operational processes and other customer service initiatives began in 1999 and will continue during 2000.

Provisions for credit losses were lower in 1999 than in 1998, as there was no repeat step change in the level of general provisions charged in 1998 which reflected the economic decline in certain provinces, in particular British Columbia.

Figures in US$m	*1999 Half year ended 30 June* ✦	*31 December* ✦	*1999*	*1998 Half year ended 30 June* ✦	*31 December* ✦	*1998*
Net interest income	817	870	1,687	787	831	1,618
Dividend income	6	6	12	7	7	14
Net fees and commissions	294	299	593	296	300	596
Dealing profits	109	72	181	40	36	76
Other income	81	82	163	80	105	185
Other operating income	490	459	949	423	448	871
Operating income	1,307	1,329	2,636	1,210	1,279	2,489
Staff costs	(409)	(475)	(884)	(374)	(407)	(781)
Premises and equipment	(90)	(157)	(247)	(85)	(95)	(180)
Other	(192)	(190)	(382)	(184)	(213)	(397)
Depreciation	(35)	(37)	(72)	(30)	(36)	(66)
Operating expenses	(726)	(859)	(1,585)	(673)	(751)	(1,424)
Operating profit before provisions	581	470	1,051	537	528	1,065
Customers:						
- new specific provisions	(115)	(116)	(231)	(77)	(179)	(256)
- releases and recoveries	52	48	100	64	47	111
	(63)	(68)	(131)	(13)	(132)	(145)
- net general releases/charge	-	23	23	(36)	72	36
Total bad and doubtful debt charge	(63)	(45)	(108)	(49)	(60)	(109)
Provisions for contingent liabilities and commitments	-	(1)	(1)	(1)	(9)	(10)
Operating profit	518	424	942	487	459	946
Income from associated undertakings	2	2	4	1	1	2
Gains on disposal of investments and tangible fixed assets	10	3	13	27	12	39
Profit before tax	530	429	959	515	472	987

✦ *unaudited*

Figures in US$m	*At 31 December 1999*	*At 31 December 1998*
Assets		
Loans and advances to customers (net)	**52,851**	41,936
Loans and advances to banks (net)	**4,503**	4,523
Debt securities, treasury bills and other eligible bills	**42,706**	15,674
Liabilities		
Deposits by banks	**6,459**	5,659
Customer accounts	**55,000**	33,401
Customer loans and advances and provisions		
Loans and advances to customers (gross)	**53,710**	42,531
Residential mortgages	**16,942**	13,059
Other personal	**5,857**	5,265
Total personal	**22,799**	18,324
Commercial, industrial and international trade	**8,914**	6,444
Commercial real estate	**5,709**	4,615
Other property-related	**1,893**	1,591
Government	**726**	651
Non-bank financial institutions	**6,380**	3,238
Settlement accounts	**619**	3,734
Other commercial✦	**6,670**	3,934
Specific provisions outstanding against loans and advances	**254**	223
Non-performing loans✦✦	**584**	590
Specific provisions outstanding as a percentage of non-performing loans✦✦	**43.5%**	37.8%
Non-performing loans as a percentage of gross loans and advances to customers✦✦	**1.1%**	1.4%
Customer bad debt charge as a percentage of closing gross loans and advances	**0.2%**	0.3%

✦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

✦✦ *Net of suspended interest*

HSBC Latin American Operations

Figures in US$m

	1999	*1998*
Profit before tax	**318**	234
Share of Group pre-tax profits	**4.0 %**	3.6%
Total assets	**17,181**	14,614
Share of Group total assets	**3.1 %**	3.1%
Period end staff numbers (FTE basis)	**27,181**	26,572
Cost:income ratio	**76.8 %**	81.2%

Despite the devaluation of the Brazilian real at the beginning of 1999 and the continuing economic recession in Argentina, our Latin American operations contributed US$318 million to the HSBC Group's profit before tax during 1999, an increase of 36 per cent. As suggested at the time of our interim results, the exceptional profits earned from the volatility in the Brazilian financial markets were not repeated in the second half of 1999.

Brazil

Our Brazilian operations reported profits before tax, in US dollar terms, 9 per cent higher than in 1998. Strategic positioning, in anticipation of a second half fall in interest rates to pre-devaluation levels, resulted in strong levels of interest income in the second half of 1999, augmenting the exceptionally strong net interest income and foreign exchange dealing profits earned in the first half of the year. The devaluation of the Brazilian real masked an increase in staff costs resulting from substantial labour litigation provisions incurred in the second half of 1999. These provisions were largely due to restructuring and local labour laws, which are affecting the entire industry. Although a number of exceptional factors impacted 1999's financial performance, of greater importance for the long term was the progress made in changing business mix to conform with the Group's Managing for Value strategy.

In 1999 our banking operations achieved a substantial increase in cross-sales of retail banking and insurance products. Much of this improvement was achieved through fund management operations where funds under management grew from BRL4.5 billion to BRL7.9 billion during the year. Our insurance operations continued to increase their proportion of products sold through the bank's distribution channels with 33 per cent of insurance revenues now earned through these channels against 22 per cent in 1998.

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

The strong operating earnings together with slow growth in risk-weighted assets generated a very positive capital retention enabling our Brazilian operations to pay dividends of US$207 million during 1999.

Argentina

The Group's Argentinian operations reported profits before tax of US$67 million compared with a pre-tax loss of US$13 million in 1998. This was due largely to improved operating efficiency, the absence of a provision against an equity investment and the benefits from increasing our participation in La Buenos Aires New York Life (a life assurance company) and Maxima, from that of associate to majority shareholder. The salesforce of Maxima, our pension fund manager, achieved an encouraging increase in the cross-selling of retail banking products during 1999.

Higher levels of net interest income were earned in 1999 as volume growth in average interest-earning assets, particularly in lower yielding debt securities, mortgages, leasing and loans secured on pledges more than offset the fall in net interest margin resulting from the resultant change in asset mix. The increase in other operating income reflected the change to majority shareholder in La Buenos Aires New York Life and Maxima, volume growth in cheque discounting and cards income and a stronger underwriting performance in the motor insurance business. Operating expenses grew to support volume growth and strengthen the control environment.

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

Figures in US$m	*1999 Half year ended* 30 June ✦	31 December ✦	*1999*	*1998 Half year ended* 30 June ✦	31 December ✦	*1998*
Net interest income	582	515	1,097	507	688	1,195
Dividend income	11	-	11	9	-	9
Net fees and commissions	199	192	391	336	307	643
Dealing profits	40	24	64	9	(1)	8
Other income	140	184	324	141	111	252
Other operating income	390	400	790	495	417	912
Operating income	972	915	1,887	1,002	1,105	2,107
Staff costs	(372)	(429)	(801)	(444)	(504)	(948)
Premises and equipment	(76)	(72)	(148)	(90)	(101)	(191)
Other	(195)	(220)	(415)	(225)	(265)	(490)
Depreciation	(37)	(49)	(86)	(38)	(44)	(82)
Operating expenses	(680)	(770)	(1,450)	(797)	(914)	(1,711)
Operating profit before provisions	292	145	437	205	191	396
Customers:						
- new specific provisions	(91)	(103)	(194)	(67)	(130)	(197)
- releases and recoveries	24	42	66	-	28	28
	(67)	(61)	(128)	(67)	(102)	(169)
- net general releases/charge	3	(8)	(5)	(8)	(16)	(24)
Total bad and doubtful debt charge	(64)	(69)	(133)	(75)	(118)	(193)
Provisions for contingent liabilities and commitments	-	-	-	(6)	5	(1)
Amounts written off fixed asset investments	-	(2)	(2)	-	(1)	(1)
Operating profit	228	74	302	124	77	201
Income from associated undertakings	11	-	11	10	10	20
Gains/(losses) on disposal of investments and tangible fixed assets	9	(4)	5	8	5	13
Profit before tax	248	70	318	142	92	234

✦ *unaudited*

Figures in US$m	*1999*	*1998*
Assets		
Loans and advances to customers (net)	**5,461**	5,110
Loans and advances to banks (net)	**2,402**	1,740
Debt securities, treasury bills and other eligible bills	**5,345**	6,037
Liabilities		
Deposits by banks	**1,339**	1,237
Customer accounts	**7,649**	9,385
Customer loans and advances and provisions		
Loans and advances to customers (gross)	**5,921**	5,530
Residential mortgages	**766**	640
Other personal	**1,024**	888
Total personal	**1,790**	1,528
Commercial, industrial and international trade	**2,470**	2,602
Commercial real estate	**255**	62
Other property-related	**168**	174
Government	**153**	135
Non-bank financial institutions	**209**	101
Settlement accounts	**9**	43
Other commercial✦	**867**	885
Specific provisions outstanding against loans and advances	**378**	339
Non-performing loans✦✦	**442**	403
Specific provisions outstanding as a percentage of non-performing loans✦✦	**85.5%**	84.1%
Non-performing loans as a percentage of gross loans and advances to customers✦✦	**7.5%**	7.3%
Customer bad debt charge as a percentage of closing gross loans and advances	**2.2%**	3.5%

✦ *Includes advances in respect of Agriculture, Transport, Energy and Utilities*

✦✦ *Net of suspended interest*

HSBC Investment Banking

Return on shareholders' funds improved to 25.4 per cent, compared with 14.8 per cent in 1998. Pre-tax profits increased by US$315 million, or 66 per cent, to US$793 million. Attributable profits increased by US$254 million, or 85 per cent compared with 1998.

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

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

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

Private banking revenues increased by 7 per cent compared with 1998, but profits declined by 9 per cent due to increased bad debt and other provisions and the amortisation of goodwill arising from the purchase of the 24 per cent minority interest in HSBC Guyerzeller at the end of 1998. At the end of the year, the acquisition of SRH constituted a major step forward for the Group's private banking business. The increased geographical spread of the combined business and the expanded customer base provide the platform for the Group to demonstrate its commitment to building a global private banking operation; this is key to our strategy and the successful integration of our private banking operations will be given the highest priority in 2000.

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

Operating expenses increased by 21 per cent compared with 1998, reflecting increased compensation costs linked to improved profitability. Headcount grew by 1 per cent, excluding acquisitions.

Figures in US$m	*1999 Half year ended* 30 June✦	31 December✦	1999	*1998 Half year ended* 30 June✦	31 December✦	1998
Net interest income	183	190	373	168	205	373
Fees and commissions (net)	728	837	1,565	675	661	1,336
Trading income✦✦	182	43	225	81	16	97
Other income✦✦✦	114	341	455	142	99	241
Total income	1,207	1,411	2,618	1,066	981	2,047
Operating expenses	(904)	(956)	(1,860)	(780)	(756)	(1,536)
Bad and doubtful debts	(19)	14	(5)	1	(39)	(38)
Other	32	8	40	10	(5)	5
Profit before tax	316	477	793	297	181	478
Attributable profit	211	342	553	172	127	299
Total assets	40,177	71,851	71,851	35,576	36,649	36,649
Shareholders' funds	2,141	5,268	5,268	2,008	2,128	2,128
Return on average shareholders' funds	19.6%	31.2%	25.4%	17.7%	12.2%	14.8%
Staff numbers (FTE) basis	8,290	10,076	10,076	8,210	8,213	8,213
Segmental analysis of pre-tax profit:						
- Asset management	39	43	82	29	26	55
- Private banking	107	94	201	110	110	220
- Other investment banking	170	340	510	158	45	203
	316	477	793	297	181	478

✦ *Unaudited figures; the 1998 figures have been restated to include HSBC Trinkaus & Burkhardt KGaA transferred to HSBC Investment Banking on 1 January 1999.*

✦✦ *In order to present the results of HSBC Investment Banking on a basis consistent with common practice in investment banking, trading income as reported above includes all profits and losses relating to dealing activities, including interest income/expense and dividends arising from long and short positions. In this respect, it differs from dealing profits as reported on page 14.*

✦✦✦ *Includes profit on disposal of venture capital and other investments, US$332 million in 1999 (1998: US$117 million) which were included in gains on disposal of fixed assets and investments at HSBC Group level.*

1. Accounting policies

The accounting policies adopted are consistent with those described in the 1998 Annual Report and Accounts.

In 1999 the provisions of Financial Reporting Standard 12 'Provisions, Contingent Liabilities and Contingent Assets' have been adopted.

2. Dividend

The Directors have declared a second interim dividend for 1999 of US$0.207 per ordinary share, an increase of 11.9 per cent. The dividend will be payable on 27 April 2000 to shareholders on the Register at the close of business on 17 March 2000. 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 18 April 2000, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 23 March 2000, and elections will be required to be made by 13 April 2000.

The dividend payable to holders of ADSs, each of which represents five ordinary shares, will be paid in cash in US dollars on 27 April 2000 or invested in additional ADSs for participants in the dividend reinvestment plan operated by HSBC Bank USA as depositary.

The Company's shares will be quoted ex-dividend in London and in Hong Kong on 13 March 2000. The ADSs will be quoted ex-dividend in New York on 15 March 2000.

3. Earnings and dividends per share

Figures in US$	*1999*	*1998*
Basic earnings per share	**0.65**	0.54
Diluted earnings per share	**0.65**	0.53
Headline earnings per share	**0.66**	0.53
Dividends per share	**0.34**	0.308

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

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

3. Earnings and dividends per share *(continued)*

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

The headline earnings per share was calculated in accordance with the definition in the Institute of Investment Management and Research (IIMR) Statement of Investment Practice No. 1, 'The Definition of IIMR Headline Earnings'. The headline earnings per share excluded the gains on the sale of fixed assets (other than investment securities) and included the add back of amortised goodwill.

4. Economic profit

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

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

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

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

5. Acquisitions

Goodwill on the acquisition of subsidiary and associated undertakings of US$6,435 million arose during 1999. Of this amount, US$6,237 million arose on the acquisition of RNYC and SRH; there may be some adjustment to this goodwill figure during 2000 arising from the completion of the fair value appraisal process.

6. Provisions against advances

Year ended 31 December 1999

Figures in US$m	*Specific*	*General*	*Total*	*Suspended interest*
At 1 January 1999	4,639	2,019	6,658	768
Amounts written off	(1,186)	-	(1,186)	(162)
Recoveries of advances written off in previous years	165	-	165	-
Charge/(credit) to profit and loss account	2,120	(47)	2,073	-
Interest suspended during the year	-	-	-	723
Suspended interest recovered	-	-	-	(251)
Exchange and other movements	(22)	332	310	(5)
At 31 December 1999	5,716	2,304	8,020	1,073

Total outstanding provisions

Figures in US$m	*1999*	*1998*
Loans and advances to customers:		
- specific provisions	5,692	4,608
- general provisions	2,304	2,019
	7,996	6,627
Loans and advances to banks:		
- specific provisions	24	31
Total provisions	8,020	6,658
Interest in suspense	1,073	768

6. Provisions against advances *(continued)*

Provisions against loans and advances to customers

	At 31 December 1999	*At 31 December 1998*
Total provisions to gross lending✦		
	%	%
Specific provisions	**2.25**	1.93
General provisions		
- held against Asian risk	**0.11**	0.12
- other	**0.80**	0.72
Total provisions	**3.16**	2.77

Non-performing loans and advances

Figures in US$m		
Banks	**40**	42
Customers	**10,372**	8,871
Total non-performing loans and advances	**10,412**	8,913
Total provisions cover as a percentage of non-performing loans and advances	77.0%	74.7%

✦ *Net of suspended interest and reverse repo transactions*

7. Gains on disposal of investments

Figures in US$m	*1999*	*1998*
Gains/(losses) on disposal of:		
- investment securities	**439**	210
- part of a business	**10**	-
- associates	**3**	3
- subsidiaries	**(2)**	9
	450	222

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

8. Taxation

Figures in US$m	*1999*	*1998*
UK corporation tax charge	596	732
Overseas taxation	1,313	1,118
Deferred taxation	129	(71)
Associated undertakings	-	10
Total charge for taxation	2,038	1,789
Effective tax rate	25.5%	27.2%

The Company and its subsidiary undertakings in the UK provided for UK corporation tax at 30.25 per cent, the rate for the calendar year 1999 (1998: 31.0 per cent). Overseas tax included Hong Kong profits tax of US$367 million (1998: US$293 million) provided at the rate of 16.0 per cent (1998: 16.0 per cent) on the profits assessable in Hong Kong. Other overseas taxation was provided for in the countries of operation at the appropriate rates of taxation.

At 31 December 1999, there were potential future tax benefits of approximately US$520 million (31 December 1998: US$380 million) in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowed for tax, and capital losses which have not been recognised because recoverability of the potential benefits is not considered certain.

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

9. Liabilities

Figures in US$m	*At 31 December 1998*	*RNYC/SRH*	*Other movements*	***At 31 December 1999***
Customer accounts	308,910	38,061	13,001	**359,972**
Deposits by banks	34,342	8,350	(4,589)	**38,103**
Debt securities in issue	29,190	6,829	(2,239)	**33,780**
Other liabilities	75,876	19,813	(1,718)	**93,971**
	448,318	73,053	4,455	**525,826**
HK SAR currency notes in circulation	7,408			**9,905**
Shareholders' funds	27,402			**33,408**
Total liabilities	483,128			**569,139**
Customer accounts include:				
- repos	5,441			**6,470**
- settlement accounts	5,125			**2,997**
Deposits by banks include:				
- repos	7,614			**6,669**
- settlement accounts	2,981			**2,595**

10. Financial instruments, contingent liabilities and commitments

Figures in US$m	*1999*	*1998*
Contract amounts		
Contingent liabilities:		
- acceptances and endorsements	**4,482**	4,032
- guarantees and assets pledged as collateral security	**27,319**	23,686
- other	**39**	64
	31,840	27,782
Commitments:		
- documentary credits and short-term trade-related transactions	**6,310**	5,927
- forward asset purchases and forward forward deposits placed	**487**	893
- undrawn note issuing and revolving underwriting facilities	**82**	405
- undrawn formal standby facilities, credit lines and other commitments to lend:		
- over 1 year	**33,246**	27,028
- 1 year and under	**128,613**	112,399
	168,738	146,652
Exchange rate contracts	**612,403**	765,665
Interest rate contracts	**951,479**	1,060,563
Equities contracts	**33,459**	29,799

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.

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 decrease in exchange rate and interest rate contracts since December 1998 was mainly due to reduced volumes following the introduction of the euro, and the reduction of derivatives trading volumes to minimise any potential Year 2000-related problems.

11. Off-balance-sheet risk-weighted and replacement cost amounts

Figures in US$m	*1999*	*1998*
Risk-weighted amounts		
Contingent liabilities	**23,134**	19,823
Commitments	**17,437**	14,187
Replacement cost amounts		
Exchange rate contracts	**6,764**	8,899
Interest rate contracts	**4,171**	7,297
Equities contracts	**2,685**	2,218

Risk-weighted amounts are assessed in accordance with the FSA'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, ie, an asset to the HSBC Group. 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.

The fall in the replacement cost of exchange rate and the interest rate contracts is mainly due to reduced trading volumes.

12. Market risk

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 the HSBC Group. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis).

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

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

12. Market risk *(continued)*

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.

VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. The Group VAR, predominantly calculated on a variance/covariance basis, uses historical movements in market rates and prices, a 99 per cent confidence level, a 10-day holding period and takes account of correlations between different markets and rates and is calculated daily. The movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

RNYC and SRH calculate VAR using a historical simulation approach, based on the previous two years' data, using a 99 per cent confidence interval over a 10-day holding period; this method differs from that of HSBC and therefore the VAR is shown separately.

The Group VAR is a principal component of the management of market risk for the Group. Historically this has been calculated to a 95 per cent confidence level and for a one day holding period. From the beginning of 1999, VAR has been calculated on a more conservative basis, at a 99 per cent confidence level for a 10-day holding period (see note on page 62). This change has been made to facilitate consistency with the regulatory requirements for the use of internal models used to calculate market risk capital requirements and remains consistent with the Group's risk management control framework.

VAR has inherent weaknesses. It is based on statistical models which rely on underlying assumptions and, by its nature, cannot cover every eventuality.

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

12. Market risk *(continued)*

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

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

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

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

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

HSBC has assessed its overall exposure to changes in interest rates by calculating the approximate changes in net interest income of HSBC's major businesses for changes in interest rates. An immediate hypothetical 100 basis points parallel rise or fall in all yield curves worldwide on 1 January 2000 would decrease planned net interest income for the twelve months to 31 December 2000 by US$116 million or increase it by US$82 million, respectively, assuming no management action in response to these interest rate movements.

12. Market risk *(continued)*

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

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

The projections assume that rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections also make other simplifying assumptions, such as no management action in response to a change in interest rates.

The average daily revenue earned from market risk-related treasury activities in 1999, including accrual book net interest income and funding related to dealing positions, was US$8.2 million (1998 US$7.8 million). The standard deviation of these daily revenues was US$4.5 million. An analysis of the frequency distribution of daily revenues shows that negative revenues were reported on only three days during 1999. The most frequent result was a daily revenue of between US$7 million and US$8 million, with 28 occurrences. The highest daily revenue was US$26 million.

13. 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-Group capital and funding structures. Common costs are included in segments on the basis of the actual re-charges 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 Ltd, HSBC Bank plc, HSBC Bank Middle East and HSBC Bank USA operations, by the location of the branch responsible for reporting the results or for advancing the funds. Due to the nature of the Group structure, the analysis of profits includes intra-Group items between geographical regions. The 'Rest of Asia-Pacific' geographical segment includes the Middle East, India and Australasia.

14. Year 2000 readiness

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

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

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

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

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

15. Attributable profit by subsidiary and line of business

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

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

✦✦ *Restated to include HSBC Trinkaus & Burkhardt KGaA transferred to HSBC Investment Banking on 1 January 1999.*

16. Differences between UK GAAP and US GAAP

The consolidated financial statements of HSBC are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. A summary of the significant differences applicable to HSBC can be found in HSBC's Registration Statement on Form 20-F for the year ended 31 December 1998.

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

Net income

Figures in US$m	*At 31 December 1999*		*At 31 December 1998*	
Attributable profit of HSBC (UK GAAP)		**5,408**		4,318
Lease financing		**(53)**		(93)
Debt swaps		**(44)**		3
Shareholders' interest in long-term assurance fund		**(101)**		(93)
Pension costs		**(199)**		(47)
Stock-based compensation		**(133)**		(31)
Goodwill		**(296)**		(320)
Internal software costs		**137**		-
Revaluation of property		**34**		79
Purchase accounting adjustments		**130**		-
Deferred taxation				
- US GAAP	**(20)**		68	
- on reconciling items	**37**		68	
		17		136
Minority interest in reconciling items		**(11)**		(18)
Estimated net income (US GAAP)		**4,889**		3,934

Per share amounts

Amounts on a US GAAP basis	*US$*	*US$*
Basic earnings per ordinary share	**0.59**	0.49
Diluted earnings per ordinary share	**0.58**	0.48

16. Differences between UK GAAP and US GAAP *(continued)*

Shareholders' equity

Figures in US$m	*At 31 December 1999*		*At 31 December 1998*	
Shareholders' funds (UK GAAP)		**33,408**		27,402
Lease financing		**(233)**		(184)
Debt swaps		**(108)**		(66)
Shareholders' interest in long-term assurance fund		**(563)**		(473)
Pension costs		**(1,093)**		(945)
Goodwill		**3,173**		3,640
Internal software costs		**137**		-
Revaluation of property		**(2,752)**		(2,507)
Purchase accounting adjustment		**130**		-
Fair value adjustment for securities available for sale		**736**		742
Dividend payable		**1,754**		1,499
Deferred taxation				
- US GAAP	**714**		661	
- on reconciling items	**395**		318	
		1,109		979
Minority interest in reconciling items		**232**		264
Estimated shareholders' equity (US GAAP)		**35,930**		30,351

Total assets

Total assets at 31 December 1999, incorporating adjustments arising from the application of US GAAP, was estimated to be US$582,706 million (31 December 1998: US$493,099 million).

17. Registers of shareholders

The Overseas Branch Register of shareholders in Hong Kong will be closed from Wednesday 15 March to Friday 17 March 2000 (both dates inclusive). 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 Tuesday 14 March 2000 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 17 March 2000 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, HSBC Bank USA, by noon on Friday 17 March 2000 in order to receive the dividend.

18. Foreign currency amounts

The sterling and Hong Kong dollar equivalent figures in the consolidated profit and loss account and balance sheet are for information only. These are translated at the average rate for the period for the profit and loss account and the closing rate for the balance sheet as follows:

Period-end	*31 December 1999*	*31 December 1998*
Closing : HK$/US$	**7.773**	7.746
: £/US$	**0.619**	0.603
Average : HK$/US$	**7.759**	7.746
: £/US$	**0.618**	0.603

19. Litigation

During 1999 Japanese and US regulatory agencies began investigating Princeton Global Management Ltd (and related entities), a customer of RNYC's broker dealer subsidiary, and Princeton's chairman, Martin Armstrong for his alleged fraud in selling promissory notes to certain Japanese entities. Certain of the Japanese entities which allegedly hold such promissory notes have brought civil actions in the United States against this broker dealer subsidiary and HSBC USA Inc. and HSBC Bank USA (as the successors to RNYC and Republic National Bank of New York, respectively). The matter will be defended vigorously and is described in greater detail in the 1999 Annual Report and Accounts.

The Group, through a number of its subsidiary undertakings, is named in and is defending other legal actions in various jurisdictions arising from its normal business. No material adverse impact on the financial position of the Group is expected to arise from these proceedings.

20. 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.

21. Dealings in HSBC Holdings shares

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

22. Statutory accounts

The information in this news release does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the Act). The statutory accounts for the year ended 31 December 1999 will be delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act. 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. Forward-looking statements

This news release contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Group. These forward-looking statements represent the Group'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", and similar expressions or variations on such expressions may be considered "forward-looking statements".

---

24. Annual Report and Accounts

Copies of the 1999 Annual Report and Accounts will be sent to shareholders on or about 19 April 2000 and may be obtained from Group Corporate Affairs, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE, United Kingdom; or The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; or HSBC Bank USA, 452 Fifth Avenue, New York, New York 10018, USA, or from the HSBC website - www.hsbc.com.

A Chinese translation of the report may be obtained on request from Central Registration Hong Kong Limited, Rooms 1901-5, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Custodians or nominees that wish to distribute copies of the Annual Report and Accounts to their clients may request copies for collection by writing to Group Corporate Affairs at the address given above. Requests must be received by no later than 15 March 2000.

---

25. Annual General Meeting

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

26. News release

Copies of this news release may be obtained from Group Corporate Affairs, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE, United Kingdom; The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong; HSBC Bank USA, 452 Fifth Avenue, New York, New York 10018, USA, or from the HSBC website - www.hsbc.com.

27. For further information contact:

London
Michael Broadbent
Director of Group Corporate Affairs
Telephone: +020 7 260 9182

Richard Beck
Head of Group External Relations
Telephone: +020 7 260 6757

Mike Stephenson
Senior Manager Investor Relations
Telephone: +020 7 260 7255

Hong Kong
David Hall
Head of Group Public Affairs (Asia)
Telephone : +852 2822 1133

Gareth Hewett
Senior External Relations Manager
Telephone: +852 2822 4929

New York
Linda Stryker
Senior Vice President
Group Public Affairs
Telephone: +1 212 525 3800

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K
REPORT OF FOREIGN ISSUER

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934
at 20 August 1999

HSBC Holdings plc

---

10 Lower Thames Street
London EC3R 6AE
United Kingdom

[Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.]

Form 20-F ____X____ Form 40-F ________

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2 (b) under the Securities Exchange Act of 1934.]

Yes ________ No __X__

[If 'yes' is marked, indicate below the file number assigned to the registrant in connection with Rule 12g 3-2(b): 82 - ________.]

Table of contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Report on Form 6-K 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', and similar expressions or variations on such expressions may be considered 'forward-looking statements'.

ISSUE OF NEW SHARE CAPITAL; EXCHANGE FOR EXISTING SHARES; LISTING ON NEW YORK STOCK EXCHANGE

At the Annual General Meeting on 28 May 1999, the shareholders of HSBC Holdings approved the cancellation of the existing HSBC Holdings shares (75p ordinary shares and HK$10 ordinary shares) and the issuance of three new US$0.50 ordinary shares for each old share. This share capital reorganisation was confirmed by the High Court of Justice in England and Wales on 30 June 1999 and a copy of the court order filed with the Registrar of Companies in England and Wales on 2 July 1999. Trading in the new US$0.50 ordinary shares on the London Stock Exchange and The Stock Exchange of Hong Kong Limited ('Hong Kong Stock Exchange') commenced on 5 July 1999.

Following the share capital reorganisation, the ratio of ordinary shares to American Depositary Shares ('ADSs') was changed so that each new ADS now represents five new US$0.50 ordinary shares. Consequently, holders of American Depositary Receipts received six new ADSs for each ADS previously held. HSBC's ADSs began trading on the New York Stock Exchange on 16 July 1999.

Within this document, all per share figures reflect the share capital reorganisation on 2 July 1999.

RECENT DEVELOPMENTS

Republic New York Corporation

On 10 May 1999, HSBC announced that it had entered agreements with Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('Safra') to acquire the entire share capital of both companies for an aggregate consideration of approximately US$10.3 billion. These transactions, which include a plan of merger under which RNYC will be merged with a wholly-owned subsidiary of HSBC and a tender offer for Safra, are subject to the approval of the RNYC shareholders and a variety of regulatory bodies.

On 9 August 1999, the RNYC proxy statement regarding the merger with HSBC was posted to RNYC shareholders in accordance with the requirements of the Exchange Act.

On 11 May 1999, HSBC raised approximately US$3.0 billion of the consideration through an equity issuance. Subsequent to 30 June 1999, HSBC raised US$1 billion and EUR300 million in tier 2 capital. HSBC will fund the remainder of the consideration from existing cash resources which may be augmented by further non-equity issuances as required.

Seoul Bank

In February 1999, HSBC announced that it had signed a Memorandum of Understanding to acquire a 70 per cent stake in Seoul Bank from the Korean Government. HSBC has continued to hold discussions with the Korean Government on this possible acquisition. These discussions have proved complex and the final outcome is unknown.

Mid-Med Bank

In April 1999, HSBC announced an agreement with the Government of Malta to acquire a controlling interest in Mid-Med Bank plc. This transaction was completed in June.

LEGAL PROCEEDINGS

Due to the nature of the business in which it is engaged, HSBC Holdings and its subsidiaries and their respective properties are subject to threatened or filed legal actions from time to time. HSBC does not expect the final outcome of any legal action currently known to it and relating to HSBC Holdings, its subsidiaries or any of their respective properties, individually or in the aggregate, to have a material adverse effect on its consolidated results of operation or financial condition.

On 12 March 1999, HFC Bank plc commenced proceedings against Midland Bank plc ('Midland') seeking an injunction to restrain Midland from passing off or attempting to pass off its business, branches or services as the business, branches and services of HFC or connected or associated with HFC by the use of 'HSBC' or any other name or mark confusingly similar to HFC's name.

The case came to court on 19 July 1999. After hearing evidence, judgement was delivered on 30 July 1999 deciding that: (i) the action be dismissed; (ii) HFC pay Midland's costs; and (iii) permission to appeal not be granted. Within 28 days of the judgement HFC can petition the Court of Appeal for permission to appeal against the judgement and Midland will strongly resist any such petition.

CERTAIN DEFINED TERMS

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

SELECTED FINANCIAL DATA

The financial information set out below in respect of the half-years to 30 June 1999 and 30 June 1998 has been selected from the unaudited Consolidated Financial Statements on pages 34 to 37. Where certain items are not shown in these unaudited Consolidated Financial Statements, they have been prepared for the purposes of this report. The balance sheet information set out below as at 31 December 1998 has been selected from HSBC's Annual Report in its Registration Statement on Form 20-F for the year ended 31 December 1998. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, such financial statements.

The Consolidated Financial Statements are prepared in accordance with UK generally accepted accounting principles ('UK GAAP'), which differ in certain respects from US generally accepted accounting principles ('US GAAP'). For a discussion of significant differences between UK GAAP and US GAAP and a reconciliation to US GAAP of certain amounts see Note 16 of the additional information.

Amounts in accordance with UK GAAP

Profit before tax by geographic segment	Half-year to 30 June 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	1,719	42.3	1,671	45.3	1,213	42.0
Hong Kong	1,391	34.2	1,285	34.9	1,142	39.6
Rest of Asia-Pacific	180	4.4	73	2.0	(34)	(1.2)
North America	530	13.0	515	14.0	472	16.4
Latin America	248	6.1	142	3.8	92	3.2
HSBC profit before tax	4,068	100.0	3,686	100.0	2,885	100.0

	Half-year to 30 June 1999 US$m	Half-year to 30 June 1998 US$m	Half-year to 31 December 1998 US$m
Profit and loss account data for the half-year			
Profit on ordinary activities before tax	4,068	3,686	2,885
Profit attributable to shareholders	2,694	2,402	1,916
Dividends	(1,118)	(996)	(1,499)
Balance sheet data at period end			
Shareholders' funds	31,642	27,540	27,402
Capital resources	44,990	41,523	41,092
Customer accounts and deposits by banks	351,559	344,297	343,252
Total assets	496,520	484,367	483,128
Risk-weighted assets	294,016	297,598	301,950
Per share amounts*	US$	US$	US$
Basic and diluted earnings per ordinary share	0.33	0.30	0.24
Headline earnings per ordinary share	0.33	0.29	0.24
Dividend per ordinary share	0.133	0.123	0.185
Net asset value per ordinary share	3.76	3.41	3.38

* *all per share figures reflect the share capital reorganisation as discussed on page 3.*

Selected Financial Data (continued)

Amounts in accordance with UK GAAP

Financial ratios (annualised)	Half-year to 30 June 1999 %	Half-year to 30 June 1998 %	Half-year to 31 December 1998 %
Post-tax return on average total assets	1.22	1.11	0.86
Return on average shareholders' funds	18.6	17.5	13.6
Post-tax return on average risk-weighted assets	2.02	1.81	1.40
Capital ratios			
– total capital	15.3	14.0	13.6
– tier 1 capital	11.4	9.8	9.7
Cost:income ratio	52.0	52.2	57.5

Number of ordinary shares in issue*	Million	Million	Million
US$0.50	8,407	8,076	8,097

Amounts in accordance with US GAAP

	Half-year to 30 June 1999 US$m	Half-year to 30 June 1998 US$m	Half-year to 31 December 1998 US$m
Profit and loss account data for the half-year			
Net income available for ordinary shareholders	2,429	2,213	1,721
Dividends	(1,499)	(1,332)	(996)
Balance sheet data at period end			
Total assets	507,058	489,116	493,099
Shareholders' equity	33,672	29,231	30,351
Per share amounts*	US$	US$	US$
Basic earnings per ordinary share	0.30	0.28	0.21
Diluted earnings per ordinary share	0.29	0.27	0.21

* *all per share figures reflect the share capital reorganisation as discussed on page 3.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Summary

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	5,913	5,651	5,896
Other operating income	4,497	4,318	4,190
Operating income	10,410	9,969	10,086
Operating expenses	(5,415)	(5,205)	(5,799)
Operating profit before provisions	4,995	4,764	4,287
Provisions for bad and doubtful debts	(1,082)	(1,146)	(1,491)
Provisions for contingent liabilities and commitments	(52)	(184)	40
Amounts written off fixed asset investments	(10)	(5)	(80)
Operating profit	3,851	3,429	2,756
Income from associated undertakings	60	76	60
Gains/(losses) on disposal of:			
– investments	155	147	75
– tangible fixed assets	2	34	(6)
Profit on ordinary activities before tax	4,068	3,686	2,885
Tax on profit on ordinary activities	(1,103)	(1,032)	(757)
Profit on ordinary activities after tax	2,965	2,654	2,128
Minority interests	(271)	(252)	(212)
Profit attributable to shareholders	2,694	2,402	1,916

HSBC made a profit before tax of US$4,068 million in the first six months of 1999, up US$382 million, or 10.4 per cent, over the same period in 1998. Profit attributable to shareholders was US$2,694 million, an increase of 12.2 per cent compared with the first half of 1998.

Net interest income of US$5,913 million was US$262 million, or 4.6 per cent, higher than the same period in 1998 primarily due to the benefit of improved spreads and a 3.9 per cent increase in average interest-earning assets.

Other operating income rose by US$179 million, or 4.1 per cent, to US$4,497 million. There was strong growth in fee income in the United Kingdom from wealth management and personal banking products, together with improved dealing profits.

HSBC's cost:income ratio improved marginally to 52.0 per cent from 52.2 per cent in the same period in 1998.

The charge for bad and doubtful debts was US$1,082 million, which was US$64 million lower than in the same period in 1998 and US$409 million lower than the second half of 1998. Provisioning requirements in respect of exposure to customers in Indonesia and Thailand were significantly lower. The credit environment in Malaysia remained weak and elsewhere deterioration was evident in respect of certain credits related to mainland China. In view of the continuing economic uncertainty, the special general provision of US$290 million in respect of Asian risk raised in 1997 remained intact.

Net interest income

	Half-year to 30 June 1999 US$m	%	Half-year to 30 June 1998 US$m	%	Half-year to 31 December 1998 US$m	%
Europe	2,080	35.2	1,970	34.9	2,037	34.5
Hong Kong	1,815	30.7	1,732	30.6	1,740	29.5
Rest of Asia-Pacific	619	10.5	655	11.6	600	10.2
North America	817	13.8	787	13.9	831	14.1
Latin America	582	9.8	507	9.0	688	11.7
Net interest income	5,913	100.0	5,651	100.0	5,896	100.0

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	5,913	5,651	5,896
Average interest-earning assets	413,778	398,209	413,563
Gross interest yield (per cent)[1]	7.05	8.32	8.25
Net interest spread (per cent)[2]	2.35	2.15	2.33
Net interest margin (per cent)[3]	2.88	2.86	2.83

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

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

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

Net interest income was US$262 million, or 4.6 per cent, higher than in the first half of 1998. This improvement was achieved despite the continuing economic slowdown in Asia and higher levels of suspended interest compared with the first half of 1998. Income levels benefited particularly from lower funding rates and the widening of the gap between best lending rates and interbank rates in Hong Kong, a lower cost of funding sterling money market books in the United Kingdom as interest rates fell and from exceptional margins achieved in Brazil due to high interest rates during a period of economic instability.

Average interest-earning assets increased by US$15.6 billion, or 3.9 per cent, compared with the first half of 1998. The growth arose mainly from the reinvestment of higher customer deposit flows with good growth achieved in UK Banking and in Hong Kong. Credit demand in all regions, particularly Asia, was subdued.

HSBC's net interest margin at 2.88 per cent was in line with 1998. The decline in interest rates resulted in a reduced contribution from net free funds which largely offset the benefit of higher spreads. Spreads were higher as a result of the fall in UK interest rates, a more stable interest rate environment and a better funding mix in Hong Kong, and an increased contribution from the high margin business in Brazil as a result of the high interest rate environment. These benefits were partially offset by the impact of competitive pressure on deposit pricing in the United Kingdom, a mix impact as the balance sheet became more liquid and higher levels of suspended interest on non-performing loans.

Net interest margin of the principal commercial banking subsidiaries by region

	Half-year to			Half-year to (US$m equivalent)		
	30 June 1999	30 June 1998	31 December 1998	30 June 1999	30 June 1998	31 December 1998
Europe						
Midland Bank (Europe)						
– margin (per cent)	2.74	2.61	2.39			
– AIEA (£m)	83,089	81,014	85,747	134,614	133,673	142,721
Hong Kong						
The Hongkong and Shanghai Banking Corporation Limited (excluding Hang Seng Bank)						
– margin (per cent)	2.40	2.55	2.29			
– AIEA (HK$m)	660,899	597,883	635,331	85,268	77,192	82,010
Hang Seng Bank						
– margin (per cent)	2.96	3.01	2.91			
– AIEA (HK$m)	401,384	373,517	394,165	51,786	48,225	50,880
Rest of Asia-Pacific						
The Hongkong and Shanghai Banking Corporation Limited						
– margin (per cent)	2.11	2.23	2.01			
– AIEA (HK$m)	275,175	278,834	271,593	35,502	36,000	35,058
HSBC Bank Malaysia Berhad						
– margin (per cent)	2.85	4.18	3.15			
– AIEA (Ringgit m)	23,586	19,982	21,081	6,207	5,099	5,372
HSBC Bank Middle East						
– margin (per cent)	4.05	4.06	4.03			
– AIEA (US$m)	7,164	6,785	7,059	7,164	6,785	7,061
North America						
HSBC USA Inc.						
– margin (per cent)	3.94	3.91	3.67			
– AIEA (US$m)	31,710	30,109	31,577	31,710	30,109	31,577
*HSBC Bank Canada**						
– margin (per cent)	2.39	2.46	2.31			
– AIEA (C$m)	23,215	22,322	23,183	15,555	15,519	16,257
Latin America						
HSBC Bank Brasil S.A. – Banco Multiplo						
– margin (per cent)	14.90	8.74	12.04			
– AIEA (Brazilian Reais m)	10,860	10,781	11,113	6,208	9,480	9,383

* *Figures for HSBC Bank Canada for the second half of 1998 are based on the eight month period to 31 December 1998.*

Management's Discussion and Analysis (continued)

Other operating income

	Half-year to 30 June 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	2,481	54.0	2,182	49.5	2,187	50.6
Hong Kong	750	16.3	733	16.6	840	19.4
Rest of Asia-Pacific	482	10.5	577	13.1	437	10.1
North America	490	10.7	423	9.6	448	10.3
Latin America	390	8.5	495	11.2	417	9.6
	4,593	100.0	4,410	100.0	4,329	100.0
Intra-HSBC elimination	(96)		(92)		(139)	
Other operating income	4,497		4,318		4,190	

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Dividend income	73	82	66
Fees and commissions (net)	2,887	2,866	2,870
Dealing profits/(losses)			
– foreign exchange	452	528	425
– interest rate derivatives	60	(9)	76
– debt securities	170	40	76
– equities and other trading	132	98	(85)
	814	657	492
Other	723	713	762
Total other operating income	4,497	4,318	4,190

Overall, HSBC's non-funds income remained stable despite the continuing weak economic environment in Asia and the impact of the devaluation of the Brazilian Real.

Net fees and commissions were US$21 million higher than the first half of 1998. Progress was made in the strategic development of fee-based services to HSBC's customers with strong growth in the United Kingdom achieved from wealth management and personal banking products.

Dealing profits were US$157 million higher than the first half of 1998 and US$322 million higher than the second half of 1998. Foreign exchange income held up well despite significant falls in volumes following the introduction of the euro and reduced Asian foreign exchange volatility. Tightening credit spreads contributed to an improved performance in interest rate products and HSBC's securities and capital markets operations in the US benefited from restructuring measures implemented during 1998. Equities and other trading activities returned to a net profit as those activities causing losses in the second half of 1998 were curtailed.

Operating expenses

	Half-year to 30 June 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	2,663	48.4	2,413	45.6	2,784	46.9
Hong Kong	894	16.2	891	16.8	960	16.2
Rest of Asia-Pacific	548	9.9	523	9.9	529	8.9
North America	726	13.2	673	12.7	751	12.6
Latin America	680	12.3	797	15.0	914	15.4
	5,511	100.0	5,297	100.0	5,938	100.0
Intra-HSBC elimination	(96)		(92)		(139)	
Operating expenses	5,415		5,205		5,799	

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Staff costs	3,266	3,100	3,221
Premises and equipment (excluding depreciation)	606	619	655
– vacant space provisions arising from the move to Canary Wharf	–	–	180
Other administrative expenses	1,072	1,069	1,246
Administrative expenses	4,944	4,788	5,302
Depreciation and amortisation	471	417	497
Total operating expenses	5,415	5,205	5,799
Cost:income ratio (per cent)	52.0	52.2	57.5

Staff numbers (full time equivalent)

	30 June 1999	30 June 1998	31 December 1998
Europe	50,859	49,319	49,798
Hong Kong	23,976	24,341	24,447
Rest of Asia-Pacific	20,751	20,492	21,116
North America	14,907	14,350	14,500
Latin America	27,208	24,946	26,572
Total staff numbers	137,701	133,448	136,433

Operating expenses were US$210 million, or 4.0 per cent, higher compared with the first half of 1998. In markets where revenue growth was subdued considerable focus has been directed to controlling our cost base. In particular, operating costs continued to be tightly controlled in Hong Kong and the rest of Asia as cost structures were adjusted to the changed economic environment. The operations in Hong Kong operated under a pay freeze and we have introduced a Voluntary Separation Scheme in Malaysia, at a cost of US$16 million, which will result in headcount reductions of 1,000 by the year-end. In Europe, higher business volumes and new business initiatives contributed to an increase in costs in UK Banking, and a controlling interest in Mid-Med Bank in Malta was acquired during the first half of 1999. In Latin America, there was a reported decrease of US$117 million compared with the first half of 1998 mainly reflecting the devaluation of the Brazilian real. In local currency terms, operating expenses increased as HSBC's former associates in Argentina, which offer pension management and life assurance services, became subsidiaries.

HSBC's cost:income ratio improved slightly to 52.0 per cent with each geographic region showing an improved cost:income ratio compared with the second half of 1998.

Bad and doubtful debts

	Half-year to 30 June 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	213	19.7	107	9.3	262	17.6
Hong Kong	319	29.5	310	27.1	437	29.3
Rest of Asia-Pacific	423	39.1	605	52.8	614	41.2
North America	63	5.8	49	4.3	60	4.0
Latin America	64	5.9	75	6.5	118	7.9
	1,082	100.0	1,146	100.0	1,491	100.0

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
— specific charge:			
new provisions	1,493	1,376	1,897
releases and recoveries	(389)	(289)	(366)
	1,104	1,087	1,531
— net general (release)/charge	(20)	60	(50)
Customer bad and doubtful debt charge	1,084	1,147	1,481
Loans and advances to banks			
— net specific (release)/charge	(2)	(1)	10
Total bad and doubtful debt charge	1,082	1,146	1,491
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	0.9%	0.9%	1.2%

New and additional specific provisions against exposures to customer advances were US$117 million, or 8.5 per cent, higher than in the first half of 1998 but US$404 million, or 21.3 per cent, lower than in the second half of 1998. Releases and recoveries improved against both halves of 1998 and there was a modest reduction in general provision requirements.

HSBC's credit experience in the first half of 1999 reflected the different stages reached in the economic cycle throughout Asia. The first half of 1998 was marked by significant provisions against exposures to customers in Indonesia and Thailand, as was the second half, although to a much lesser extent. Further provisioning requirements against such exposures in the first half of 1999 were approximately 10 per cent of the comparable charge in the first half of 1998.

In Malaysia, the deterioration in credit quality experienced in the second half of 1998 continued and approximately 50 per cent of the bad and doubtful debt charge in the Rest of Asia-Pacific related to Malaysia. The other major deterioration seen in the first half of 1999 arose from certain exposures related to mainland China and just over 40 per cent of the provision charge booked in Hong Kong and the Rest of Asia-Pacific, excluding Malaysia, was attributable to these exposures. There are signs that asset quality in Hong Kong is stabilising and the rate at which non-performing accounts were growing slowed in the second quarter of 1999. In the United Kingdom and North America credit quality remained stable.

In view of the continuing uncertain environment, the special general provision of US$290 million raised in 1997 in respect of Asian risk remained intact.

Non-performing customer advances increased during the first half of 1999 by US$950 million to US$9,821 million and represented 4.0 per cent of gross customer advances at 30 June 1999 (31 December 1998: 3.7 per cent).

Analysis by operating segment

Profit on ordinary activities before tax by segment

	Half-year to 30 June 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	%	US$m	%	US$m	%
Europe	1,719	42.3	1,671	45.3	1,213	42.0
Hong Kong	1,391	34.2	1,285	34.9	1,142	39.6
Rest of Asia-Pacific	180	4.4	73	2.0	(34)	(1.2)
North America	530	13.0	515	14.0	472	16.4
Latin America	248	6.1	142	3.8	92	3.2
Total	4,068	100.0	3,686	100.0	2,885	100.0

In the analysis of profit by segment which follows, the total of operating income and operating expenses includes intra-HSBC items of US$96 million in the first half of 1999, US$92 million in the first half of 1998 and US$139 million in the second half of 1998.

Europe

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	2,080	1,970	2,037
Dividend income	38	38	41
Net fees and commissions	1,660	1,525	1,570
Dealing profits	371	220	122
Other income	412	399	454
Other operating income	2,481	2,182	2,187
Operating income	4,561	4,152	4,224
Staff costs	(1,613)	(1,459)	(1,451)
Premises and equipment	(260)	(259)	(452)
Other	(520)	(474)	(589)
Depreciation	(270)	(221)	(292)
Operating expenses	(2,663)	(2,413)	(2,784)
Operating profit before provisions	1,898	1,739	1,440
Provisions for bad and doubtful debts	(213)	(107)	(262)
Provisions for contingent liabilities and commitments	(47)	(105)	9
Amounts written off fixed asset investments	(4)	(6)	(10)
Operating profit	1,634	1,521	1,177
Income from associated undertakings	(8)	9	(9)
Gains on disposal of investments and tangible fixed assets	93	141	45
Profit before tax*	1,719	1,671	1,213
Share of HSBC's pre-tax profits (per cent)	42.3	45.3	42.0
Cost:income ratio (per cent)	58.4	58.1	65.9
* *of which United Kingdom*	1,449	1,482	1,060

Bad and doubtful debts

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
– specific charge:			
new provisions	321	247	376
releases and recoveries	(127)	(166)	(140)
	194	81	236
– general charge	19	27	21
Customer bad and doubtful debt charge	213	108	257
Loans and advances to banks			
– net specific (releases)/charge	–	(1)	5
Total bad and doubtful debt charge	213	107	262
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	0.4%	0.2%	0.5%

In the first half of 1999, Europe's contribution to HSBC's pre-tax profits was US$1,719 million, an increase of 2.9 per cent compared with the first half of 1998. The proportion of HSBC's pre-tax profits contributed by its European operations decreased from 45.3 per cent to 42.3 per cent due mainly to the partial recovery in Asian profitability and higher profits in Brazil.

Net interest income was US$110 million, or 5.6 per cent, higher than the first half of 1998. This increase was generated by growth in deposits in UK Banking and a lower cost of funding sterling money market books in treasury operations as short-term interest rates fell, together with smaller increases in Turkey and Greece. Higher spreads on loans in UK Banking were offset by reduced spreads on current and savings accounts.

Fee income was US$135 million higher mainly due to UK Banking where increased income was earned from wealth management products, personal current accounts and overdrafts, cards and private banking. Of particular note, income from life assurance, general insurance and investment products grew by 18 per cent with encouraging growth in cross-sales from across the personal customer base.

Dealing profits of US$371 million were over 60 per cent higher than the first half of 1998, with improved interest rate derivative, bond trading and equity trading income following difficult trading conditions last year.

Operating expenses were US$250 million higher compared with the first half of 1998. Higher marketing campaign spend and increased volume-driven communication costs, together with the effect of increased headcount and pay awards, increased operating costs in UK Banking. Staff costs also grew in Investment Banking as a result of increased compensation costs linked to profit performance. Progress continued in respect of UK Banking's cost:income ratio which, at 53.7 per cent, showed a small improvement compared with the first half of 1998.

The charge for bad and doubtful debts was US$106 million higher compared with the first half of 1998 due to higher new specific provisions and lower recoveries. Credit quality continued to be satisfactory although the charge for bad and doubtful debts rose to US$213 million in the first half of 1999 reflecting 0.4 per cent of customer lending on an annualised basis. 70 per cent of the provisions charge in UK Banking in the first half of 1999 was in respect of personal lending reflecting the increasing proportion of unsecured personal lending in the loan book. Over the past 4 years, personal lending excluding residential mortgages has grown by 100 per cent.

Following further guidance issued by the Financial Services Authority, an additional charge of US$47 million was made in the first half of 1999 within provisions for contingent liabilities and commitments for the amount of redress potentially payable to customers who may have been disadvantaged when transferring from or opting out of occupational pension schemes. A charge of US$99 million was made in the first half of 1998.

The acquisition of a controlling stake in Mid-Med Bank in Malta was completed in early June 1999 and contributed US$4 million to pre-tax profits.

Hong Kong

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	1,815	1,732	1,740
Dividend income	17	27	17
Net fees and commissions	430	415	421
Dealing profits	134	124	186
Other income	169	167	216
Other operating income	750	733	840
Operating income	2,565	2,465	2,580
Staff costs	(554)	(539)	(581)
Premises and equipment	(119)	(129)	(127)
Other	(126)	(134)	(163)
Depreciation	(95)	(89)	(89)
Operating expenses	(894)	(891)	(960)
Operating profit before provisions	1,671	1,574	1,620
Provisions for bad and doubtful debts	(319)	(310)	(437)
Provisions for contingent liabilities and commitments	2	1	(1)
Amounts written off fixed asset investments	(4)	2	(59)
Operating profit	1,350	1,267	1,123
Income from associated undertakings	11	12	11
Gains on disposal of investments and tangible fixed assets	30	6	8
Profit before tax	1,391	1,285	1,142
Share of HSBC's pre-tax profits (per cent)	34.2	34.9	39.6
Cost:income ratio (per cent)	34.9	36.1	37.2

Bad and doubtful debts

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
– specific charge:			
new provisions	397	337	499
releases and recoveries	(56)	(15)	(56)
	341	322	443
– net general (releases)	(22)	(12)	(6)
Total bad and doubtful debt charge	319	310	437
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	1.0%	0.9%	1.3%

Our Hong Kong operations contributed US$1,391 million to HSBC's profit before tax in the first half of 1999, an increase of 8.2 per cent compared with the first half of 1998. This increase was achieved in a period of economic downturn, high real interest rates and a highly competitive market with rising non-performing advances. As a proportion of HSBC's profit, Hong Kong's contribution fell modestly from 34.9 per cent to 34.2 per cent.

Net interest income in the first half of the year was US$83 million higher than for the same period last year as the positive impact of an increase in the level of average interest-earning assets more than outweighed the fall in net interest margin. Margins improved against the second half of 1998 and spreads were higher against both the first and second halves of 1998. The widening of the gap between the Hong Kong best lending rate and interbank rates, a change in liability mix towards lower cost savings accounts and increased spread on time deposits all had a favourable impact on spreads. The growth in average interest-earning assets was primarily in lower yielding short-term funds and placings with banks reflecting the deployment of surplus funds as customer deposits increased while the contraction in customer advances continued. This reduction in the advances-to-deposits ratio negatively impacted spreads as did higher levels of suspended interest. Compared with the first half of 1998, the contribution from net free funds fell by 17 basis points in The Hongkong and Shanghai Banking Corporation Limited in Hong Kong (excluding Hang Seng Bank) and 23 basis points in Hang Seng Bank due principally to the effects of lower interest rates.

Hong Kong's other operating income was US$17 million higher than in the first half of last year. Increased levels of fee income earned in investment banking from structured finance businesses, and in commercial banking from guarantee fees and newly launched retail investment funds, more than offset the fall in fees from credit facilities and trade finance. Our life and investment business achieved an increase of more than 40 per cent in revenues, compared with the first half of 1998. Dealing profits were higher as increased profits on debt securities, interest rate derivatives and equities trading more than outweighed the fall in foreign exchange profits.

Careful management of costs resulted in almost no change in operating expenses in the first half of 1999. The small increase in staff costs related principally to increased retirement benefit costs. This increase was largely offset by a decline in rent. Compared with the first half of 1998, the cost:income ratio improved by 1.2 per cent to 34.9 per cent.

The net charge for bad and doubtful debts was US$319 million, some 3 per cent higher than the same period last year. Deterioration in corporate asset quality and mainland China related exposures resulted in an increase in the level of new specific provisions raised. This was partially offset by higher releases of specific and general provisions. The charge against non-performing residential mortgage lending remained low. Although the bottom of the bad debt cycle may not yet have been reached, there are signs that asset quality in Hong Kong is stabilising and the rate at which non-performing loans are arising is slowing.

Rest of Asia-Pacific (including the Middle East)

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	619	655	600
Dividend income	1	1	1
Net fees and commissions	304	294	272
Dealing profits	160	264	149
Other income	17	18	15
Other operating income	482	577	437
Operating income	1,101	1,232	1,037
Staff costs	(318)	(284)	(278)
Premises and equipment	(61)	(56)	(60)
Other	(135)	(144)	(155)
Depreciation	(34)	(39)	(36)
Operating expenses	(548)	(523)	(529)
Operating profit before provisions	553	709	508
Provisions for bad and doubtful debts	(423)	(605)	(614)
Provisions for contingent liabilities and commitments	(7)	(73)	36
Amounts written off fixed asset investments	(2)	(1)	(10)
Operating profit	121	30	(80)
Income from associated undertakings	44	44	47
Gains/(losses) on disposal of investments and tangible fixed assets	15	(1)	(1)
Profit/(loss) before tax	180	73	(34)
Share of HSBC's pre-tax profits (per cent)	4.4	2.0	(1.2)
Cost:income ratio (per cent)	49.8	42.5	51.0

Bad and doubtful debts

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
– specific charge:			
new provisions	569	648	713
releases and recoveries	(130)	(46)	(93)
	439	602	620
– net general (releases)/charge	(14)	3	(11)
Customers bad and doubtful debt charge	425	605	609
Loans and advances to banks			
– net specific (releases)/charges	(2)	–	5
Total bad and doubtful debt charge	423	605	614
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	2.7%	3.8%	3.8%

Our operations in the Rest of Asia-Pacific returned to profitability contributing US$180 million, or 4.4 per cent, of HSBC profits before tax. The improvement in profitability compared to 1998 was principally as a result of lower bad debt charges. With the exception of our operations in Malaysia, mainland China and Macau, all major operations within the Rest of Asia-Pacific were profitable in the first half of 1999.

Net interest income was US$36 million lower than in the first half of 1998 as the drag from non-performing loans impacted performance as did lower interest rates.

Other operating income was US$95 million lower than in the first half of 1998 as the exceptional conditions experienced during the first half of 1998 in the foreign exchange markets were not repeated, leading to a US$104 million decrease in dealing profits. Fees and commissions increased modestly with good growth seen in the Middle East, Japan, Korea and Taiwan.

Costs remained tightly controlled. An exceptional charge equivalent to US$16 million was included in staff costs in respect of a Voluntary Separation Scheme offered to staff in Malaysia as part of the restructuring of our operations there. As a result of this scheme, some 1,000 staff will leave the operation by the end of this year enabling greater centralisation and automation of processing to take place. Staff increases were recorded in India and Taiwan as a result of new branch openings

Improved economic conditions led to lower and more stable interest rates across Asia and progress was evidenced in corporate restructuring in many countries. Accordingly, provisions for bad and doubtful debts were some 30 per cent lower when compared with both the first and second halves of 1998. Of particular note, provisioning requirements in respect of exposures to customers in Indonesia and Thailand fell dramatically. The charge for the first half of 1999 was approximately 10 per cent of the charge in the comparable period in 1998. Exposures to customers in Malaysia experiencing repayment difficulties contributed approximately 50 per cent of the net charge for bad and doubtful debts in the Rest of Asia-Pacific, an amount more than double the corresponding charge in the first half of 1998 and slightly ahead of the second half's charge. HSBC's operations in mainland China and the Middle East also saw bad debt charges increase. In addition to the significant reductions in Thailand and Indonesia noted above, lower bad debt charges were recorded in Singapore, Japan, the Philippines, India and New Zealand. Credit quality in Korea remained stable with a very low level of non-performing debt.

Non-performing loans as a percentage of total loans (net of suspended interest) increased from 6.9 per cent at 30 June 1998 to 10.7 per cent at 30 June 1999 but the rate of increase of non-performing loans slowed noticeably against the second half of 1998.

North America

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	817	787	831
Dividend income	6	7	7
Net fees and commissions	294	296	300
Dealing profits	109	40	36
Other income	81	80	105
Other operating income	490	423	448
Operating income	1,307	1,210	1,279
Staff costs	(409)	(374)	(407)
Premises and equipment	(90)	(85)	(95)
Other	(192)	(184)	(213)
Depreciation	(35)	(30)	(36)
Operating expenses	(726)	(673)	(751)
Operating profit before provisions	581	537	528
Provisions for bad and doubtful debts	(63)	(49)	(60)
Provisions for contingent liabilities and commitments	–	(1)	(9)
Operating profit	518	487	459
Income from associated undertakings	2	1	1
Gains on disposal of investments and tangible fixed assets	10	27	12
Profit before tax	530	515	472
Share of HSBC's pre-tax profits (per cent)	13.0	14.0	16.4
Cost:income ratio (per cent)	55.5	55.6	58.7

Bad and doubtful debts

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
– specific charge:			
new provisions	115	77	179
releases and recoveries	(52)	(64)	(47)
	63	13	132
– net general charge/(releases)	–	36	(72)
Total bad and doubtful debt charge	63	49	60
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	0.3%	0.2%	0.3%

North America's contribution to HSBC's profit before tax increased to US$530 million in the first half of 1999. This represented 13.0 per cent of HSBC's pre-tax profit compared with 14.0 per cent in the first half of 1998 and 16.4 per cent in the second half of 1998.

Net interest income increased by US$30 million, or 3.8 per cent, in the first half of 1999 compared with the first half of 1998. This increase principally arose in our US banking operations where interest-earning assets increased, reflecting growth in the commercial loan book, and spreads improved due to favourable deposit pricing and a change in asset mix. The benefit of these was partly offset by a reduced contribution from net free funds mainly due to a fall in interest rates. In Canada, net interest income was only slightly better than for the same period in 1998 as loan growth and higher levels of interest recoveries were offset by a fall in interest margin. The growth in the Canadian loan book was driven by new business gained, particularly in the latter part of 1998, through previously proposed consolidations in Canadian financial services and through the acquisition of National Westminster Bank of Canada. The fall in interest margin was due to a narrowing spread, as a result of competitive pressures and a change in funding mix, partly offset by an increased contribution from a higher level of net free funds, mainly as a result of the acquisition of Gordon Capital Corporation and Moss, Lawson.

Other operating income increased by US$67 million, or 15.8 per cent, to US$490 million in the first half of 1999 compared with the first half of 1998. Dealing profits were US$69 million higher reflecting a refocusing and rationalisation of activities in our US treasury and investment banking operations mainly completed during 1998, and higher trading revenues in Canada. In our US banking operations, other operating income was stable against the first half of 1998 with a greater contribution within fees and commissions from wealth management products, including insurance. In Canada, there was growth in brokerage commissions from the businesses acquired and an increased level of credit fee income reflecting higher volumes in bankers' acceptances and guarantees. These were partly offset by a fall in the level of corporate finance and mutual fund fees as a result of weaker equity and underwriting markets.

Operating costs increased by US$53 million, or 7.9 per cent, in the first half of 1999 compared with the first half of 1998. In Canada, acquisitions made during the year and investment in new business and delivery channels were the principal contributors to higher operating expenses. Costs grew by 3.0 per cent in HSBC USA Inc. and continued to reflect careful cost control.

The bad debt charge increased by US$14 million to US$63 million in the first half of 1999. Specific provisions increased in the USA mainly in personal banking and in the commercial finance sectors. The charge for general provisions decreased in Canada where there was no repeat step change in the level of general provision charged in the first half of last year, which reflected the economic decline in certain provinces, in particular British Columbia.

Latin America

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Net interest income	582	507	688
Dividend income	11	9	–
Net fees and commissions	199	336	307
Dealing profits	40	9	(1)
Other income	140	141	111
Other operating income	390	495	417
Operating income	972	1,002	1,105
Staff costs	(372)	(444)	(504)
Premises and equipment	(76)	(90)	(101)
Other	(195)	(225)	(265)
Depreciation	(37)	(38)	(44)
Operating expenses	(680)	(797)	(914)
Operating profit before provisions	292	205	191
Provisions for bad and doubtful debts	(64)	(75)	(118)
Provisions for contingent liabilities and commitments	–	(6)	5
Amounts written off fixed asset investments	–	–	(1)
Operating profit	228	124	77
Income from associated undertakings	11	10	10
Gains on disposal of investments and tangible fixed assets	9	8	5
Profit before tax	248	142	92
Share of HSBC's pre-tax profits (per cent)	6.1	3.8	3.2
Cost:income ratio (per cent)	70.0	79.5	82.7

Bad and doubtful debts

Figures in US$ millions	Half-year to 30 June 1999	30 June 1998	31 December 1998
Loans and advances to customers			
– specific charge:			
new provisions	91	67	130
releases and recoveries	(24)	–	(28)
	67	67	102
– general (releases)/charge	(3)	8	16
Total bad and doubtful debt charge	64	75	118
Customer bad debt charge as a percentage of closing gross loans and advances (annualised)	2.7%	3.0%	4.3%

Despite the devaluation of the Brazilian Real, our Latin American operations contributed US$248 million to HSBC's profit before tax in the first of the year, an increase of 74.6 per cent. The instabilities in the Brazilian financial markets at the beginning of 1999 resulted in exceptional profits from wide interest margins and foreign exchange earnings in the first half of 1999, which are not expected to recur. The proportion of HSBC's pre-tax profit contributed by its Latin American operations increased from 3.8 per cent to 6.1 per cent.

In Brazil, the high interest rate environment and volatility in the exchange rate in the first half of 1999 led to exceptionally strong net interest income and foreign exchange dealing profits. As a result, our Brazilian operations reported profits 67 per cent higher than in the first half of 1998 in US dollar terms. Although these exceptional factors most impacted current financial performance, of greater importance for the longer term was the progress made in changing the business mix to conform with HSBC's 'Managing for Value' strategy. Strong operating earnings together with slow growth in risk-weighted assets generated a very positive capital retention enabling our Brazilian operations to pay dividends of US$111 million during the period.

HSBC Bank Argentina S.A. reported profits before tax US$33 million higher than in the same period last year. This was largely due to improved operational efficiency, the absence of a provision against an equity investment and the benefits accruing from increasing our participation in La Buenos Aires New York Life, a life assurance company and Maxima, a pension fund manager to that of majority shareholder. In addition, gains of US$9 million were recorded on the sale of investment securities in the first half of 1999.

Net interest income of US$582 million in the first half of 1999 was US$75 million higher than the first half of 1998. In Brazil, exceptional margins were achieved due to high interest rates during a period of economic instability. In Argentina, volumes grew considerably in higher margin products including mortgages, loans secured on pledges, cheque discounting and credit cards in part as a result of using the Maxima sales force to cross-sell these products.

Other operating income declined by US$105 million in the first half of 1999 compared with the first half of 1998. In local currency terms, other operating income in Brazil increased by BRL20 million, or 4 per cent, compared with the same period last year. Brazilian operations achieved a substantial increase in cross-sales of retail banking and insurance products. Much of this improvement in cross-sales was achieved through fund management operations where funds under management grew from BRL4.5 billion to BRL7.0 billion during the period. Insurance operations in Brazil also increased their penetration of products through the bank distribution channels with 30 per cent of insurance revenues now earned through these channels against 19 per cent during the same period last year. In Argentina, other income rose as former associates, La Buenos Aires New York Life and Maxima, became subsidiaries. In addition, there were stronger underwriting results in the motor insurance business. However, as a result of the Brazilian devaluation, commissions from trade finance declined.

The provision for bad and doubtful debts in Brazil remained well covered within the margins achieved on lending products. Credit demand remained subdued and a cautious approach has been taken to lending to the middle market sector in view of high interest rates and volatile exchange rates. In Argentina, the charge for bad and doubtful debts was in line with that for the same period last year and overall credit demand remained subdued.

HSBC Investment Banking

	Half-year to		
Figures in US$ millions	30 June 1999	30 June 1998*	31 December 1998*
Net interest income	183	168	205
Fees and commissions (net)	728	675	661
Trading income **	182	81	16
Other income ***	114	142	99
Total income	1,207	1,066	981
Operating expenses	(904)	(780)	(756)
Bad and doubtful debts	(19)	1	(39)
Other	32	10	(5)
Profit before tax	316	297	181
Attributable profit	211	172	127
Total assets	40,177	35,576	36,649
Shareholders' funds	2,141	2,008	2,128
Return on average shareholders' funds	19.6%	17.7%	12.2%
Staff numbers (full time equivalent)	8,290	8,210	8,213
Segmental analysis of pre-tax profit:			
– Asset management	39	29	26
– Private banking	107	110	110
– Other investment banking	170	158	45
	316	297	181

* *Restated to include HSBC Trinkaus & Burkhardt KGaA which was transferred to HSBC Investment Banking on 1 January 1999.*

** *In order to present the results of HSBC Investment Banking on a basis consistent with common practice in investment banking, trading income as reported above includes all profits and losses relating to dealing activities, including interest income/expense and dividends arising from long and short positions. In this respect, it differs from dealing profits as reported on page 9.*

*** *Includes profit on disposal of venture capital investments, US$47 million in the first half of 1999 (first half 1998: US$71 million; second half 1998: US$24 million) which were included in gains on disposal of fixed assets and investments at the HSBC level.*

In Investment Banking, the return on shareholders' funds improved to 19.6 per cent compared with 12.2 per cent in the second half of 1998 and 17.7 per cent in the first half of 1998.

Pre-tax profits increased by US$19 million (6.4 per cent) over the first half of 1998 and by US$135 million (74.6 per cent) over the second half of 1998 to US$316 million. Attributable profits increased by US$39 million, or 22.7 per cent, compared with the same period in 1998.

Our Corporate Finance and Advisory activities performed well, contributing to a significant increase in fee income. Considerable progress has been made in strengthening relationships with the large corporate customers of the major banking operations within HSBC. This is now beginning to be reflected in increased fees.

Active equity markets contributed to strong levels of commissions and significantly improved trading income. The Equities business performed well across virtually all product areas with continued success in Europe and significant improvements in the Far East. The development of products for distribution through HSBC channels has already produced results.

Funds under management in the Asset Management business increased by 5.8 per cent to US$66 billion compared with December 1998 and increased fee income resulted in an improved profit contribution. Increased emphasis is being given to retail mutual funds and unit trusts to be distributed through HSBC's retail branch networks.

Operating income from our Private Banking and Trustee business increased 7.1 per cent compared with the first half of 1998. This increase was offset by increased bad debt provisions and the amortisation of goodwill arising from the purchase of the 25 per cent minority in HSBC Guyerzeller Bank AG at the end of 1998, which resulted in a minor reduction in pre-tax profit. However, the amortisation of goodwill was more than offset by the reduced minority interest so that attributable profit increased by US$4 million.

Private Equity disposed of a number of equity investments from its portfolio, realising profits of US$47 million compared with US$71 million in the first half of 1998 and US$24 million in the second half of 1998.

Operating expenses increased by 15.9 per cent compared with the same period in 1998 almost entirely as a result of increased compensation costs linked to profit performance.

Asset deployment

	30 June 1999		30 June 1998		31 December 1998	
	US$m	%	US$m	%	US$m	%
Total assets						
Europe	194,977	39.8	192,817	40.4	190,823	40.2
Hong Kong	157,004	32.1	140,124	29.4	149,127	31.3
Rest of Asia-Pacific	52,238	10.7	54,244	11.4	57,253	12.0
North America	71,469	14.6	73,436	15.4	63,903	13.4
Latin America	13,555	2.8	16,222	3.4	14,614	3.1
Total assets	489,243	100.0	476,843	100.0	475,720	100.0

	30 June 1999		30 June 1998		31 December 1998	
	US$m	%	US$m	%	US$m	%
Loans and advances to customers	236,125	48.3	241,100	50.6	235,295	49.5
Loans and advances to banks	96,136	19.6	98,736	20.7	85,315	18.0
Debt securities	75,066	15.4	59,181	12.4	69,185	14.5
Treasury and other eligible bills	23,683	4.8	15,773	3.3	21,980	4.6
Equity shares	4,420	0.9	4,353	0.9	4,221	0.9
Mark-to-market of exchange rate and interest rate contracts	12,531	2.6	17,514	3.7	18,206	3.8
Other	41,282	8.4	40,186	8.4	41,518	8.7
	489,243	100.0	476,843	100.0	475,720	100.0
Hong Kong SAR Government certificates of indebtedness	7,277		7,524		7,408	
Total assets	496,520		484,367		483,128	
Loans and advances to customers include:						
– reverse repos	4,532		7,082		2,951	
– settlement accounts	9,153		6,315		4,959	
Loans and advances to banks include:						
– reverse repos	9,338		16,828		7,411	
– settlement accounts	4,336		3,535		2,207	

Total assets increased by US$13.4 billion since 31 December 1998 mostly as a result of increases in interbank loans and debt securities, which reflected the placement of increased customer deposits, and financial market transactions. Underlying customer lending generally fell in Asia as a result of the economic contraction although increased lending was achieved in India, Taiwan, the Middle East and Australia. In Hong Kong, growth was achieved in respect of loans under the Hong Kong SAR Government Home Ownership Scheme. In the United Kingdom, while mortgage lending and business banking were generally flat, there was reasonable growth in consumer credit, but the impact of the strengthening of the US dollar against sterling by 5 per cent more than offset the underlying growth in sterling terms. The acquisition of Mid-Med Bank in Malta added US$1.9 billion to customer advances. In North America, modest growth was achieved in the commercial loan book and from an increased level of financial market transactions.

Debt securities held in accrual books showed an unrecognised loss, net of off-balance-sheet hedges, of US$29 million compared with an unrecognised gain of US$298 million at 31 December 1998. Equity shares included US$1,091 million held on investment account, compared with US$1,140 million at 31 December 1998, on which there was an unrecognised gain of US$648 million compared with US$589 million at 31 December 1998.

No formal valuation of HSBC's properties was carried out as at 30 June 1999 in view of the more stable property market conditions. The next formal valuation will be carried out at the end of 1999.

Risk management

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

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

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

Credit risk management

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

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

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

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

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

  - risk concentrations and exposures to industry sectors
  - large customer group exposures
  - emerging market debt and provisioning
  - large non-performing accounts and provisions
  - specific segments of the portfolio – commercial real estate, 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
  - Year 2000
  - credit scoring
  - new products
  - training courses
  - credit-related reporting; and

- primary interface on credit-related issues on behalf of HSBC Holdings with external parties including the Bank of England and the 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 fully responsible for the quality of its credit portfolio. Each major subsidiary has an appointed Chief Credit Officer, who reports to the local Chief Executive Officer, with a functional reporting line to the Group General Manager, Group Credit and Risk. Each subsidiary has established a credit process involving credit policies, procedures and lending guidelines conforming with HSBC requirements, and credit approval authorities delegated from the Board of Directors of HSBC Holdings to the local Chief Executive Officer. The objective is to build and maintain risk assets of high quality where risk and return are commensurate.

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

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

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

Loan portfolio

Loans and advances to customers are spread throughout the various industrial sectors, as well as geographically. Over one-third of loans and advances to customers are to the personal banking sector, within which residential mortgages predominate.

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, Midland and HSBC Bank Middle East operations, by the location of the lending office.

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

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans
	US$m	US$m	US$m	US$m	US$m	US$m	%
At 30 June 1999							
Commercial:							
Commercial, industrial and international trade	28,372	9,992	12,014	6,285	1,991	58,654	24.0
Commercial real estate	6,159	8,773	3,402	4,898	66	23,298	9.6
Other property related	2,288	2,234	2,109	1,733	151	8,515	3.5
Non-bank financial institutions	5,375	2,530	1,203	3,673	88	12,869	5.3
Government	3,112	276	689	787	136	5,000	2.0
Settlement accounts	4,108	481	475	4,068	25	9,157	3.8
Other commercial*	15,209	7,367	5,438	3,981	819	32,814	13.4
Total commercial	64,623	31,653	25,330	25,425	3,276	150,307	61.6
Personal:							
Residential mortgages	20,472	24,339	3,051	13,227	662	61,751	25.3
Hong Kong SAR Government Home Ownership Scheme	–	6,628	–	–	–	6,628	2.7
Other personal	11,956	4,080	3,273	5,212	778	25,299	10.4
Total personal	32,428	35,047	6,324	18,439	1,440	93,678	38.4
Total	97,051	66,700	31,654	43,864	4,716	243,985	100.0
Specific provisions outstanding against loans and advances	1,316	1,257	2,029	233	365	5,200	
Non-performing loans**	2,445	3,043	3,354	557	422	9,821	
Specific provisions outstanding as a percentage of non-performing loans**	53.8%	41.3%	60.5%	41.8%	86.5%	52.9%	
Non-performing loans as a percentage of gross loans and advances to customers**	2.5%	4.6%	10.70%	1.3%	8.9%	4.0%	

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

** *Net of suspended interest.*

At 30 June 1998	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 %
Commercial:							
Commercial, industrial and international trade	27,819	12,191	13,176	6,087	2,497	61,770	25.0
Commercial real estate	6,290	10,512	3,633	4,709	152	25,296	10.2
Other property related	2,094	1,938	1,967	1,589	55	7,643	3.1
Non-bank financial institutions	5,449	2,750	1,354	6,642	72	16,267	6.6
Government	3,725	395	253	534	33	4,940	2.0
Settlement accounts	3,546	187	373	2,184	29	6,319	2.5
Other commercial*	14,784	7,883	5,574	4,502	883	33,626	13.6
Total commercial	63,707	35,856	26,330	26,247	3,721	155,861	63.0
Personal:							
Residential mortgages	20,456	25,185	2,347	13,210	480	61,678	24.9
Hong Kong SAR Government Home Ownership Scheme	–	5,274	–	–	–	5,274	2.1
Other personal	10,744	4,575	3,318	5,277	810	24,724	10.0
Total personal	31,200	35,034	5,665	18,487	1,290	91,676	37.0
Total	94,907	70,890	31,995	44,734	5,011	247,537	100.0
Specific provisions outstanding against loans and advances	1,236	683	1,397	196	262	3,774	
Non-performing loans**	2,260	1,188	2,174	569	313	6,504	
Specific provisions outstanding as a percentage of non-performing loans**	54.7%	57.5%	64.3%	34.4%	83.7%	58.0%	
Non-performing loans as a percentage of gross loans and advances to customers**	2.4%	1.7%	6.9%	1.3%	6.3%	2.6%	
At 31 December 1998							
Commercial:							
Commercial, industrial and international trade	28,224	10,952	13,189	6,444	2,602	61,411	25.3
Commercial real estate	6,418	9,420	3,601	4,615	62	24,116	9.9
Other property related	2,110	2,248	2,126	1,591	174	8,249	3.4
Non-bank financial institutions	4,638	2,259	1,527	3,238	101	11,763	4.9
Government	3,381	551	567	651	135	5,285	2.2
Settlement accounts	877	78	231	3,734	43	4,963	2.0
Other commercial*	15,200	7,377	5,071	3,934	885	32,467	13.4
Total commercial	60,848	32,885	26,312	24,207	4,002	148,254	61.1
Personal:							
Residential mortgages	20,716	25,051	2,746	13,059	640	62,212	25.7
Hong Kong SAR Government Home Ownership Scheme	–	6,291	–	–	–	6,291	2.6
Other personal	12,000	4,257	3,322	5,265	888	25,732	10.6
Total personal	32,716	35,599	6,068	18,324	1,528	94,235	38.9
Total	93,564	68,484	32,380	42,531	5,530	242,489	100.0
Specific provisions outstanding against loans and advances	1,286	1,059	1,701	223	339	4,608	
Non-performing loans**	2,326	2,520	3,032	590	403	8,871	
Specific provisions outstanding as a percentage of non-performing loans**	55.3%	42.0%	56.1%	37.8%	84.1%	51.9%	
Non-performing loans as a percentage of gross loans and advances to customers**	2.5%	3.7%	9.4%	1.4%	7.3%	3.7%	

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

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

Figures in US$ millions

	Residential mortgages	Other personal	Property related	Commercial international trade and other	Total
As at 30 June 1999					
Loans and advances to customers (gross)					
Singapore	447	587	1,549	3,414	5,997
Australia and New Zealand	1,305	88	1,432	2,349	5,174
Malaysia	548	350	706	2,989	4,593
Middle East	22	1,593	418	2,373	4,406
Indonesia	3	15	21	856	895
South Korea	29	16	13	678	736
Thailand	48	54	98	965	1,165
Japan	35	6	188	1,897	2,126
Mainland China	38	-	644	1,325	2,007
Other	576	564	442	2,973	4,555
Total of Rest of Asia-Pacific	3,051	3,273	5,511	19,819	31,654
As at 30 June 1998					
Loans and advances to customers (gross)					
Singapore	408	641	1,792	4,237	7,078
Australia and New Zealand	1,015	61	1,513	2,249	4,838
Malaysia	439	348	549	2,807	4,143
Middle East	24	1,660	249	2,375	4,308
Indonesia	1	11	28	812	852
South Korea	7	31	11	652	701
Thailand	54	56	108	1,068	1,286
Japan	31	6	158	1,869	2,064
Mainland China	53	-	720	1,596	2,369
Other	315	504	472	3,065	4,356
Total of Rest of Asia-Pacific	2,347	3,318	5,600	20,730	31,995
As at 31 December 1998					
Loans and advances to customers (gross)					
Singapore	464	673	1,754	3,350	6,241
Australia and New Zealand	1,105	66	1,432	2,277	4,880
Malaysia	525	353	728	3,148	4,754
Middle East	26	1,590	276	2,877	4,769
Indonesia	2	15	26	908	951
South Korea	19	25	13	488	545
Thailand	56	57	110	1,054	1,277
Japan	37	7	210	2,152	2,406
Mainland China	41	-	711	1,395	2,147
Other	471	536	467	2,936	4,410
Total of Rest of Asia-Pacific	2,746	3,322	5,727	20,585	32,380

Provisions for bad and doubtful debts

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

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

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

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

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

Specific provisions

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

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

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

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

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. Local regulators also require the maintenance of a higher level of general provisions in some jurisdictions, such as Canada and Argentina.

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.

Aggregate customer provisions increased by US$0.6 billion during the first half of 1999 and at US$7.2 billion represented 2.95 per cent of gross customer advances at 30 June 1999 compared with 2.73 per cent at 31 December 1998. The increase was driven by the continued deterioration in credit quality in Malaysia and approximately 50 per cent of the bad and doubtful debt charge in the Rest of Asia-Pacific related to Malaysia. The other major deterioration in the first half of 1999 arose from certain exposures to mainland China and just over 40 per cent of the provision charge booked in Hong Kong and the Rest of Asia-Pacific, excluding Malaysia, was attributable to these exposures. There are signs that asset quality in Hong Kong is stabilising and the rate at which non-performing accounts were growing slowed in the second quarter of 1999. In the UK and North America credit quality remained stable.

The total general provision showed little change during the first half of 1999, falling marginally from 0.83 per cent to 0.81 per cent of gross advances to customers. This is substantially in excess of HSBC's minimum standard of 0.6 per cent. The major factor accounting for this was the US$290 million special general provision raised in 1997 against increased risk in the Asian portfolio. In view of the continuing uncertain environment this provision remains intact. General provisions may also be held in excess of the minimum requirement where local management deem it to be prudent in the light of local economic conditions, as in the case of Brazil, Malaysia and China. Releases are taken when the size of the surplus above 0.6 per cent is no longer justified. Management determined the minimum requirement of 0.6 per cent as a conservative level for HSBC's general provision in 1995, having been increased from 0.5 per cent in view of management's concern over the potential increase in the level of latent risk in the portfolio and, hence, the potential deterioration in credit quality. A series of internal checks is regularly performed to confirm the ongoing adequacy of the general provision.

Risk elements in the loan portfolio

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

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

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

Suspended interest

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

Assets acquired in exchange for advances

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

Troubled debt restructurings

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

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

Potential problem loans

Credit risk elements also cover potential problem loans. These are loans where known information about possible credit problems of borrowers causes management serious doubts as to the borrowers' ability to comply with the loan repayment terms. At 30 June 1999, there were no significant potential problem loans, other than the amounts shown in the following table.

Total non-performing loans increased by US$0.9 billion in the first half of 1999. A US$0.8 billion increase in Hong Kong and the Rest of Asia-Pacific primarily reflected the continued deterioration in asset quality in Malaysia and mainland China related exposure. However, the rate of increase in non-performing loans was considerably slower than in 1998 in both Hong Kong and the Rest of Asia-Pacific.

The following table provides an analysis of risk elements in the loan portfolios as at the following dates:

	30 June 1999 US$m	31 December 1998 US$m
Loans accounted for on a non-accrual basis:		
Europe	1,126	1,092
Hong Kong	81	77
Rest of Asia-Pacific	332	344
North America	513	546
Latin America	378	355
Total non-accrual loans	2,430	2,414
Loans on which interest has been accrued but suspended:		
Europe	1,329	1,243
Hong Kong	2,956	2,443
Rest of Asia-Pacific	3,023	2,691
North America	28	24
Latin America	44	48
Total suspended interest loans	7,380	6,449
Assets acquired in exchange for advances:		
Europe	28	28
Hong Kong	6	–
North America	18	22
Total assets acquired in exchange for advances	52	50
Total non-performing loans	9,862	8,913
Troubled debt restructurings:		
Europe	–	22
Hong Kong	238	187
Rest of Asia-Pacific	128	68
North America	–	1
Total troubled debt restructurings	366	278
Accruing loans contractually past due 90 days or more as to principal or interest:		
Europe	–	1
Hong Kong	98	121
Rest of Asia-Pacific	97	69
North America	24	30
Total accruing loans contractually past due 90 days or more	219	221
Total risk elements:		
Europe	2,483	2,386
Hong Kong	3,379	2,828
Rest of Asia-Pacific	3,580	3,172
North America	583	623
Latin America	422	403
Total risk elements	10,447	9,412
Provisions for bad and doubtful debts as a % of total risk elements	69.0	70.7

Country risk and cross-border exposure

As at 30 June 1999	Brazil	Malaysia	South Korea	Thailand	Indonesia
Figures in US$ billions					
In-country local currency outstandings	5.2	6.3	0.9	0.8	0.4
In-country foreign currency outstandings	0.3	0.8	1.0	0.6	0.9
Net cross-border outstandings	0.4	0.4	2.0	0.2	0.4
	0.7	1.2	3.0	0.8	1.3
Claims under contracts in financial derivatives	0.1	–	–	–	–
Total exposure	6.0	7.5	3.9	1.6	1.7
Figures in US$ millions					
Non-performing customer loans *	126	950	7	499	588
Specific provisions outstanding	82	550	5	333	443
As at 30 June 1998					
Figures in US$ billions					
Total exposure	10.2	6.1	3.9	2.3	1.5
Figures in US$ millions					
Non-performing customer loans *	99	231	23	353	457
Specific provisions outstanding	50	121	21	214	319
As at 31 December 1998					
Figures in US$ billions					
Total exposure	9.2	7.4	3.6	2.3	1.4
Figures in US$ millions					
Non-performing customer loans *	135	693	34	575	643
Specific provisions outstanding	89	357	23	350	410

* *Net of suspended interest*

The table provides in-country and cross-border outstandings and claims under contracts in financial derivatives for the three Asian countries, Indonesia, South Korea and Thailand, and Brazil that have negotiated arrangements with the International Monetary Fund ('IMF') together with Malaysia, which implemented currency control restrictions in 1998.

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

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

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

Brazil signed an agreement with the IMF in December 1998 designed to sustain confidence in Brazil's exchange rate regime following economic uncertainty subsequent to the default by Russia on its domestic debt.

After the float of the Brazilian currency in January 1999, Brazil agreed to revised economic targets with the IMF, thereby allowing it to resume drawing funds under the IMF programme. Subsequently, in March 1999, Brazil reached agreement with a group of international banks (including HSBC) whereby the banks will voluntarily maintain their trade-related business and interbank lines with Brazil for a period of six months.

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

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

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

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

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.

Local management is responsible for ensuring compliance with local regulatory and Group Executive Committee requirements. Local treasury functions manage liquidity on a daily basis, with the larger regional treasury sites providing support to smaller entities where required.

Local Asset and Liability Policy Committees which report to Group Head Office on a regular basis monitor compliance with liquidity requirements. The monitoring process involves:

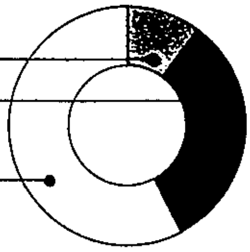
- projecting cash flows by major currency and a consideration of the level of related liquid assets;
- maintenance of balance sheet liquidity ratios;
- monitoring of depositor concentration both in terms of the overall funding mix and to avoid undue reliance on large individual depositors; and
- maintenance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

Customer accounts form a significant part of HSBC's overall funding. HSBC places considerable importance on the stability and growth of this core deposit base, 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 aligning 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 the financial and operating performance. HSBC Holdings actively manages the cash flows from its subsidiaries to maximise the amount of cash held at the holding and subholding company 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.

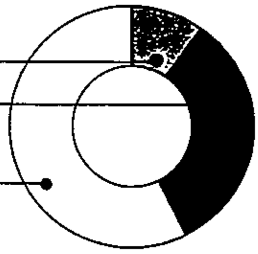
Customer accounts and deposits by banks - 30 June 1999

	%	US$bn
Deposits by banks	10.2	35.9
Current	32.3	113.6
Savings and other deposits	57.5	202.1
Total	100.0	351.6



Customer accounts and deposits by banks - 31 December 1998

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



Market risk management

Market risk is the risk that interest rates, foreign exchange rates or equity 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 interest rate, exchange 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. Group Market Risk, an independent unit within HSBC Holdings, develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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

VAR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time horizon and to a given level of confidence. HSBC VAR, 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 generally takes account of correlations between different markets and rates. 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.

VAR is a principal component of the management of market risk for HSBC. Historically this has been calculated to a 95 per cent confidence level and for a one day holding period. From the beginning of 1999, VAR is being calculated at a 99 per cent confidence level for a 10-day holding period*. This change has been made to facilitate consistency with the regulatory requirements for the use of internal models used to calculate market risk capital requirements and remains consistent with HSBC's risk management control framework. The comparative figures for 1998 have been recalculated using a 99 per cent confidence level for a 10-day holding period using the VAR models in place at that date. It is not practicable retrospectively to amend these comparatives for other technical changes made to the VAR models since 31 December 1998.

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

- the assumption 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 ten-day holding period assumes that all positions can be liquidated or hedged in ten days. This does not fully capture the market risk arising during periods of illiquidity, when ten day liquidation or hedging may not be possible;
- the use of a 99 per cent confidence level does not take account of any losses that might occur beyond this level of confidence;

* *see page 30*

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

- the assumption of independence between risk types may be incorrect and therefore result in VAR not fully capturing market risk where correlation between variables is exhibited;

- VAR is calculated at the close of business, with intra-day exposures not being subject to intra-day VAR calculations; and

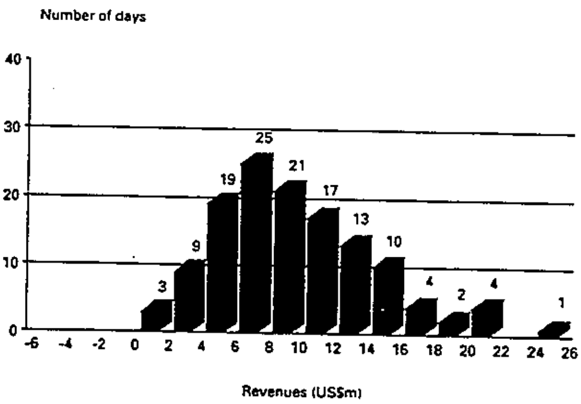
- VAR does not necessarily capture all of the higher order market risks and as such may underestimate potential losses.

HSBC VAR should not, therefore, be viewed as a maximum amount that HSBC can lose on its market risk positions. 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.

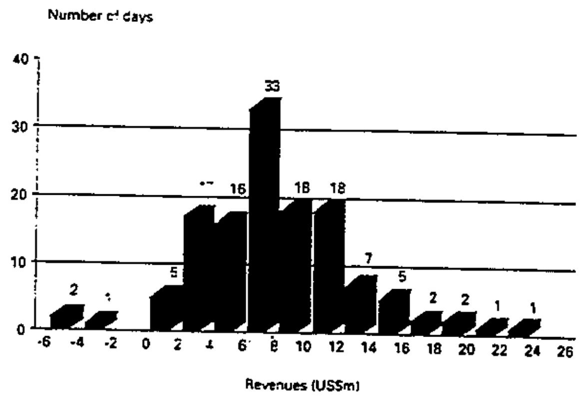
VAR measurement techniques have been applied in respect of treasury activities throughout the period.

The average daily revenue earned from market risk-related treasury activities in the first half of 1999, including accrual book net interest income and funding related to dealing positions, was US$9.5 million compared with US$7.9 million for the first half of 1998 and US$7.7 million for the second half of 1998. The standard deviation of these daily revenues was US$4.6 million. An analysis of the frequency distribution of daily revenues shows that the lowest daily revenue was between US$nil million and US$2 million, with three occurrences and there were no days showing losses. The most frequent result was a daily revenue of between US$6 million and US$8 million, with 25 occurrences. The highest daily revenue was US$26 million.

Daily distribution of market revenues
Group treasury centres
Half-year to 30 June 1999



Daily distribution of market revenues
Group treasury centres
Half-year to 30 June 1998



■ Profit and loss frequency

Foreign exchange exposure

HSBC's foreign exchange exposure arises from foreign exchange dealing within HSBC Markets' businesses 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 related to foreign exchange dealing positions as at 30 June 1999 was US$29.1 million compared with US$14.2 million at 31 December 1998*. The average VAR for the first half of 1999 was US$29.1 million, with a maximum of US$58.5 million and a minimum of US$16.6 million in the period. The VAR noted for foreign exchange positions excludes structural foreign currency exposures, since related gains or losses are taken through reserves.

* see page 30

Interest rate exposure

HSBC's interest rate exposures comprise those originating in its treasury trading activities and structural interest rate exposures; both are managed within limits approved by the Group Executive Committee. Interest rate risk arises in both dealing portfolios and accrual books.

Trading value at risk

VAR at 30 June 1999 related to interest rate exposures arising from trading activities was US$71.7 million compared with US$13.1 million at 31 December 1998* and the average for the first half of 1999 was US$59.4 million, the maximum was US$82.2 million and the minimum was US$32.2 million.

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.

HSBC has assessed its overall exposure to changes in interest rates by calculating the approximate changes in net interest income of HSBC's major businesses for changes in interest rates. An immediate hypothetical 100 basis points parallel rise and fall in all yield curves worldwide based on the rates prevailing on 1 January 1999 would decrease planned net interest income for the twelve months to 31 December 1999 by US$3 million and US$16 million, respectively, assuming no management action in response to the interest rate movements.

Rather than assuming all interest rates move together, HSBC's interest rate exposures can be grouped into blocs whose interest rates are considered more likely to move together. The sensitivity of net interest income for 1999 can then be described as follows:

Figures in US$ millions	*US dollar Bloc*	*Sterling Bloc*	*Asian Bloc*	*Latin American Bloc*	*Euro Bloc*	*Total 1999*	*Total 1998*
Change in 1999 projected net interest income							
+100 basis points shift in yield curves........................	58	(41)	(22)	15	(13)	(3)	(6)
- 100 basis points shift in yield curves........................	(76)	41	22	(16)	13	(16)	(20)

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, such as no management action in response to a change in interest rates.

Equities exposure

HSBC's equities exposure comprises trading equities, forming the basis of value at risk, and long term equity investments. The latter are reviewed annually by the Group Executive Committee and regularly monitored by operating entities' asset and liability management committees.

VAR at 30 June 1999 related to equities trading positions was US$20.2 million compared with US$12.0 million at 31 December 1998*. The average VAR for the first half of 1999 was US$15.4 million, the maximum was US$26.4 million and the minimum US$11.1 million.

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

Operational risk management

Operational risk is the risk of economic loss arising through fraud, unauthorised activities, error, omission or inefficiency. 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. HSBC also maintains contingency facilities to support operations in the event of disasters.

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, who form the Basle Committee on Banking Supervision, 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 Own Funds, Solvency Ratio and Consolidated Supervision Directives, the FSA requires each bank and banking group to maintain an individually prescribed ratio of total capital to risk-weighted assets. Since 30 September 1998, 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 development of HSBC's business. HSBC seeks to maintain a prudent balance between the different components of capital and a prudent distribution of that capital between HSBC Holdings and its 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 and minority interests; and tier 2, comprising general loan loss provisions, property revaluation reserves and qualifying subordinated loan capital. The amount of qualifying tier 2 capital cannot exceed that of tier 1 capital, and term subordinated loan capital may not exceed 50 per cent of tier 1 capital. There are also limitations on the amount of general provisions which may be included in the tier 2 capital. Deductions are made from tier 1 capital in respect of goodwill and intangible assets. Total capital is also reduced by deducting investments in subsidiaries and associates which are not consolidated for regulatory purposes, investments in the capital of banks and other regulatory deductions.

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 weights 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 product and the category of the counterparty, taking into account any eligible collateral or guarantees. Trading book risk-weighted assets are determined by taking into account market-related risks, such as foreign exchange, interest rate and equity position risks, as well as counterparty risk.

Capital structure

The table below sets out the analysis of regulatory capital.

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Composition of capital			
Tier 1:			
Shareholders' funds and minorities less property revaluation reserves	33,594	29,043	29,352
Tier 2:			
Property revaluation reserves	2,087	2,852	2,121
General provisions	1,776	1,847	1,807
Perpetual subordinated debt	3,252	3,279	3,276
Term subordinated debt	6,683	6,367	6,433
Total qualifying tier 2 capital	13,798	14,345	13,637
Unconsolidated investments	(1,517)	(1,218)	(1,266)
Investments in other banks	(738)	(535)	(503)
Other deductions	(147)	(112)	(128)
Total capital	44,990	41,523	41,092
Total risk-weighted assets	294,016	297,598	301,950
Capital ratios (per cent)			
Total capital	15.3	14.0	13.6
- *excluding the US$3.0 billion share placing*	14.3		
Tier 1 capital	11.4	9.8	9.7
- *excluding the US$3.0 billion share placing*	10.4		

The above figures were computed in accordance with the EU Consolidated Supervision Directive.

Capital generation has been strong in the first half of 1999 as a result of increased retained earnings set against a reduced requirement for capital as risk-weighted assets fell. The share placing on 10 May raised US$3.0 billion of equity. After adjustment for the effects of this placing, HSBC's total capital ratio would have been 14.3 per cent and its tier 1 ratio would have been 10.4 per cent. Subsequent to 30 June 1999, HSBC Holdings raised US$1 billion and EUR300 million in tier 2 capital, also as part of the financing for the proposed Republic New York and Safra Republic acquisitions.

Tier 1 capital also increased as a result of retained earnings and shares issued in lieu of dividends which led to increases of US$1,576 million and US$450 million respectively.

Tier 2 capital increased slightly, due to debt issuance exceeding redemptions and regulatory amortisation.

Risk-weighted assets have declined slightly reflecting a change in asset mix towards lower risk exposures. Risk-weighted assets in the trading book reduced as a result of using internal VAR models and improved netting benefits.

Structural foreign currency exposure

HSBC's structural foreign currency exposure is represented by the net asset value of HSBC Holdings' foreign currency equity and subordinated debt investments in its subsidiaries, branches and associated companies. Gains or losses on structural foreign currency exposures are taken to reserves.

HSBC's structural foreign currency exposures are managed with the primary objective of ensuring, where practical, that HSBC's and individual banking subsidiaries' tier 1 capital ratios are protected from the effect of changes in exchange rates. This is usually achieved by denominating 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, including protecting the tier 1 capital ratio or the US dollar value of capital invested. As subsidiaries are generally able to adequately balance 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 period.

Year 2000 readiness

HSBC recognises that with the approach of the new millennium the inability of information technology ('IT') and other systems around the world to recognise the date change from 31 December 1999 to 1 January 2000 could pose significant issues. HSBC has adopted the Year 2000 conformity requirements issued by the British Standards Institution as its definition of Year 2000 compliance, that is neither performance nor functionality be affected by the changing of dates during and after the Year 2000.

HSBC has assessed the impact of Year 2000 and does not expect either its operations or service to customers to be disrupted as a result of HSBC's systems not being Year 2000 compliant. HSBC does not believe that the Year 2000 risks it faces in emerging markets are markedly greater than those it faces in other markets. Steering Committees have been formed in all the key business units and progress on the Year 2000 compliance programme (the 'Year 2000 Programme') is reported regularly to their Boards of Directors and to the Group Audit and Executive Committees.

HSBC is testing all of its relevant systems under the Year 2000 Programme to ensure that they are Year 2000 compliant and is seeking written confirmation from suppliers and service providers that their products and services are Year 2000 compliant. While HSBC has received responses from a majority of its suppliers and service providers and no material problems appear to be present, it is still evaluating the responses.

HSBC is also assessing its customers' commitment to achieving compliance and is providing information and assistance to help customers understand the risks and issues. HSBC has revised relevant credit and investment policies and trained relationship managers to ensure that Year 2000 risks are taken account of in credit and investment evaluations.

HSBC has already reviewed substantially all lines of programme code in its computer systems for Year 2000 compliance and made the required amendments or replacements. The great majority of these systems have been tested and are currently in use. In addition, HSBC expects to replace the small number of computer systems which remain non-compliant by September 1999 as part of its existing technology development programme.

In other areas of IT, HSBC is reviewing its end-user computing applications, networks, centralised data systems and desktop environments for Year 2000 compliance. Substantially all of HSBC's end-user computing applications and inventory items related to HSBC's networks have already been made compliant. HSBC's programme to ensure the hardware and software elements of HSBC's data centre systems have been made Year 2000 compliant is on schedule and substantially complete.

HSBC has evaluated the potential effect of the Year 2000 on its non-IT systems, including its facilities and other business processes. Substantially all of HSBC's facilities and related systems have been evaluated and, where not already compliant, are in the process of being made compliant. Other business processes are similarly being addressed across HSBC.

HSBC is finalising business contingency plans to address the perceived risks associated with the arrival of the Year 2000. These plans include mitigating the effects of any failure to complete remedial work on critical business systems, business resumption contingency plans to address the possibility of systems failure and market resumption contingency plans to address the possibility of the failure of systems or processes outside HSBC's control. HSBC is, however, unable to predict the effect if any of the efforts to address the Year 2000 problem fail.

Lack of readiness on the part of third parties could expose HSBC to the potential for loss, impairment of business processes and activities and disruption of financial markets. HSBC is addressing these risks through bilateral and multiparty efforts and participates in industry, country and global initiatives.

For more than a decade, parts of HSBC have been modifying their systems to be Year 2000 compliant when making other enhancements. The costs of the Year 2000 modifications made as part of such a combined package have not been separately identified. Costs incurred for the six months ended 30 June 1999 were US$30 million (including US$12 million attributable to incremental external costs). HSBC expects that the additional cost of completing the Year 2000 compliance and testing process will be approximately US$24 million (including US$8 million attributable to incremental external costs). Costs relating to major systems changes that are not directly related to the Year 2000 but which address some Year 2000 issues are not included in these costs.

Financial Statements

Consolidated Profit and Loss Account for the half-year to 30 June 1999

	Half-year to 30 June 1999 US$m	Half-year to 30 June 1998 US$m	Half-year to 31 December 1998 US$m
Interest receivable	14,460	16,425	17,195
Interest payable	(8,547)	(10,774)	(11,299)
Net interest income	5,913	5,651	5,896
Other operating income	4,497	4,318	4,190
Operating income	10,410	9,969	10,086
Operating expenses	(5,415)	(5,205)	(5,799)
Operating profit before provisions	4,995	4,764	4,287
Provisions for bad and doubtful debts	(1,082)	(1,146)	(1,491)
Provisions for contingent liabilities and commitments	(52)	(184)	40
Amounts written off fixed asset investments	(10)	(5)	(80)
Operating profit	3,851	3,429	2,756
Share of operating profit in associated undertakings	60	76	60
Gains/(losses) on disposal of			
– investments	155	147	75
– tangible fixed assets	2	34	(6)
Profit on ordinary activities before tax	4,068	3,686	2,885
Tax on profit on ordinary activities	(1,103)	(1,032)	(757)
Profit on ordinary activities after tax	2,965	2,654	2,128
Minority interests:			
– equity	(234)	(217)	(176)
– non-equity	(37)	(35)	(36)
Profit for the period attributable to shareholders	2,694	2,402	1,916
Dividends	(1,118)	(996)	(1,499)
Retained profit for the period	1,576	1,406	417

Financial Statements (continued)

Consolidated Balance Sheet at 30 June 1999

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
ASSETS			
Cash and balances at central banks	2,591	2,329	3,048
Items in the course of collection from other banks	6,776	8,407	5,911
Treasury bills and other eligible bills	23,683	15,773	21,980
Hong Kong SAR Government certificates of indebtedness	7,277	7,524	7,408
Loans and advances to banks	96,136	98,736	85,315
Loans and advances to customers	236,125	241,100	235,295
Debt securities	75,066	59,181	69,185
Equity shares	4,420	4,353	4,221
Interests in associated undertakings	875	921	889
Other participating interests	297	292	309
Intangible fixed assets	299	73	146
Tangible fixed assets	11,640	11,695	12,108
Other assets	26,564	29,612	32,352
Prepayments and accrued income	4,771	4,371	4,961
Total assets	496,520	484,367	483,128
LIABILITIES			
Hong Kong SAR currency notes in circulation	7,277	7,524	7,408
Deposits by banks	35,920	41,288	34,342
Customer accounts	315,639	303,009	308,910
Items in the course of transmission to other banks	5,090	6,286	4,206
Debt securities in issue	29,084	30,268	29,190
Other liabilities	48,920	46,469	48,662
Accruals and deferred income	4,696	4,282	4,805
Provisions for liabilities and charges			
– deferred taxation	1,264	1,018	1,268
– other provisions	2,691	2,667	2,906
Subordinated liabilities			
– undated loan capital	3,223	3,250	3,247
– dated loan capital	7,718	7,318	7,597
Minority interests			
– equity	2,484	2,598	2,315
– non-equity	872	850	870
Called up share capital	3,514	3,439	3,443
Reserves	28,128	24,101	23,959
Shareholders' funds	31,642	27,540	27,402
Total liabilities	496,520	484,367	483,128

Financial Statements (continued)

Statement of Total Consolidated Recognised Gains and Losses for the half-year to 30 June 1999

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Profit for the period attributable to shareholders	**2,694**	2,402	1,916
Impairment of land and buildings	**–**	–	(38)
Unrealised deficit on revaluation of investment properties			
– subsidiaries	**–**	(122)	(68)
– associates	**–**	(32)	(24)
Unrealised deficit on revaluation of land and buildings (excluding investment properties)	**–**	(1,188)	(599)
Exchange and other movements	**(764)**	(92)	61
Total recognised gains and losses for the period	**1,930**	968	1,248

Reconciliation of Movements in Consolidated Shareholders' Funds for the half-year to 30 June 1999

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Profit for the period attributable to shareholders	**2,694**	2,402	1,916
Dividends	**(1,118)**	(996)	(1,499)
	1,576	1,406	417
Other recognised gains and losses relating to the period	**(764)**	(1,434)	(668)
New share capital subscribed – gross proceeds	**2,998**	–	–
Less: costs of issue	**(30)**	–	–
	2,968	–	–
Shares issued under options	**10**	11	6
Amounts arising on shares issued in lieu of dividends	**450**	477	107
Net addition to/(reduction in) shareholders' funds	**4,240**	460	(138)
Shareholders' funds at beginning of period	**27,402**	27,080	27,540
Shareholders' funds at end of period	**31,642**	27,540	27,402

Consolidated Cash Flow Statement for the half-year to 30 June 1999

	30 June 1999 US$m	30 June 1998 US$m
Net cash inflow from operating activities	12,768	15,294
Dividends received from associated undertakings	84	58
Returns on investments and servicing of finance:		
Interest paid on finance leases and similar hire purchase contracts	(14)	(18)
Interest paid on subordinated loan capital	(379)	(381)
Dividends paid to minority interests		
– equity	(199)	(208)
– non-equity	(35)	(32)
Net cash (outflow) from returns on investments and servicing of finance	(627)	(639)
Taxation paid	(701)	(804)
Capital expenditure and financial investments:		
Purchase of investment securities	(34,526)	(24,397)
Proceeds from sale of investment securities	30,703	20,967
Purchase of tangible fixed assets	(488)	(658)
Proceeds from sale of tangible fixed assets	87	113
Net cash (outflow) from capital expenditure and financial investments	(4,224)	(3,975)
Acquisitions and disposals:		
Net cash (outflow) from acquisition of and increase in stake in subsidiary undertakings	(123)	(34)
Purchase of interest in associated undertakings and other participating interests	(32)	(17)
Proceeds from disposal of associated undertakings and other participating interests	3	4
Net cash (outflow) from acquisitions and disposals	(152)	(47)
Equity dividends paid	(1,049)	(855)
Net cash inflow before financing	6,099	9,032
Financing:		
Issue of ordinary share capital	2,978	11
Subordinated loan capital issued	714	41
Subordinated loan capital repaid	(452)	-
Net cash inflow from financing	3,240	52
Increase in cash	9,339	9,084

Additional Information

1 Accounting policies

The accounting policies adopted are consistent with those described in the 1998 Annual Report and Accounts.

2 Statutory accounts

The information in this Report on Form 6-K is unaudited and does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 ('the Act'). Statutory financial statements for the year ended 31 December 1998 have been delivered to the Registrar of Companies in England and Wales in accordance with Section 242 of the Act. The auditor has reported on those financial statements; its report was unqualified and did not contain a statement under Section 237(2) or (3) of the Act.

3 Review of Interim Financial Statements

The unaudited interim consolidated financial statements set out on pages 34 to 36 have been reviewed by HSBC Holdings' auditor, KPMG Audit Plc, in accordance with the bulletin 'Review of Interim Financial Statements' issued by the Auditing Practices Board. A report of its review was included in the Interim Report to shareholders.

4 Dividend

The Directors have declared a first interim dividend for 1999 of US$0.133 per ordinary share, an increase of 8 per cent. The dividend will be payable on 7 October 1999 to shareholders on the Register at the close of business on 20 August 1999. 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 27 September 1999, with a scrip dividend alternative. Particulars of these arrangements will be mailed to shareholders on or about 27 August 1999, and elections will be required to be made by 20 September 1999.

The dividend payable to holders of ADSs, each of which represents five ordinary shares, will be paid in cash in US dollars on 7 October 1999 or invested in additional ADSs for participants in the dividend reinvestment plan operated by HSBC Bank USA as depositary.

HSBC Holdings' shares will be quoted ex-dividend in London and in Hong Kong on 16 August 1999. The ADSs will be quoted ex-dividend in New York on 18 August 1999.

5 Earnings and dividend per share

	Half-year to 30 June 1999 US$	Half-year to 30 June 1998 US$	Half-year to 31 December 1998 US$
Basic and diluted earnings per share	**0.33**	0.30	0.24
Headline earnings per share	**0.33**	0.29	0.24
Dividend per share	**0.133**	0.123	0.185

Under the terms of the share capital reorganisation approved by the High Court on 30 June 1999, each shareholder of HSBC Holdings plc received three new ordinary shares of US$0.50 for each existing ordinary share of HK$10 or ordinary share of 75p held on 2 July 1999. Figures for earnings per share, dividend per share and net asset value per share reflect the 3-for-1 share capital reorganisation that took place on 2 July 1999.

Basic earnings per share was calculated by dividing the earnings of US$2,694 million by the weighted average number of ordinary shares outstanding of 8,167 million (first half of 1998: earnings of US$2,402 million and 8,045 million shares; second half of 1998 : earnings of US$1,916 million and 8,077 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 shares outstanding plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares of 8,237 million (first half of 1998: 8,114 million shares; second half of 1998 : 8,140 million shares).

The headline earnings per share, calculated in accordance with the definition in the Institute of Investment Management and Research ('IIMR') Statement of Investment Practice No. 1, 'The Definition of IIMR Headline Earnings', increased by 12 per cent. The headline earnings per share excluded the gains on the sale of fixed assets (other than investment securities) and included the add back of amortised goodwill.

6 Provisions against loans and advances

Half-year to 30 June 1999

	Specific US\$m	*General* US\$m	*Total* US\$m	*Suspended interest* US\$m
At 1 January 1999	4,639	2,019	6,658	768
Amounts written off	(504)	–	(504)	(78)
Recoveries of advances written off in previous years	81	–	81	–
Charge/(credit) to profit and loss account	1,102	(20)	1,082	–
Interest suspended during the period	–	–	–	365
Suspended interest recovered	–	–	–	(114)
Exchange and other adjustments	(92)	(13)	(105)	(8)
At 30 June 1999	5,226	1,986	7,212	933

Total outstanding provisions

	30 June 1999 US\$m	30 June 1998 US\$m	31 December 1998 US\$m
Loans and advances to customers:			
– specific provisions	5,200	3,774	4,608
– general provisions	1,986	2,077	2,019
	7,186	5,851	6,627
Loans and advances to banks:			
– specific provisions	26	45	31
Total provisions	7,212	5,896	6,658
Interest in suspense	933	715	768

Additional Information (continued)

Provisions against loans and advances to customers

	30 June 1999 %	30 June 1998 %	31 December 1998 %
Total provisions to gross lending*			
Specific provisions	2.18	1.57	1.93
General provisions			
– held against Asian risk	0.12	0.12	0.12
– other	0.71	0.75	0.72
Total provisions	3.01	2.44	2.77

Non-performing loans and advances

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Banks	41	58	42
Customers	9,821	6,504	8,871
Total non-performing loans and advances	9,862	6,562	8,913
Total provisions cover as a percentage of non-performing loans and advances	73.1%	89.9%	74.7%

** Net of suspended interest and reverse repo transactions*

7 Gains on disposal of investments

	Half-year to 30 June 1999 US$m	Half-year to 30 June 1998 US$m	Half-year to 31 December 1998 US$m
Gains on disposal of:			
– investment securities	142	138	72
– part of a business	10	–	–
– associates	3	–	3
– subsidiaries	–	9	–
	155	147	75

HSBC Private Equity Europe recorded a US$47 million profit from venture capital investment disposals (first half 1998: US$71 million; second half 1998: US$24 million). Hang Seng Bank recorded profits on the sale of listed equity investments of US$12 million (first half 1998: US$8 million, second half 1998: nil).

Additional Information (continued)

8 Taxation

	Half-year to 30 June 1999 US$m	Half-year to 30 June 1998 US$m	Half-year to 31 December 1998 US$m
UK corporation tax charge	431	488	244
Overseas taxation	634	576	542
Deferred taxation	34	(40)	(31)
Associated undertakings	4	8	2
Total charge for taxation	1,103	1,032	757
Effective tax rate (per cent)	27.1	28.0	26.2

HSBC Holdings and its subsidiary undertakings in the United Kingdom provided for UK corporation tax at 30.25 per cent, the rate for the calendar year 1999 (1998: 31.0 per cent). Overseas tax included Hong Kong profits tax of US$175 million (first half 1998: US$170 million; second half 1998: US$123 million) provided at the rate of 16.0 per cent (1998: 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 1999, there were potential future tax benefits of approximately US$425 million (31 December 1998: US$380 million) in respect of trading losses, allowable expenditure charged to the profit and loss account but not yet allowed for tax, and capital losses which have not been recognised because recoverability of the potential benefits is not considered certain.

The effective tax rate was below the standard rate of UK corporation tax of 30.25 per cent, mainly because of lower rates of tax in major subsidiaries overseas. The effective tax rate was adversely affected by unrelieved losses in Malaysia in both the second half of 1998 and the first half of 1999, and likewise, but to a greater extent in the first half of 1998, as a result of unrelieved losses in other Asian countries. The effective tax rate in the second half of 1998 benefited from an exceptional prior year tax credit in the United States amounting to US$10 million in respect of Brazilian tax credits.

9 Liabilities

	30 June 1999 US$m	30 June 1999 %	30 June 1998 US$m	30 June 1998 %	31 December 1998 US$m	31 December 1998 %
Customer accounts	**315,639**	**64.6**	303,009	63.5	308,910	65.0
Deposits by banks	**35,920**	**7.3**	41,288	8.7	34,342	7.2
Debt securities in issue	**29,084**	**5.9**	30,268	6.3	29,190	6.1
Shareholders' funds	**31,642**	**6.5**	27,540	5.8	27,402	5.8
Mark-to-market of exchange rate and interest rate contracts	**13,454**	**2.7**	18,168	3.8	19,615	4.1
Other liabilities	**63,504**	**13.0**	56,570	11.9	56,261	11.8
	489,243	**100.0**	476,843	100.0	475,720	100.0
Hong Kong SAR currency notes in circulation	**7,277**		7,524		7,408	
Total liabilities	**496,520**		484,367		483,128	
Customer accounts include:						
– repos	**4,719**		8,728		5,441	
– settlement accounts	**10,834**		7,369		5,125	
Deposits by banks include:						
– repos	**4,246**		7,380		7,614	
– settlement accounts	**4,998**		4,412		2,981	

HSBC continues to be funded primarily out of its customer deposit base and its liability mix remains stable.

Additional Information (continued)

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

	30 June 1999 US$m	30 June 1998 US$m
Operating profit	3,851	3,429
Change in prepayments and accrued income	140	(134)
Change in accruals and deferred income	(169)	(365)
Interest on finance leases and similar hire purchase contracts	13	17
Interest on subordinated loan capital	380	400
Depreciation and amortisation	471	417
Amortisation of discounts and premiums	(94)	9
Provisions for bad and doubtful debts	1,082	1,146
Loans written off net of recoveries	(422)	(434)
Provisions for liabilities and charges	393	568
Provisions utilised	(298)	(475)
Provisions assumed	–	377
Amounts written off fixed asset investments	12	5
Net cash inflow from trading activities	5,359	4,960
Change in items in the course of collection from other banks	(856)	(2,738)
Change in treasury bills and other eligible bills	(2,708)	1,410
Change in loans and advances to banks	(1,375)	(2,598)
Change in loans and advances to customers	562	(1,298)
Change in other securities	(859)	(1,518)
Change in other assets	6,172	3,588
Change in deposits by banks	1,432	2,214
Change in customer accounts	4,030	8,820
Change in items in the course of transmission to other banks	884	2,241
Change in debt securities in issue	(191)	2,523
Change in other liabilities	(35)	(2,726)
Elimination of exchange differences*	353	416
Net cash inflow from operating activities	12,768	15,294

* *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.*

11 Financial instruments, contingent liabilities and commitments

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Contract amounts			
Contingent liabilities			
Acceptances and endorsements	3,663	4,077	4,032
Guarantees and assets pledged on collateral security	23,574	24,543	23,686
Other	7	113	64
	27,244	28,733	27,782
Commitments			
Documentary credits and short-term trade-related transactions	6,072	6,560	5,927
Forward asset purchases and forward forward deposits placed	481	1,839	893
Undrawn note issuing and revolving underwriting facilities	360	147	405
Undrawn formal standby facilities, credit lines and other commitments to lend:			
– over 1 year	27,586	29,810	27,028
– 1 year and under	106,364	106,680	112,399
	140,863	145,036	146,652
Exchange rate contracts	636,820	810,124	765,665
Interest rate contracts	913,272	940,923	1,060,563
Equities contracts	30,147	26,891	29,799

The table above gives the nominal principal amounts of 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.

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 decrease in exchange rate contracts since December 1998 and June 1998 was largely as a result of falls in market volumes subsequent to the introduction of the euro at the beginning of 1999.

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

	30 June 1999 US$m	30 June 1998 US$m	31 December 1998 US$m
Risk-weighed amounts			
Contingent liabilities	19,814	19,241	19,823
Commitments	14,440	15,990	14,187
Replacement cost amounts			
Exchange rate contracts	5,893	10,522	8,899
Interest rate contracts	4,743	5,002	7,297
Equities contracts	2,177	2,221	2,218

Risk-weighted amounts are assessed in accordance with the Financial Services Authority's guidelines which implement the Basle 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 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 positive mark-to-market value and an estimate for the future fluctuation risk, using a future risk factor.

The decrease in the replacement cost amounts reflects both the effect of market movements on outstanding contracts and a reduction in business volumes.

13 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 re-charges 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, Midland Bank plc and HSBC Bank Middle East 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 geographic regions. The 'Rest of Asia-Pacific' geographical segment includes the Middle East, India and Australasia.

14 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.

15 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 or sold any HSBC Holdings shares during the six months ended 30 June 1999.

16 Differences between UK GAAP and US GAAP

The consolidated financial statements of HSBC are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. The following is a summary of the significant differences applicable to HSBC:

UK GAAP	US GAAP
Leasing	
Finance lease income is recognised so as to give a constant rate of return on the net cash investment in the lease, taking into account tax payments and receipts associated with the lease.	Unearned income on finance leases is taken to income at a rate calculated to give a constant rate of return on the investment in the lease, but no account is taken of the tax flows generated by the lease.
Leases are categorised as finance leases when the substance of the agreement is that of a financing transaction and the lessee assumes substantially all of the risks and benefits relating to the asset. All other leases are categorised as operating leases.	Leases are classified as capital leases when any of the criteria outlined under Statement of Financial Accounting Standards ('SFAS') No. 13 'Accounting for Leases' are met.
Operating leased assets are depreciated over their useful lives such that, for each asset, rentals less depreciation are recognised at a constant periodic rate of return on the net cash invested in that asset. Rentals receivable under operating leases are accounted for on a straight line basis over the lease term.	Operating leased assets are depreciated such that in each period the depreciation charge is at least equal to that which would have arisen on a straight line basis.
Debt swaps	
Assets acquired in exchange for other advances in order to achieve an orderly realisation are reported as advances. The assets acquired are recorded at the carrying value of the advances disposed of at the date of the exchange, with any provision having been duly updated. Any subsequent deterioration in their value will be recorded as an additional provision.	Under SFAS No. 15 'Accounting by Debtors and Creditors for Troubled Debt Restructurings', debt securities and equity shares acquired in exchange for advances in order to achieve an orderly realisation are required to be accounted for at their fair value, usually their secondary market value, at the date of exchange. Under SFAS No. 115 'Accounting for Certain Investments in Debt and Equity Securities', certain of these debt swaps qualify as securities and accordingly are classified as available for sale.
Shareholders' interest in the long-term assurance fund	
The shareholders' interest in the in-force life assurance and fund pensions policies of the long-term assurance fund is valued at the net present value of the profits inherent in such policies.	The net present value of these profits is not recognised. An adjustment is made to amortise acquisition costs and fees in accordance with SFAS No. 97 'Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments'.

UK GAAP	US GAAP
Pension costs	
Pension costs, based on actuarial assumptions and methods, are charged so as to allocate the cost of providing benefits over the average remaining service lives of employees.	SFAS No. 87 'Employers' Accounting for Pensions' prescribes a similar method of actuarial valuation but requires assets to be assessed at fair value and the assessment of liabilities to be based on current settlement rates. Certain variations from regular cost are allocated in equal amounts over the average remaining service lives of current employees.
Share compensation schemes	
For executive share option schemes, such options are granted at fair value and no compensation costs are recognised under the 'intrinsic value method'. For Save-As-You-Earn schemes, employees are granted shares at a 15 per cent discount to fair value at the date of grant. No compensation cost is recognised for such awards. For longer term and other restricted share award schemes, the fair value of the shares awarded is charged to compensation cost over the period in respect of which performance conditions apply. To the extent the award is adjusted by virtue of performance conditions being met or not, the compensation cost is adjusted in line with this.	SFAS No. 123, 'Accounting for Stock Based Compensation' encourages a fair value based method of accounting for stock based compensation plans. However, entities are permitted to continue with the Accounting Principles Board opinion ('APB') No. 25 'Accounting for Stock Issued to Employees' intrinsic value method where compensation cost is based on the difference between the market value of the stock and any contribution made by the employee.
Costs of software development for internal use	
There is no standard in the United Kingdom that deals specifically with accounting for software costs. Generally, HSBC's policy is to capitalise and amortise over the estimated useful life the cost of purchased software and to expense the costs of software developed internally.	The American Institute of Certified Public Accountants' ('AICPA') Statement of Position ('SOP') 98-1 'Accounting for 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. Retroactive application of SOP 98-1 is not permitted. 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.

UK GAAP

Goodwill

For acquisitions prior to 1998, goodwill arising on the acquisition of subsidiary or associated undertakings is charged against reserves in the year of acquisition.

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

At the date of disposal of subsidiary or associated undertakings, 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.

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

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.

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.

Under US GAAP, depreciation is charged on all properties based on cost.

UK GAAP

Investment securities

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

Other debt securities, including treasury bills and other eligible bills, and equity shares are included in the balance sheet at market value; changes in the market value of such assets are recognised in the profit and loss account as 'Dealing profits'.

Deferred taxation

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

Dividends paid

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

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'.

US GAAP

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.

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.

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

Under SFAS No. 125 '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 to resell or repledge the securities are accounted for as if the collateral involved has been transferred by the transferor. For repos, the securities involved would be reported separately in the Statement of financial position from other securities not so encumbered. For reverse repos, the securities transferred would be recognised within 'Debt securities' and the corresponding liability would be recognised in 'Obligation to return debt securities'.

UK GAAP	US GAAP
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'.

Future developments

SFAS No. 133 'Accounting for Derivative Instruments and for Hedging Activities' was issued in June 1998. The Statement is effective for fiscal years beginning after 15 June 2000 and may not be retroactively applied to financial statements of prior periods. Initial application shall be at the beginning of an entity's fiscal year and on that date, hedging relationships shall be designated anew. At the date of initial application, an entity shall recognise all derivatives as either assets or liabilities in the statement of financial position and measure them at fair value. The entity shall also recognise offsetting gains and losses on hedged assets, liabilities and firm commitments by adjusting their carrying amount at the balance sheet date. Transition adjustments resulting from adopting this Statement shall be reported in net income or other comprehensive income, as appropriate based on the hedging relationship, if any, that had existed for that derivative. HSBC is currently reviewing the likely impact of this Statement.

Additional Information (continued)

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 1999		Half-year to 30 June 1998		Half-year to 31 December 1998	
	US$m	US$m	US$m	US$m	US$m	US$m
NET INCOME						
Attributable profit of HSBC (UK GAAP)		2,694		2,402		1,916
Lease financing		(32)		(41)		(52)
Debt swaps		–		5		(2)
Shareholders' interest in long-term assurance fund		(55)		(31)		(62)
Pension costs		(112)		(19)		(28)
Stock-based compensation		(36)		(16)		(15)
Goodwill		(151)		(161)		(159)
Internal software costs		72		–		–
Revaluation of property		22		46		33
Deferred taxation						
– US GAAP	(8)		12		56	
– on reconciling items	35		28		40	
		27		40		96
Minority interest in reconciling items		–		(12)		(6)
Estimated net income (US GAAP)		2,429		2,213		1,721
Per share amounts*		US$		US$		US$
Amounts on a US GAAP basis						
Basic earnings per ordinary share		0.30		0.28		0.21
Diluted earnings per ordinary share		0.29		0.27		0.21

* *All per share amounts reflect the share capital reorganisation as discussed on page 3.*

	30 June 1999		30 June 1998		31 December 1998	
	US$m	US$m	US$m	US$m	US$m	US$m
SHAREHOLDERS' EQUITY						
Shareholders' funds (UK GAAP)		31,642		27,540		27,402
Lease financing		(206)		(133)		(184)
Debt swaps		(67)		(65)		(66)
Shareholders' interest in long-term assurance fund		(503)		(411)		(473)
Pension costs		(980)		(934)		(945)
Goodwill		3,260		3,841		3,640
Internal software costs		72		–		–
Revaluation of property		(2,471)		(3,359)		(2,507)
Fair value adjustment for securities available for sale		507		345		742
Dividend payable		1,118		996		1,499
Deferred taxation						
– US GAAP	653		605		661	
– on reconciling items	407		362		318	
		1,060		967		979
Minority interest in reconciling items		240		444		264
Estimated shareholders' equity (US GAAP)		33,672		29,231		30,351

TOTAL ASSETS

Total assets at 30 June 1999, incorporating adjustments arising from the application of US GAAP, would be US$507,058 million (30 June 1998: US$489,116 million; 31 December 1998: US$493,099 million).

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

HSBC Holdings plc
Registrant

Date: 20 August 1999

D J FLINT
D J Flint
Group Finance Director

This page is intentionally left blank

Table of contents

Forward-Looking Statements

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Registration Statement on Form 20-F contains certain forward-looking statements with respect to the financial condition, results of operations and business of HSBC.

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

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

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

- changes in general economic conditions in the markets where HSBC operates, such as:
  - — changes in foreign exchange rates, in both market exchange rates (e.g. between the US dollar and the pound sterling) and government-established exchange rates (e.g. between the Hong Kong dollar and the US dollar);
  - — volatility in interest rates, including in Asia and Latin America; and
  - — volatility in equity markets, including in the smaller and less liquid trading markets in Asia and Latin America.
- changes in governmental policy and regulation, including:
  - — the monetary, interest rate and other policies of central banks and bank regulatory authorities, including the UK Financial Services Authority, the Bank of England, the Hong Kong Monetary Authority, the Board of Governors of the US Federal Reserve System, the European Central Bank and the central banks of other leading economies;
  - — increased competition resulting from legislation permitting new types of affiliations between banks and financial services companies, including securities firms, particularly in the United States;
  - — expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
  - — general changes in government policy that may significantly influence investor decisions in particular markets in which HSBC operates; and
  - — other unfavourable political or diplomatic developments producing social instability or legal uncertainty which in turn may affect demand for HSBC's products and services.
- the effects of competition in the markets where HSBC operates. HSBC expects competition to intensify as a result of, among other things, technological advances and the introduction of the euro;
- the effectiveness of HSBC's analysis of potential problems associated with the transition to the Year 2000 and the success of its remediation efforts. HSBC's success in this regard will be subject to any number of unforeseen circumstances and will, to a large degree, depend on the effectiveness of the analyses and readiness of third party customers and intermediaries; and
- the success of HSBC in adequately identifying and managing the risks it faces (through hedging and other techniques), which depends on, among other things, its ability to anticipate events that cannot be captured by the statistical models it uses.

Trends and factors that are expected to affect HSBC's results of operations are described in 'Management's Discussion and Analysis'.

ISSUE OF NEW SHARE CAPITAL; EXCHANGE FOR EXISTING SHARES

At the Annual General Meeting on 28 May 1999, the shareholders of HSBC Holdings approved the cancellation of the existing HSBC shares (75p ordinary shares and HK$10 ordinary shares) and the issuance of three new US$0.50 ordinary shares for each old share. This share capital reorganisation will not become effective until it is confirmed by the High Court of Justice in England and Wales and a copy of the court order is filed with the Registrar of Companies in England and Wales. The court order is expected to be filed on 2 July 1999. If the Court confirms the share capital reorganisation, trading in the new US$0.50 ordinary shares on the London Stock Exchange and The Stock Exchange of Hong Kong Limited ('Hong Kong Stock Exchange') is expected to commence on 5 July 1999.

Application has been made to list the new US$0.50 ordinary shares on the New York Stock Exchange. HSBC intends to proceed with this listing only if the share capital reorganisation is effected.

Within this document, the 'Description of Securities' and certain other disclosures have been restated to reflect the share capital reorganisation, as indicated in the text.

INFORMATION ABOUT THE ENFORCEABILITY OF JUDGEMENTS AND THE EFFECTS OF FOREIGN LAW

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

- certain civil liabilities under US securities laws in original actions; or
- judgements of US courts based upon these civil liability provisions.

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

CERTAIN DEFINED TERMS

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

SUMMARY INFORMATION

Introduction

HSBC is one of the largest international banking and financial services organisations in the world, with a market capitalisation of US$70 billion at 31 December 1998 (US$93 billion at 31 May 1999). At the end of 1998, HSBC had total assets of US$483 billion and shareholders' equity of US$27 billion. For the year ended 31 December 1998, HSBC's operating profit was US$6 billion on revenues of US$20 billion.

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

Through its global network of more than 5,000 offices in 79 countries and territories, HSBC provides a comprehensive range of financial services to personal, corporate, institutional and private banking clients. As part of its global banking strategy, HSBC is currently moving its subsidiaries towards operating under a unified global brand using 'HSBC' and HSBC's hexagon symbol.

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

• The Hongkong and Shanghai Banking Corporation Limited	Hong Kong, with an extensive network throughout most of the rest of Asia-Pacific region
• Hang Seng Bank Limited	Hong Kong
• Midland Bank plc (to be renamed HSBC Bank plc in 1999)	United Kingdom
• HSBC Bank USA	New York State in the United States
• Banco HSBC Bamerindus S.A. (to be renamed HSBC Bank Brasil S.A. – Banco Multiplo in 1999)	Brazil

Management and resources

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

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

HSBC allocates resources, including capital, management time, human resources and information technology, according to a range of factors, including size and complexity of the operation, growth prospects and the contribution made by each area. HSBC is currently supplementing its internal performance measures with the introduction of an enhanced risk-adjusted cost of capital methodology based on economic profits. HSBC prices its capital internally and economic profit is the difference between the internal cost of capital and the adjusted post-tax profit an area earns on that capital. Economic profit will help HSBC's management to decide where to allocate resources so that they will be most productive.

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

Strategy

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

- *To concentrate on delivering 'wealth management' to key markets around the world.* Wealth management means deepening relationships with personal customers beyond the provision of a simple cheque account. HSBC will offer these customers the full range of financial services and products, including savings, pensions, investments and insurance. In none of HSBC's primary markets is this business fully mature and there are strong growth prospects.
- *To grow its commercial business.* This market consists of a wide range of businesses, including major companies, trading enterprises, professional practices, charities, entrepreneurs and smaller businesses. HSBC has been very successful in this market and aims to build on its strengths, in particular by making sure its customers have access to a full range of products and services.
- *To integrate corporate and investment banking services for HSBC's largest customers.* At present, these customers deal with HSBC through both the commercial banking and the investment banking operations. Increasingly the focus will be on a customer's entire business, to both the customer's and HSBC's advantage.
- *To achieve full recognition for HSBC by establishing a unified global brand using 'HSBC' and HSBC's hexagon symbol.* A global advertising campaign to support the brand is running in 1999. Most of the wholly-owned commercial banking subsidiaries already use HSBC and the hexagon symbol as their marketing name and by 1 January 2000 the branding exercise should be complete, enabling customers to recognise their bank wherever they are.

HSBC's strategy focuses principally on organic growth, but it also allows for opportunistic acquisitions where these meet certain stringent criteria. HSBC's approach to acquisitions is based on added value. When considering acquisition opportunities, HSBC applies strict criteria and takes full account of the fact that the price paid determines the rate of return to shareholders. Over the years, HSBC has successfully acquired a number of businesses which have provided access to new markets or an opportunity to expand existing business lines. HSBC uses its strong capital base and depth of management resources to develop such businesses into long-term generators of wealth for its shareholders.

History and development

HSBC began as The Hongkong and Shanghai Banking Corporation, founded as an international bank in Hong Kong and Shanghai in 1865. The present structure dates back to 1991, when The Hongkong and Shanghai Banking Corporation Limited established HSBC Holdings as the parent company of the Group in order to facilitate its acquisition strategy. The head office of HSBC Holdings moved from Hong Kong to London at the beginning of 1993.

Specialising in trade finance, The Hongkong and Shanghai Banking Corporation expanded rapidly throughout the Far East and established a presence in Europe, the United States and India. By 1900, it operated in 15 countries. From the late 1950s, the bank embarked on a growth strategy combining organic development with new acquisitions. It expanded first into the Middle East, acquiring The British Bank of the Middle East (now HSBC Bank Middle East) and other local banks in 1959, followed in 1965 with the acquisition of the majority interest in Hang Seng Bank, now the second-largest locally incorporated bank in Hong Kong.

Having established itself as a leading financial services provider across the Asia-Pacific region, The Hongkong and Shanghai Banking Corporation turned its focus to Europe and North America. After making smaller acquisitions in the United Kingdom beginning in the 1970s, HSBC purchased a minority interest in Midland Bank plc ('Midland'), one of the United Kingdom's principal clearing banks, in 1987, and acquired the remaining interests in 1992, in what was then one of the largest ever international banking acquisitions. The Hongkong and Shanghai Banking Corporation also expanded in the North American market in the 1980s. HSBC purchased the majority interest in HSBC Americas, Inc. (to be renamed HSBC USA Inc. in 1999), the 27th largest commercial bank holding company in the United States as at 31 December 1998, in 1980, and acquired the remaining interests in 1987. In 1981, HSBC incorporated its existing Canadian operations as Hongkong Bank of Canada (now HSBC Bank Canada).

Having established a strong presence in Europe and North America in addition to its traditional base in the Far East, HSBC Holdings expanded in the 1990s into Latin America establishing Banco HSBC Bamerindus S.A. ('Banco HSBC Bamerindus') in Brazil and acquiring HSBC Roberts S.A. de Inversiones ('HSBC Roberts') in Argentina in 1997, as well as acquiring minority interests in banks in Peru, Chile and Mexico. In early 1999, HSBC Holdings signed a Memorandum of Understanding for the acquisition of Seoul Bank, one of the largest nationwide commercial banks in South Korea.

In May 1999, HSBC announced that it had reached agreement with Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('Safra') to acquire the entire share capital of both companies for an aggregate consideration of approximately US$10.3 billion. These transactions, which include a plan of merger under which RNYC will be merged with a wholly-owned subsidiary of HSBC and a tender offer for Safra, are subject to the approval of the RNYC shareholders and a variety of regulatory bodies.

RNYC is the parent company of Republic National Bank of New York and Safra is the holding company of banks in Switzerland, France, Luxembourg, Guernsey, Gibraltar and Monaco.

The RNYC group engages in five principal lines of business: private banking; consumer financial services; lending; treasury; and markets. Republic National Bank of New York has 83 branches in the greater New York metropolitan area, where it is the third-largest deposit taking institution, and 8 branches in Florida, as well as 36 branches, representative offices or wholly-owned subsidiaries in Latin America, the Caribbean, Europe and Asia. The RNYC group is a world leader in banknotes and bullion trading and provides the fifth-largest factoring service in the United States. In addition, it has significant international private banking operations in New York, Miami, Los Angeles and in Asia. It employs approximately 5,800 staff and was ranked 17th among US banks in deposits at 31 December 1998. At that date, RNYC had consolidated total assets of US$50.4 billion and stockholders' equity of US$3.1 billion. RNYC's net consolidated income before tax for the year ended 31 December 1998 was US$336 million and after tax US$248 million.

Safra's banking subsidiaries in Switzerland, France, Luxembourg, Guernsey, Gibraltar and Monaco are principally engaged in private banking. It employs approximately 900 staff. At 31 December 1998, Safra had consolidated total assets of US$21.0 billion and stockholders' equity of US$1.9 billion. Safra's net consolidated income before tax for the year ended 31 December 1998 was US$297 million and after tax US$280 million. Client assets both on and off-balance-sheet stood at US$32.9 billion at 31 December 1998.

Where more information about HSBC is available

At the effective date of this Registration Statement on Form 20-F, HSBC will become subject to the reporting obligations of the Securities Exchange Act of 1934. HSBC will be required to file annual reports on Form 20-F and other information on Form 6-K that it makes public through the London Stock Exchange or Hong Kong Stock Exchange with the Commission under the Exchange Act. HSBC expects to file annual reports on or before 30 June each year. HSBC will also file other material information at the time it otherwise makes it public. As a foreign private issuer, HSBC will be exempt from Exchange Act rules regarding proxy statements and short-swing profits.

Investors may read and copy this Registration Statement, including the attached exhibits, the reports, statements or other information that HSBC files at the Commission's public reference room in Washington D.C., which is located at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. These documents will also be available at the Commission's regional offices located at Seven World Trade Center, Suite 1300, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Investors should call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Investors can request copies of these documents upon payment of a duplicating fee, by writing to the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, the deposit agreement requires HSBC to deliver to ADS holders, or to the depositary for forwarding to ADS holders, copies of all reports that HSBC files with the Commission without charge to these holders. Investors may also obtain the reports and other information HSBC files at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, 10005.

SUMMARY CONSOLIDATED FINANCIAL DATA
Amounts in accordance with UK GAAP

	1998 US$m	1997 US$m	1996 US$m	1995 US$m	1994 US$m
Profit and loss account data for the year ended 31 December					
Net interest income	**11,547**	10,944	9,092	8,078	7,052
Other operating income	**8,508**	7,665	5,881	5,330	4,572
Operating profit before provisions	**9,051**	8,553	7,054	5,952	4,694
Provisions for bad and doubtful debts	**(2,637)**	(1,014)	(604)	(657)	(422)
Profit on ordinary activities before tax	**6,571**	8,130	7,052	5,794	4,857
Profit attributable to shareholders	**4,318**	5,487	4,852	3,885	3,149
Dividends	**(2,495)**	(2,206)	(1,738)	(1,330)	(1,078)
Balance sheet data at 31 December					
Share capital	**3,443**	3,406	3,426	3,296	3,265
Shareholders' funds	**27,402**	27,080	25,833	20,776	16,854
Customer accounts	**308,910**	294,189	257,104	220,572	201,040
Undated subordinated loan capital	**3,247**	3,245	3,007	2,753	2,751
Dated subordinated loan capital	**7,597**	7,281	7,156	5,843	5,386
Loans and advances to customers*	**235,295**	240,421	194,514	169,747	154,318
Total assets	**483,128**	471,686	402,377	352,022	314,771

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

Per share amounts**	US$	US$	US$	US$	US$
Basic earnings per ordinary share	**0.54**	0.69	0.61	0.49	0.41
Headline earnings per ordinary share	**0.53**	0.68	0.60	0.49	0.39
Net asset value per ordinary share	**3.38**	3.37	3.24	2.63	2.16
Dividends per ordinary share	**0.31**	0.28	0.22	0.16	0.14

** Per share amounts have been restated to reflect the share capital reorganisation as discussed on page 4.

Financial ratios	%	%	%	%	%
Dividend payout ratio	**57.8**	40.2	35.8	34.2	34.2
Post-tax return on average total assets	**0.98**	1.37	1.45	1.28	1.14
Return on average shareholders' funds	**15.5**	20.7	21.3	20.7	20.4
Average shareholders' funds to average total assets	**5.71**	5.98	6.14	5.49	4.91
Capital ratios					
Total capital	**13.6**	14.2	15.3	14.7	14.4
Tier 1 capital	**9.7**	9.3	9.9	9.5	9.1

Profit before tax by geographic segment

	1998		1997	
	US$m	%	US$m	%
Europe	**2,884**	**44**	3,201	39
Hong Kong	**2,427**	**37**	3,246	40
Rest of Asia-Pacific	**39**	**1**	651	8
North America	**987**	**15**	950	12
Latin America	**234**	**3**	82	1
HSBC profit before tax	**6,571**	**100**	8,130	100

DESCRIPTION OF BUSINESS

Introduction

HSBC is one of the largest international banking and financial services organisations in the world, with a market capitalisation of US$70 billion at 31 December 1998 (US$93 billion at 31 May 1999). At the end of 1998, HSBC had total assets of US$483 billion and shareholders' equity of US$27 billion. For the year ended 31 December 1998, HSBC's operating profit was US$6 billion on revenues of US$20 billion. HSBC is a strongly capitalised banking group with a total capital ratio of 13.6 per cent and a tier 1 ratio of 9.7 per cent as at 31 December 1998.

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

Through its global network of more than 5,000 offices in 79 countries and territories, HSBC provides a comprehensive range of financial services to personal, commercial, institutional and private banking clients. As part of its global banking strategy, HSBC is currently moving its subsidiaries towards operating under a unified global brand using 'HSBC' and HSBC's hexagon symbol. The largest and best-known subsidiaries are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank Limited ('Hang Seng Bank'), which operate primarily in Hong Kong with The Hongkong and Shanghai Banking Corporation Limited also having an extensive network throughout most of the rest of Asia-Pacific; Midland (to be renamed HSBC Bank plc in 1999), which operates primarily in the United Kingdom; HSBC Bank USA, which operates primarily in New York State in the United States; and Banco HSBC Bamerindus (to be renamed HSBC Bank Brasil S.A. – Banco Multiplo in 1999), which operates throughout Brazil.

Management and resources

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

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

HSBC allocates resources, including capital, management time, human resources and information technology, according to a range of factors, including size and complexity of the operation, growth prospects and the contribution made by each area. HSBC is currently supplementing its internal performance measures with the introduction of an enhanced risk-adjusted cost of capital methodology based on economic profits. HSBC prices its capital internally and economic profit is the difference between the internal cost of capital and the adjusted post-tax profit an area earns on that capital. Economic profit will help HSBC's management to decide where to allocate resources so that they will be most productive.

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

Strategy

HSBC aims to become the world's leading financial services company. HSBC's goal is to balance earnings between stable, mature economies and the faster-growing, but more volatile, emerging markets. To achieve this, HSBC has developed a new strategy acquiring a 51 per cent interest in Marine Midland Bank (now HSBC Bank USA) and the remaining interest in 1987. Marine Midland acquired JP Morgan's US dollar clearing business at the end of 1996 and First Federal Savings and Loan Association of Rochester in 1997, which have been integrated into existing operations. HSBC Bank USA is currently the 27th largest commercial bank in the United States (based on total assets as at 31 December 1998) and is represented widely across New York State with a significant presence in New York City. Carroll, McEntee & McGinley group (renamed HSBC Markets, Inc.), a primary government securities dealer in the United States, was acquired in 1983.

In 1981, The Hongkong and Shanghai Banking Corporation incorporated its existing Canadian operations as Hongkong Bank of Canada (now HSBC Bank Canada), one of the first foreign-owned banks in Canada. HSBC Bank Canada has since made numerous acquisitions, expanding rapidly to become the seventh-largest bank in the country as at 31 December 1998. HSBC established HongkongBank of Australia (now HSBC Bank Australia) in 1986.

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

More recently, HSBC began to focus its growth strategy on Latin America. In 1997, HSBC assumed selected assets, liabilities, and subsidiaries of Banco Bamerindus do Brasil S.A. following the intervention of the Central Bank of Brazil. Headquartered in Curitiba, Banco Bamerindus do Brasil S.A. was the fifth-largest bank in Brazil (measured by assets) with the second-largest branch network in the country at the time of acquisition. HSBC acquired HSBC Roberts, based in Buenos Aires and one of the largest privately-owned financial services groups in Argentina, in two stages, completing the purchase in 1997. HSBC has also acquired minority interests in banks in Peru, Chile and Mexico.

In February 1999, HSBC announced that it had signed a Memorandum of Understanding to acquire a 70 per cent stake in Seoul Bank by investing in the region of US$700 million in new equity in the bank. This Memorandum of Understanding provides that HSBC will make an additional payment of US$200 million to the Korean Government. The Memorandum of Understanding also contemplates that HSBC will be given a call option on the Korean Government's remaining interest in Seoul Bank, and that the Korean Government will have the right to put this stake to HSBC if such call option is not exercised. Seoul Bank has a substantial personal and corporate banking franchise with over 290 branches and an estimated 3.5 million customers throughout South Korea.

In May 1999, HSBC announced that it had reached agreement with Republic New York Corporation ('RNYC') and Safra Republic Holdings S.A. ('Safra') to acquire the entire share capital of both companies for an aggregate consideration of approximately US$10.3 billion. These transactions, which include a plan of merger under which RNYC will be merged with a wholly-owned subsidiary of HSBC and a tender offer for Safra, are subject to the approval of the RNYC shareholders and a variety of regulatory bodies.

RNYC is the parent company of Republic National Bank of New York and Safra is the holding company of banks in Switzerland, France, Luxembourg, Guernsey, Gibraltar and Monaco.

The RNYC group engages in five principal lines of business: private banking; consumer financial services; lending; treasury; and markets. Republic National Bank of New York has 83 branches in the greater New York metropolitan area, where it is the third-largest deposit taking institution, and 8 branches in Florida, as well as 36 branches, representative offices or wholly-owned subsidiaries in Latin America, the Caribbean, Europe and Asia. The RNYC group is a world leader in banknotes and bullion trading and provides the fifth-largest factoring service in the United States. In addition, it has significant international private banking operations in New York, Miami, Los Angeles and in Asia. It employs approximately 5,800 staff and was ranked 17th among US banks in deposits at 31 December 1998. At that date, RNYC had consolidated total assets of US$50.4 billion and stockholders' equity of US$3.1 billion. RNYC's net consolidated income before tax for the year ended 31 December 1998 was US$336 million and after tax US$248 million.

Safra's banking subsidiaries in Switzerland, France, Luxembourg, Guernsey, Gibraltar and Monaco are principally engaged in private banking. It employs approximately 900 staff. At 31 December 1998, Safra had consolidated total assets of US$21.0 billion and stockholders' equity of US$1.9 billion. Safra's net consolidated income before tax for the year ended 31 December 1998 was US$297 million and after tax US$280 million. Client assets both on and off-balance-sheet stood at US$32.9 billion at 31 December 1998.

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

Commercial Banking products and services

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

Deposits, lending and related services. Through its extensive branch network, HSBC offers a wide range of deposit and lending facilities. HSBC offers a full range of card products, as well as a broad range of life and general insurance products, pensions and investments, which are offered by trained financial planning and investment advisors mainly located in the retail branches.

HSBC is committed to maintaining the reach of its branch network to service local communities, while simultaneously introducing innovative products and services on a market-by-market basis. The branch network is complemented by a comprehensive network of ATM machines consisting of approximately 6,300 HSBC owned machines worldwide, sited at branches and remote locations such as shopping malls and railway stations. HSBC's customers can use over 400,000 additional ATMs worldwide through access to the CIRRUS network. HSBC offers full service personal banking by telephone, PC and Internet, 24 hours a day, in many of its key markets.

As at 31 December 1998, HSBC had total customer deposits of US$308.9 billion and total loans and advances to customers, net of suspended interest and provisions for bad and doubtful debts, of US$235.3 billion.

Treasury and capital markets. HSBC's treasury and capital markets business is one of the largest in the world, serving central banks, international and local corporations, institutional and private investors, financial institutions and other market participants. HSBC's principal treasury and debt capital markets products and services are foreign exchange, currency options, swaps, interest rate, bond and other specialised derivatives, government and non-government fixed income and money-market instruments, primary debt issuance to corporate and government bodies, precious metals and exchange-traded futures, options broking and clearing and capital markets operations. By drawing on the local balance sheet strengths of Midland, The Hongkong and Shanghai Banking Corporation Limited and other HSBC companies, HSBC provides clients with high-quality, specially-tailored products and services.

HSBC's principal dealing rooms are located in London and Hong Kong, supported by key operations in New York, Tokyo, Singapore and Düsseldorf, which together with smaller operations elsewhere form a network of 48 dealing rooms in 43 countries and territories with nearly 3,500 dealing and support staff. HSBC provides sophisticated 24-hour global coverage and has detailed knowledge of and support from local markets. Foreign exchange and risk management activities are centred in London and Hong Kong, where computerised spot and forward foreign exchange order services are offered (which certain corporate clients can use directly), and in New York, Tokyo, Singapore and Düsseldorf.

Trade services. HSBC provides a broad range of trade finance and related services, a long standing core business of HSBC. The office network of HSBC Trade Services extends throughout the Asia-Pacific region, Europe, the Americas, Africa and the Middle East. HSBC's wide distribution network, and forfaiting and general trade expertise, coupled with highly automated trade systems, including electronic documentary credit services, make it one of the largest trade finance organisations in the world.

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

Payments and cash management. HSBC is a leading provider of payments collection, liquidity and account services worldwide, enabling financial institutions and corporate and personal customers to manage their cash efficiently on a global basis. HSBC's ability to provide high-quality cash management services is enhanced by its extensive network of offices and strong domestic capabilities in many countries, including direct access to local clearing systems.

Custodial services. HSBC provides custodial services to domestic and cross-border investors in 17 centres in the Asia-Pacific region and 13 centres in Europe, the Middle East and the Americas. The Hongkong and Shanghai Banking Corporation Limited is a leading provider of custody services in the Asia-Pacific region and HSBC Bank Middle East (formerly The British Bank of the Middle East) is a leading provider of custodial services in the Middle East region. Midland Securities Services is one of the largest UK-based global custodians, with a high-quality network covering over 60 world markets. In addition to traditional custodial services, HSBC also provides debt and equity issuer services, stock lending and value-added fund reporting.

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

Investment Banking and related services

HSBC provides a comprehensive range of investment banking and related financial services to business markets on a global basis primarily through its principal centres of operations in the United Kingdom, Hong Kong and North America. The principal services provided by HSBC are Global Investment Banking, Merchant Banking, Private Equity, Asset Management and Private Banking.

Global Investment Banking

HSBC provides advisory services in connection with mergers and acquisitions, asset disposals, equity capital raisings, stock exchange listings, privatisations and capital restructuring. These services are complemented by an extensive distribution network, a comprehensive primary and secondary market equity sales and trading service, and HSBC's leading position in equity research worldwide. As a member of over 30 stock exchanges, HSBC covers all major economies and stock markets.

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

Merchant Banking

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

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

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

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

Global Islamic Finance. HSBC set up a new unit trust in 1998 which provides private clients and corporate and institutional customers with products that are consistent with Islamic laws.

Private Equity

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

Asset Management

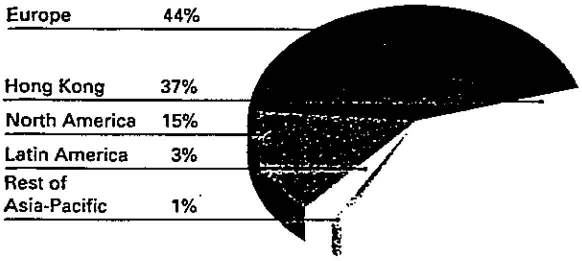
HSBC provides global investment advisory and fund management services through its principal fund management operations in London, Hong Kong, New York and Tokyo. HSBC provides large institutional clients with a tailored approach to managing their assets with active segregated and pooled portfolio management on a global, regional, asset class or country-specific basis. As at 31 December 1998, HSBC had over US$49 billion funds under management in pooled investment vehicles for retail customers and for over 760 institutional clients. HSBC offers smaller institutions and private investors a range of over 150 mutual funds and other pooled investment vehicles, including unit trusts, mutual funds, off-shore umbrella funds and Individual Savings Accounts (ISAs). HSBC is organised into three regional fund management teams (Asia-Pacific, Europe and the Americas). Asset allocation and reallocations and stock selection decisions are made by a global committee drawn from the regional teams, supported by client investment professionals, and then executed at the local level.

Private Banking

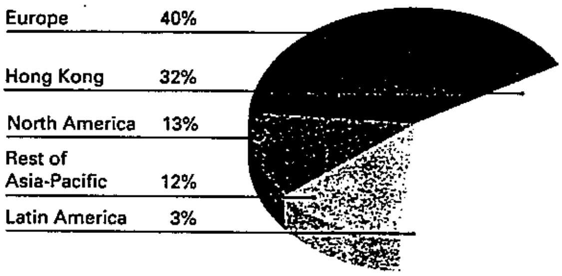
HSBC provides banking, advisory and discretionary investment management, trustee and estate planning services to charities, corporate entities, and high net-worth individuals and their families on a worldwide basis. Banking services offered both on-shore and off-shore include deposit facilities in all major currencies; treasury services (foreign exchange, commercial paper, money-market instruments and structured products); the sale and purchase of bonds, equities and collective investment funds; and lending against investment portfolios, guarantees and property. Investment management services, including investment execution, advisory and discretionary portfolio management, trustee management and structuring and private placements, are offered to high net-worth individuals, corporate entities and charities. HSBC's estate planning services help clients to safeguard their wealth from changing tax laws, foreign exchange regulations and political uncertainty. Although operated as discrete businesses tailored to specific markets, each of the private banking businesses is linked to the others to provide customers with a global array of wealth management services. HSBC's private banking business has a staff of over 1,000 with offices in twelve locations, including Hong Kong, Singapore, London, Zurich, Geneva, Dubai and the Channel Islands. Total assets under management at 31 December 1998 amounted to US$72 billion.

Geographic regions

Profit before tax split by geographic region
Year ended 31 December 1998



Total assets* split by geographic region
As at 31 December 1998



*Excludes Hong Kong SAR Government certificates of indebtedness.

Europe

Europe contributed US$2,884 million, or 44 per cent, to HSBC's profit on ordinary activities before tax in 1998 compared with US$3,201 million in 1997. The United Kingdom contributed US$2,542 million in 1998 compared with US$2,959 million in 1997. HSBC achieved these results notwithstanding the gradual economic slowdown in Europe in 1998 and the continuing high level of competition in the relatively mature British banking sector.

Midland, one of the four principal UK clearing banks, is HSBC's flagship subsidiary in Europe, providing a comprehensive range of banking and related financial services to personal and business customers. Headquartered in London, Midland has over eight million personal customers, approximately half a million business customers and a network of approximately 1,700 branches in the United Kingdom. Midland also has offices in over 25 countries and territories, primarily in continental Europe and Latin America. Midland has approximately 16 per cent of the personal current account market in England and Wales. At 31 December 1998, Midland's total assets were US$174 billion, total customer deposits were US$100 billion and total net customer loans were US$87 billion.

To provide the communities it serves with easy access to its services, Midland has continued to maintain a relatively stable branch network of approximately 1,700 branches in the United Kingdom. Innovative features of Midland's branch network include full service branches located in supermarkets (which open the same extended hours) and Saturday opening branches. Midland has also sought to exploit complementary distribution channels. Four customer service centres handle routine customer calls and work with the branches to provide an extended telephone banking service. The bank's customers have access to over 2,700 Midland ATM machines, and, through arrangements with other operators, over 400,000 ATMs worldwide. In 1989, Midland launched First Direct, the UK's first full banking service by telephone, 24 hours a day, 365 days a year. First Direct is the leading telephone banking service in the United Kingdom with over 880,000 customers. First Direct launched a PC banking service in 1998 which already had 68,000 users by 31 December 1998. Midland also has a 20 per cent stake and is a founding shareholder of BiB (British Interactive Broadcasting), a joint venture established to deliver digital interactive services to television viewers in the United Kingdom. Customers of BiB will be able to access an electronic shopping mall, enabling them to order and pay for a range of goods and services from home using their television. Midland is providing the payment handling infrastructure for debit and credit card payments and plans to introduce a TV banking service through *Open ...*, the marketing name of BiB.

Midland continuously reviews its portfolio of products and services, striving not only to improve the products and services offered but also to introduce new and innovative ones. In 1997, Midland introduced the Midland Bank Account, which provides free banking for customers that remain in credit and charges no fee to customers who overdraw within an agreed limit. The introduction of the Midland Bank Account contributed to a 5 per cent increase in Midland's account base in 1998. In 1998, Midland launched an attractive package for start-up businesses that includes free banking for two years. Midland also relaunched its savings accounts in 1998, simplifying the product range and ensuring consistency of interest rate pricing.

HSBC believes that, in the long term, the continued success of Midland will be tied to its ability to provide a comprehensive portfolio of wealth management services for personal and small business customers. Midland offers a range of brokerage and share dealing services tailored to the needs of personal customers. The bank has dedicated increasing resources to selling life, pensions, investment and general insurance products. Midland also acts as 'company representative' for the sale of unit trust and other regulated products sourced from its own subsidiaries. Personal financial services are sold by approximately 1,300 dedicated financial advisers based at local branches and by a centralised telephone sales team. Funds under management of Midland Life Limited and Midland Unit Trust Management Limited were £5.6 billion at 31 December 1998 compared with £4.9 billion at year-end 1997.

Midland has increasingly focused on cross-selling a wide range of value-added services to its personal account customers. The bank has been actively promoting a variety of residential mortgage products, and increased its residential mortgage book by US$1.6 billion in 1998.

Midland is committed to continuously improving the quality of service it provides. Midland manages large corporate clients centrally through a number of specialist industry groups that co-ordinate closely with other members of HSBC to provide customers with comprehensive and tailored solutions to their needs. Corporate customers of Midland also have access to the investment banking services of HSBC Investment Bank plc. Midland has a policy of placing experienced managers in its local branches with sufficient authority to provide quick, efficient and flexible service to both personal and business customers. By transferring much of the routine processing previously handled by the branch network to central processing sites, Midland has reduced costs and permitted branch staff to spend a greater proportion of their time in face to face customer contact and direct customer service.

Throughout Midland's businesses, comprehensive planning and testing was undertaken for the introduction of the euro on 1 January 1999. Within Midland, all conversion weekend tasks were completed successfully and Midland was able to trade and settle in euros when the markets opened on Monday 4 January 1999. HSBC's efforts to comply with euro conversion have not had and are not expected to have a material effect on the company's results of operations.

HSBC is represented in the key EU Member States and is well positioned to take advantage of the new opportunities presented by the launch of the single European currency on 1 January 1999. Enhanced business in the areas of corporate cash management, euro-based debt issues, and asset management is expected to result. HSBC continues to introduce new products and services in these areas.

In May 1999, HSBC announced that it had entered into an agreement to acquire Safra, which is the holding company of banks in Switzerland, France, Luxembourg, Guernsey, Gibraltar and Monaco which are principally engaged in private banking.

Hong Kong

Hong Kong contributed US$2,427 million, or 37 per cent, of HSBC's profit on ordinary activities before tax in 1998 compared with US$3,246 million in 1997. HSBC achieved these results despite the economy of Hong Kong contracting by 5.1 per cent compared with 4.6 per cent growth in 1997.

HSBC's principal banking subsidiaries in Hong Kong are The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank, in which HSBC has a 62.14 per cent stake. The Hongkong and Shanghai Banking Corporation Limited, the largest bank in Hong Kong, is HSBC's flagship bank in the Asia-Pacific region and issues approximately two-thirds of the Hong Kong bank notes in circulation. In Hong Kong, it operates through 219 branches, serving three-quarters of the adult population. Hang Seng Bank was founded in 1933 and is now the second-largest bank incorporated in Hong Kong. Hang Seng Bank has 156 branches in Hong Kong. Together the two banks operate a network of over 950 ATMs, 420 passbook terminals, 250 balance-enquiry machines and 240 instant deposit machines.

Both banks offer their personal customers an extensive range of banking products and services; they are seeking to use the basic current account relationship as the basis for marketing value-added services. The Hongkong and Shanghai Banking Corporation Limited has introduced the AssetVantage account, which offers wealthier customers a range of services in one product, combined with an emphasis on personal service. The Hongkong and Shanghai Banking Corporation Limited also has a dedicated personal financial services sales team. Hang Seng Bank has introduced the BankSmart account which offers a combination of banking, investment and financial services in one package. Hang Seng Bank offers its customers personal financial planning through SmartInvest Services. The two banks have also introduced an innovative range of mortgage products and services including mortgages with flexible payments, step-up repayments and capped rates. Hang Seng Bank offers a Mortgage-Loan-By-Phone service.

HSBC is the largest credit card issuer in Hong Kong. The Hongkong and Shanghai Banking Corporation Limited has over one million cards in circulation and a third of Hong Kong's merchant-acquiring business. Hang Seng Bank offers affinity and smart cards, as well as SuperCash, a card which gives customers a revolving credit facility.

HSBC provides its customers in Hong Kong with a full range of business banking services, including payments and cash management services, trade services, leasing and factoring, and securities custody business, as well as offering access to investment banking services. Hexagon, HSBC's PC banking service, enables customers to conduct trade-related, securities, information and cash management business, including pooling and cash concentration, electronically.

Rest of Asia-Pacific (Including the Middle East)

All of the major economies in the Rest of Asia-Pacific region experienced a slowdown or contraction in 1998. The Rest of Asia-Pacific region contributed US$39 million, or 1 per cent, to HSBC's profit on ordinary activities before tax in 1998 compared with US$651 million in 1997. HSBC continues to believe, however, that the Asia-Pacific region outside Hong Kong will be an important market for it in the coming years.

Asia-Pacific

HSBC conducts business in the Asia-Pacific region (outside Hong Kong) primarily through branches and subsidiaries of The Hongkong and Shanghai Banking Corporation Limited, with particularly strong coverage in mainland China, India, Indonesia, Korea, Singapore, Taiwan and Thailand; through HSBC Bank Australia Limited in Australia; and HSBC Bank Malaysia Berhad (formerly Hongkong Bank Malaysia Berhad), the largest foreign-owned bank and the fifth-largest bank overall in Malaysia.

Both The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank operate in mainland China, offering personal banking services, credit cards and numerous commercial services to non-PRC citizens having steadily expanded their networks to eleven and five locations, respectively, as at 31 December 1998. The Hongkong and Shanghai Banking Corporation Limited is one of the few foreign banks permitted to conduct business in renminbi (the sole currency in which domestic business transactions can be conducted in China and which is convertible only at authorised banks for current account transactions). Like other foreign banks, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank are, however, currently prohibited from accepting deposits from, making loans to, or otherwise conducting business with, individual Chinese citizens.

In the Asia-Pacific region, HSBC is seeking to augment its traditional strength in the corporate banking sector by actively expanding its personal banking operations, including through alternative distribution channels. The Hongkong and Shanghai Banking Corporation Limited is expanding its ATM network, has introduced personal telephone banking (automated in certain areas) in Australia, India, the Philippines, Taiwan and Thailand, and is currently test-marketing PC banking in Australia, Brunei Darussalam, India, Indonesia, the Philippines, Singapore, Sri Lanka and Thailand.

As part of HSBC's global focus on wealth management services, the AssetVantage and AssetVantage Select products are now offered in nearly all of The Hongkong and Shanghai Banking Corporation Limited's personal banking markets in the region. The Hongkong and Shanghai Banking Corporation Limited is steadily expanding its insurance business in the region by growing its existing insurance operations and establishing joint ventures with major life and non-life insurance providers. Insurance services have recently been launched in Macau, Mauritius, New Zealand, Singapore and Taiwan. In addition, HSBC is implementing a major service and sales training programme across the region, targeted at providing staff with the skills necessary to provide a comprehensive wealth management service to clients.

In February 1999, HSBC announced that it had signed a Memorandum of Understanding to acquire an initial 70 per cent controlling interest in Seoul Bank from the Korean Government. Seoul Bank has a substantial personal and corporate banking franchise with over 290 branches and an estimated 3.5 million customers throughout Korea.

Middle East

HSBC's operations in the region are conducted primarily through HSBC Bank Middle East and Saudi

British Bank, in which HSBC has a 40 per cent stake. HSBC's branch network in the region consists of 103 branches and offices primarily in the United Arab Emirates and Saudi Arabia and also in Bahrain, Jordan, Lebanon, Oman, Qatar and Azerbaijan. In addition to their core corporate banking services, HSBC's Middle East operations focus on private banking for high net-worth individuals and marketing the expertise it has developed in the rapidly growing Islamic banking and finance sector.

North America

North America contributed US$987 million, or 15 per cent, of HSBC's profit on ordinary activities before tax in 1998 compared with US$950 million in 1997. HSBC's principal banking subsidiaries in North America are HSBC Bank USA and HSBC Bank Canada (formerly Hongkong Bank of Canada).

United States

HSBC Bank USA is based in Buffalo, New York, and has more than 370 branches in New York State, including 128 branches in New York City, two branches in Pennsylvania, as at 1 March 1999, and operations in twelve additional states. At 31 December 1998, the bank's customer base included more than two million personal and 120,000 commercial and institutional customers. Customers had access to 417 ATMs in New York State including 159 ATMs in New York City, and 186,000 ATMs across the United States.

HSBC Bank USA offers a full range of personal banking products and services, including a variety of cheque, savings, money-market and certificate of deposit products, as well as Individual Retirement Accounts, PC banking and Telephone Bill Paying. It has relationship banking programmes that reward high balance personal and commercial bank customers with higher rates on savings, lower rates on loans, and discounted fees and services. It is also one of the top 30 mortgage providers in the United States.

Investment services include private banking, full service and discount brokerage, package product sales (such as mutual funds and annuities), and trust and investment management services. Around-the-clock telephone trading is available now, and internet trading will be available later in 1999.

HSBC Bank USA has historically focused on small and middle market businesses. It currently ranks second among New York State banks in US Small Business Administration loans. It also provides accounts receivable and inventory financing services to commercial customers.

In May 1999, HSBC announced that it had entered into an agreement to buy the share capital of RNYC, subject to the approval of the RNYC shareholders and a variety of regulatory bodies.

The RNYC group engages in five principal lines of business: private banking; consumer financial services; lending; treasury; and markets. RNYC has 83 branches in the greater New York metropolitan area and 8 branches in Florida, is a world leader in banknotes and bullion trading and provides the fifth-largest factoring service in the United States. In addition, it has significant international private banking operations in New York, Miami and Los Angeles.

Canada

HSBC Bank Canada, based in Vancouver, is the largest foreign-owned bank in Canada and the seventh-largest overall, with 115 branches in Canada and two in the United States as at 31 December 1998. Customers have access to over 23,500 ATMs in Canada.

HSBC Bank Canada offers Canadian and US dollar-denominated current, cash management and savings accounts. Personal clients have access to cheque and savings accounts, investment accounts, term deposits and mutual funds, as well as full brokerage and trust and advisory services. HSBC Bank Canada's telephone banking service, Service*Plus*, is available in four languages. HSBC Bank Canada also offers an internet share trading service, as well as property and casualty insurance in certain provinces.

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

Latin America

Latin America contributed US$234 million, or 3 per cent, to HSBC's profit on ordinary activities before tax in 1998 compared with US$82 million in 1997. Despite economic turmoil in the region and high interest rates, HSBC views Latin America as a banking and insurance market that is still developing and, as such, offers a growth opportunity to a global financial services institution with extensive resources, such as HSBC.

Brazil

Banco HSBC Bamerindus was established by HSBC in 1997 to assume selected assets, liabilities and subsidiaries of Banco Bamerindus do Brasil S.A., which dated back to 1943, following the intervention of the Central Bank of Brazil. Banco HSBC Bamerindus, which is headquartered in Curitiba, has an extensive domestic network, with over 1,500 branches and offices, 4 million personal customers and over 200,000 business and institutional customers. HSBC's goal is to use this network, the third-largest of the private banks in Brazil, as a platform to expand personal banking services and cross-sell other products and services, particularly insurance, funds management and leasing services.

Banco HSBC Bamerindus operates the sixth-largest insurance business in Brazil, offering life, auto, property, casualty and health insurance. As part of HSBC's overall cross-selling strategy, Banco HSBC Bamerindus' insurance and banking offices are being co-located, and the staff of each are being trained to sell the products of the other.

Argentina

HSBC completed its acquisition of HSBC Roberts in 1997. HSBC Roberts owns HSBC Bank Argentina (formerly HSBC Banco Roberts), the eighth-largest bank in Argentina in terms of deposits with a network of 175 offices throughout Argentina and an office in Uruguay and a total staff of over 6,000. HSBC Roberts also owns one of the largest insurance businesses in Argentina, La Buenos Aires, and through its respective holdings in Máxima and La Buenos Aires-New York Life offers pensions and life assurance. Docthos, a wholly-owned subsidiary, provides pre-paid medical services and is the second-largest pre-paid health care company in Argentina.

HSBC Bank Argentina has built on its traditional middle market and large corporate customer base to introduce personal banking, initially by targeting the management and employees of its corporate customers. The stabilisation of the Argentinian economy throughout the 1990s enabled HSBC Bank Argentina to expand rapidly its personal banking business by offering products and services that were relatively undeveloped in the prior hyperinflationary environment, such as retail deposit and lending facilities, long-term mortgages and credit cards. HSBC Bank Argentina has continued to expand its personal banking business through the introduction of automated telephone banking and the expansion of its ATM network.

Competitive environment

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

Global factors

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

Limited market growth. In HSBC's key markets, the United Kingdom, the United States and Hong Kong, there is limited market growth in the provision of basic financial and banking services.

Technological innovations. Technological innovations, including new and expanding information and communication technologies, are expected to alter radically HSBC's range of competitors, as low-cost providers, such as on-line stockbrokers and banks, begin to offer their services without the need of a traditional physical branch network. Such innovations will probably increase the pressure on traditional banks to maintain and enhance service quality and also to make the investments required to offer similar services.

Regional factors

Europe

Despite limited market growth, an increasing number of new entrants continue to enter the market in the United Kingdom, including a number of telephone banking service providers. Life assurers and de-mutualised building societies which have become banks are now direct competitors of Midland. The deregulation and liberalisation of the banking industry in the United Kingdom is expected to lead to a continuing increase in competition within the market segments in which Midland operates.

Hong Kong

The Hong Kong Monetary Authority had issued full licences to 172 banks in Hong Kong as at 31 December 1998, each attracted not only to the market in Hong Kong but also to the access to the Asia-Pacific region that a presence in Hong Kong provides. Competition in Hong Kong, particularly for quality personal and corporate customers, is intense in all market sectors and segments, from both locally incorporated and foreign banks. As market leaders in Hong Kong, The Hongkong and Shanghai Banking Corporation Limited and Hang Seng Bank are well placed to meet this challenge.

Rest of Asia-Pacific (including Middle East)

The competitive environment varies greatly across the region, depending on the level of regulation, number of entrants and the maturity of the relevant markets. Against the background of high growth in the Middle East and economic turmoil in Asia, many financial markets are undergoing rapid change and management believes HSBC is well placed to benefit from the diverse opportunities that these changes will bring.

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

In the corporate banking market, many foreign competitors have downsized their commitments to or withdrawn from the region just as the ability of local banks to respond to customers' needs has diminished. HSBC, however, continues to command respect by maintaining its involvement in the region and supporting its long-term business relationships.

North America

In the United States, mergers and acquisitions in the banking, insurance and securities industries have brought consolidation, conglomeration and a blending of services. HSBC Bank USA also faces vigorous competition from a large number of non-bank suppliers of financial services who have found new and effective ways to meet the financial demands of consumers.

In Canada, the nature of HSBC's competition continues to change as the Bank Act is revised in response to fundamental and rapid changes in the financial services marketplace in Canada and around the world, driven by technological innovation, globalised financial markets and shifting customer demographics, expectations and behaviour.

Latin America

There are over 200 banks in Brazil operating through a network of over 30,000 branches and offices. Consolidation in the local banking industry is underway, increasingly involving foreign banks (as at 31 December 1998 there were 17 banks in Brazil with foreign ownership interests). With a population of 165 million and an estimated 70 per cent of the active population 'unbanked', growth opportunities in the retail sector, in particular, appear favourable in the medium/long term. In comparison with more developed markets, insurance penetration in Brazil is fairly low and is heavily concentrated in the non-life sector. HSBC's ability to cross-sell both life assurance and general insurance products through its extensive branch network means that it is well-placed to take advantage of this economic and competitive environment.

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

Employees

As at 31 December 1998, HSBC had over 145,000 employees (including part-time employees) worldwide (of whom approximately 54,100 work in the United Kingdom, 25,000 in Hong Kong, 10,200 in the United States and 21,500 in Brazil), compared with approximately 142,000 at 31 December 1997 and 109,000 at 31 December 1996. HSBC estimates that approximately one-third of its labour force worldwide is unionised. Most significant concentrations of union membership occur in the United Kingdom and in

Brazil (where union membership is a requirement under national employment legislation). Management believes that the current relationship between HSBC and its employees is harmonious, as it has been in the past. HSBC has not experienced any material strikes or work stoppages within the past 5 years.

Regulation and supervision

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

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

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

United Kingdom regulation and supervision

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

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

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

The FSA is the supervisor of HSBC on a consolidated basis and in this capacity receives information on the capital adequacy of, and sets requirements for, HSBC as a whole. Further details on capital measurement are included in 'Capital Management' on pages 79 to 81.

Midland, its subsidiary Forward Trust Group Limited, and HSBC Investment Bank plc are HSBC's principal authorised institutions in the United Kingdom.

While the FSA has already taken on the responsibility for banking supervision from the Bank of England, other organisations retain separate duties that the FSA will absorb under pending legislation. Entities conducting investment business in the United Kingdom must join one or more self-regulating organisations ('SROs') to which the FSA provides staff under contract, or be directly authorised by the FSA. Pending legislation provides that certain SROs currently vested with duties under the FS Act will be merged into the new FSA. The FSA acts as the 'lead regulator' in monitoring compliance with the capital requirements for banks' securities and investment businesses. The most important SROs for Midland are: the Personal Investment Authority, which regulates the investment business; the Securities and Futures Authority, which regulates the custody business (which became a regulated activity on 2 June 1997), branch share dealing and treasury and capital markets services and activities; and the Investment Management Regulatory Organisation, which regulates Midland's collective investment scheme trusteeship activities.

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

In October 1994, the former Securities and Investments Board (which later became the FSA) issued guidance following its review of the pension industry's past business conduct in relation to pension transfers and non-joiners and opt-outs of occupational pension schemes. Midland made provision for its estimate of the cost of redress in its 1994 Accounts and by 31 December 1998 had completed its review of virtually all cases categorised as priority by the FSA. In March 1998, the FSA issued draft proposals to extend the scope of the review. Midland's total potential liability is uncertain. In 1998, HSBC subsidiaries made provisions in the amount of US$99 million for possible liability to customers covered by the extension to the pensions review who were disadvantaged by inappropriate pensions advice.

Hong Kong regulation and supervision

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

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

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

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

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

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

US regulation and supervision

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

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

The BHCA and the International Banking Act of 1978 ('IBA') impose certain limits and requirements on the US activities and investments of HSBC and certain companies in which it holds direct or indirect investments. HSBC is generally prohibited from acquiring, directly or indirectly, ownership or control of more than 5 per cent of the voting shares of any company engaged in the United States in activities other than banking and certain activities closely related to banking. HSBC is also generally prohibited from acquiring, directly or indirectly, ownership or control of more than 5 per cent of the voting shares of, or substantially all the assets of, or exercising control over, any US bank or bank holding company without the prior approval of the Federal Reserve Board. However, as a qualified foreign banking organisation under Federal Reserve Board regulations, HSBC may engage in the United States in certain limited non-banking activities and hold certain investments that would otherwise not be permissible under US law.

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

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

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

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

As at 31 March 1998, HSBC Bank USA was categorised as 'well capitalised' under Federal Reserve Board regulations.

DESCRIPTION OF PROPERTY

At 31 December 1998, HSBC had over 5,000 branch, representative and similar offices worldwide, of which approximately 2,000 were located in Europe, 400 in Hong Kong, 600 in North America, 1,500 in Brazil and 200 in the rest of Latin America. Additionally, properties with a net book value of US$587 million, were held for investment purposes. Of the total net book value of HSBC properties, more than 70 per cent were owned or held under long-term leases. Further details are included in Note 21 of the 'Notes on the Financial Statements'.

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

On 19 October 1998, Midland, a subsidiary of HSBC Holdings, entered into an agreement to lease a building being developed by Canary Wharf Limited. The building is scheduled to be supplied by February 2002. It is intended that this building, located in London's Canary Wharf district, will bring together under one roof over 8,000 staff from various HSBC businesses and HSBC headquarters operations located in London. The 999 year leasehold interest will have a cost of around US$800 million including funding costs. Further fit-out to be completed by Midland will have a substantially fixed cost of around US$420 million. Upon completion and occupation of the new building, HSBC will manage its leased and owned surplus properties through sub-letting or sale into the market, as appropriate.

The Hongkong and Shanghai Banking Corporation Limited began to move its support functions in May 1999 to the HSBC Centre building in Kowloon, Hong Kong, which it acquired in 1998 for approximately US$500 million. The new building will allow The Hongkong and Shanghai Banking Corporation Limited to centralise the majority of its operational, support and back-office functions, which will relocate from more than 15 different leased locations in Hong Kong. By the end of 2000 a staff of 5,000 will occupy the new offices.

LEGAL PROCEEDINGS

Due to the nature of the business in which it is engaged, HSBC Holdings and its subsidiaries and their respective properties are subject to threatened or filed legal actions from time to time. HSBC does not expect the final outcome of any legal action currently known to it and relating to HSBC Holdings, its subsidiaries or any of their respective properties, individually or in the aggregate, to have a material adverse effect on its consolidated results of operation or financial condition.

On 12 March 1999, HFC Bank plc commenced proceedings against Midland seeking an injunction to restrain Midland from passing off or attempting to pass off its business, branches or services as the business, branches and services of HFC or connected or associated with HFC by the use of 'HSBC' or any other name or mark confusingly similar to HFC's name. The proceedings also seek damages together with interest in an amount to be awarded by the court. Midland does not believe that there is merit in HFC's claim and is vigorously defending it. A comprehensive defence has been filed and a trial lasting up to six days has been set to commence on 19 July 1999.

SHAREHOLDER INFORMATION

Control of registrant

As at 31 December 1998, HSBC Holdings did not know, and had not been notified of any interest of any entity that directly or indirectly owned a controlling interest in it. Directors and executive officers of HSBC Holdings as a group had interests in 212,949 75p Ordinary Shares and 1,121,342 HK$10 Ordinary Shares. Giving retroactive effect to the share capital reorganisation, as at 31 December 1998, 0.05 per cent of the US$0.50 ordinary shares were beneficially owned by Directors and executive officers of HSBC. The interests of Directors in the Ordinary Shares of HSBC Holdings are disclosed on pages 95, 99 and 100.

The following interests in HSBC Holdings' ordinary shares were recorded at 22 February 1999 in the register maintained under section 211 of the Companies Act 1985:

	% of class
Interests in ordinary shares of HK$10 each	
Hong Kong Monetary Authority	13.23
Interests in ordinary shares of 75p each	
Standard Life Group	5.52
The Prudential Corporation Group of Companies	4.75
Legal & General Group	3.51

No substantial interest, i.e. 10 per cent or more, in any of the equity share capital is recorded in the register maintained under section 16(1) of the Securities (Disclosure of Interests) Ordinance. The Hong Kong Monetary Authority has informed HSBC Holdings that the disclosure provisions of the Securities (Disclosure of Interests) Ordinance do not apply in respect of its interests. However, it has been publicly announced that the Hong Kong SAR Government holds 8.9 per cent of HSBC Holdings' total issued ordinary share capital as at 31 December 1998.

Nature of trading market

HSBC Holdings has dual primary listings on the London Stock Exchange and the Hong Kong Stock Exchange. HSBC Holdings maintains its principal share register in London and an overseas branch share register in Hong Kong (collectively, the 'share register').

At the Annual General Meeting on 28 May 1999, the shareholders of HSBC Holdings approved the cancellation of the existing HSBC shares (75p ordinary shares and HK$10 ordinary shares) and the issuance of three new US$0.50 ordinary shares for each old share. This share capital reorganisation will not become effective until it is confirmed by the High Court of Justice in England and Wales and a copy of the court order is filed with the Registrar of Companies in England and Wales. The court order is expected to be filed on 2 July 1999. If the Court confirms the share capital reorganisation, trading in the new US$0.50 ordinary shares on the London and Hong Kong Stock Exchanges is expected to commence on 5 July 1999.

HSBC Bank USA, as Depositary, had issued American Depositary Shares ('ADSs'), each representing ten HK$10 Ordinary Shares. If the US$0.50 Shares are issued, HSBC Bank USA will issue new ADSs each representing five US$0.50 Shares, in the ratio of six new ADSs for each ADS previously held.

On the London Stock Exchange, approximately 233,729,770 75p Ordinary Shares and approximately 147,398,767 HK$10 Ordinary Shares were traded during the period from 1 October 1998 to 31 December 1998. On the Hong Kong Stock Exchange, approximately 267,247,637 HK$10 Ordinary Shares were traded during the same period. Because of the negligible volume of trading of the 75p Ordinary Shares on the Hong Kong Stock Exchange, no trading information is provided for the period.

As at 31 December 1998, there was a total of 72,800 holders of record of HK$10 Ordinary Shares and 99,646 holders of record of 75p Ordinary Shares.

As at 31 December 1998, a total of 178,476 of the 75p Ordinary Shares were registered in the HSBC share register in the name of 90 holders of record with addresses in the United States. These shares represented 0.02 per cent of the total outstanding 75p Ordinary Shares. As at 31 December 1998, a total of 1,689,429 of the HK$10 Ordinary Shares were registered in the HSBC share register in the name of 454 holders of record with addresses in the United States. These shares represented 0.09 per cent of the total outstanding HK$10 Ordinary Shares. Giving retroactive effect to the re-denomination of share capital, as at 31 December 1998, 0.07 per cent of the US$0.50 ordinary shares were held of record by holders with addresses in the United States.

As at 31 December 1998, there were approximately 2,098 holders of record of ADSs holding approximately 4.8 million ADSs, representing

48 million HK$10 Ordinary Shares. Approximately 2,042 of these holders had addresses in the United States, holding approximately 4.8 million ADSs representing 48 million HK$10 Ordinary Shares. Giving retroactive effect to the re-denomination of share capital, as at 31 December 1998, approximately 1.4 per cent of the US$0.50 ordinary shares were represented by ADSs held of record by holders with addresses in the United States.

The following table shows, for the calendar quarters indicated, the high and low sales prices for the 75p Ordinary Shares and the HK$10 Ordinary Shares, based on mid-market prices at close of business on the London Stock Exchange and the Hong Kong Stock Exchange.

Even though the 75p Ordinary Shares were listed on the Hong Kong Stock Exchange, there was no turnover in the 75p Ordinary Shares in Hong Kong on many days. Hence, share prices have not been given for the 75p Ordinary Shares on the Hong Kong Stock Exchange.

Past share price performance cannot be relied upon as a guide to future performance.

	75p shares London		HK$10 shares London		HK$10 shares Hong Kong	
	High	Low	High	Low	High	Low
	(pence)		(pence)		(HK$)	
1998						
Fourth quarter	**1,704**	**982**	**1,598**	**967**	**204.0**	**134.0**
Third quarter	**1,673**	**1,037**	**1,580**	**992**	**198.5**	**132.0**
Second quarter	**2,025**	**1,400**	**1,913**	**1,330**	**247.0**	**169.5**
First quarter	**2,006**	**1,366**	**1,876**	**1,298**	**241.0**	**158.5**
1997						
Fourth quarter	2,246	1,382	2,145	1,312	262.0	155.0
Third quarter	2,347	1,910	2,253	1,828	279.0	223.0
Second quarter	1,928	1,425	1,858	1,373	235.0	175.0
First quarter	1,616	1,273	1,558	1,242	193.5	163.5

Dividends on the ordinary shares of HSBC Holdings

HSBC Holdings has paid dividends on its ordinary shares every year without interruption since it became the HSBC group holding company by a scheme of arrangement in 1991. The 75p Ordinary Shares and HK$10 Ordinary Shares were entitled to equal rights, including the right to a dividend, and all dividends were declared and paid with respect to both classes of shares.

The dividends declared, per ordinary share*, for each of the last five years were:

		First Interim	Second Interim	Final	Total
1998	US$	**0.12**	**0.19**	—	**0.31**
	£	**0.07**	**0.11****	—	**0.18**
	HK$	**0.96**	**1.43****	—	**2.39**
1997	US$	0.11	—	0.17	0.28
	£	0.07	—	0.10	0.17
	HK$	0.83	—	1.31	2.14
1996	US$	0.08	—	0.14	0.22
	£	0.05	—	0.09	0.14
	HK$	0.60	—	1.10	1.70
1995	US$	0.05	—	0.11	0.16
	£	0.03	—	0.08	0.11
	HK$	0.38	—	0.89	1.27
1994	US$	0.04	—	0.10	0.14
	£	0.03	—	0.06	0.09
	HK$	0.33	—	0.77	1.10

* The dividends declared per ordinary share have been restated to reflect the share capital reorganisation as discussed on page 4.

** The second interim dividend of US$0.19 per share has been translated into pounds sterling and Hong Kong dollars at the rate of exchange at 11.00am on 16 April 1999. The dividend was paid on 28 April 1999.

For the years ended 31 December 1994 to 31 December 1997, dividends on the 75p Ordinary Shares and the HK$10 Ordinary Shares were declared in pounds sterling and, at the shareholder's election, paid in either pounds sterling or Hong Kong dollars, or satisfied by the issue of new shares in lieu of a cash dividend. Dividends for such years expressed in US dollars have been translated into US dollars at the noon buying rates in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York for the dates on which dividends were paid.

For the year ended 31 December 1998, dividends on the 75p Ordinary Shares and the HK$10 Ordinary Shares were declared in US dollars and, at the election of the shareholder, paid in one of, or in a combination of, US dollars, pounds sterling and Hong Kong dollars, or satisfied by the issue of new shares in lieu of a cash dividend.

Exchange controls and other limitations affecting security holders

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

Taxation

The following is a summary of the US federal and UK tax considerations that are likely to be material to the ownership and disposition of US$0.50 ordinary shares (the 'Shares') or ADSs by a holder that is a resident of the United States for the purposes of the income tax convention between the United States and the United Kingdom (the 'Treaty'), and is fully eligible for benefits under the Treaty (an 'eligible US holder'). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of Shares or ADSs. In particular, the summary deals only with eligible US holders that hold Shares or ADSs as capital assets, and does not address the tax treatment of holders that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold Shares or ADSs as part of an integrated investment (including a 'straddle')

Dividends on the ordinary shares of HSBC Holdings

HSBC Holdings has paid dividends on its ordinary shares every year without interruption since it became the HSBC group holding company by a scheme of arrangement in 1991. The 75p Ordinary Shares and HK$10 Ordinary Shares were entitled to equal rights, including the right to a dividend, and all dividends were declared and paid with respect to both classes of shares.

The dividends declared, per ordinary share*, for each of the last five years were:

		First Interim	Second Interim	Final	Total
1998	US$	**0.12**	**0.19**	—	**0.31**
	£	**0.07**	**0.11****	—	**0.18**
	HK$	**0.96**	**1.43****	—	**2.39**
1997	US$	0.11	—	0.17	0.28
	£	0.07	—	0.10	0.17
	HK$	0.83	—	1.31	2.14
1996	US$	0.08	—	0.14	0.22
	£	0.05	—	0.09	0.14
	HK$	0.60	—	1.10	1.70
1995	US$	0.05	—	0.11	0.16
	£	0.03	—	0.08	0.11
	HK$	0.38	—	0.89	1.27
1994	US$	0.04	—	0.10	0.14
	£	0.03	—	0.06	0.09
	HK$	0.33	—	0.77	1.10

* The dividends declared per ordinary share have been restated to reflect the share capital reorganisation as discussed on page 4.

** The second interim dividend of US$0.19 per share has been translated into pounds sterling and Hong Kong dollars at the rate of exchange at 11.00am on 16 April 1999. The dividend was paid on 28 April 1999.

For the years ended 31 December 1994 to 31 December 1997, dividends on the 75p Ordinary Shares and the HK$10 Ordinary Shares were declared in pounds sterling and, at the shareholder's election, paid in either pounds sterling or Hong Kong dollars, or satisfied by the issue of new shares in lieu of a cash dividend. Dividends for such years expressed in US dollars have been translated into US dollars at the noon buying rates in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York for the dates on which dividends were paid.

For the year ended 31 December 1998, dividends on the 75p Ordinary Shares and the HK$10 Ordinary Shares were declared in US dollars and, at the election of the shareholder, paid in one of, or in a combination of, US dollars, pounds sterling and Hong Kong dollars, or satisfied by the issue of new shares in lieu of a cash dividend.

Exchange controls and other limitations affecting security holders

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

Taxation

The following is a summary of the US federal and UK tax considerations that are likely to be material to the ownership and disposition of US$0.50 ordinary shares (the 'Shares') or ADSs by a holder that is a resident of the United States for the purposes of the income tax convention between the United States and the United Kingdom (the 'Treaty'), and is fully eligible for benefits under the Treaty (an 'eligible US holder'). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of Shares or ADSs. In particular, the summary deals only with eligible US holders that hold Shares or ADSs as capital assets, and does not address the tax treatment of holders that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold Shares or ADSs as part of an integrated investment (including a 'straddle') comprised of a Share or ADS and one or more other positions, and persons that own, directly or indirectly, 10 per cent or more of the voting stock of HSBC Holdings. This summary is based on the Treaty and the tax laws of the United States and the United Kingdom in effect on the date hereof, which are subject to change. In this regard, the tax authorities of the United States and the United Kingdom have announced their intention to renegotiate the Treaty. Prospective purchasers should consult their own advisers regarding the tax consequences of an investment in Shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national laws.

In general, the beneficial owner of a Share or ADS will be entitled to benefits under the Treaty (and, therefore, will be an eligible US holder) if it is (i) an individual resident of the United States, a US corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the United States in its hands or in the hands of its partners or beneficiaries; and (ii) not also resident in the United Kingdom for UK tax purposes. Special rules, including a limitation of benefits provision, may apply in limited circumstances to certain investment or holding companies and tax-exempt entities. The Treaty benefits discussed below generally are not available to US holders that hold Shares or ADSs in connection with the conduct of a business through a permanent establishment, or the performance of personal services through a fixed base, in the United Kingdom.

Taxation of dividends

United Kingdom

The Treaty contains provisions that are intended to extend the benefits of the UK integrated tax system to eligible US holders. Under those provisions, when an eligible US holder received a dividend from HSBC Holdings before 6 April 1999, the holder was entitled to receive an additional payment from the UK Inland Revenue (a 'Treaty Payment') equal to the amount of the tax credit (the 'Tax Credit Amount') allowable under UK law to an individual UK resident, minus a UK withholding tax of 15 per cent of the sum of the cash dividend and the Tax Credit Amount. At the rates applicable to dividends paid before 6 April 1999, an eligible US holder receiving a dividend of US$80 from HSBC Holdings would have been entitled to a Tax Credit Amount of US$20 which, after the deduction of a withholding tax of US$15, would have resulted in a Treaty Payment of US$5, and an aggregate payment to the holder of US$85.

As a result of a change in UK law, the Tax Credit Amount available in respect of dividends paid after 5 April 1999 has been reduced to one-ninth of the cash dividend, or the equivalent of 10 per cent of the sum of the dividend and the Tax Credit Amount. As a result, the UK withholding tax (which, under UK law, may not exceed the Tax Credit Amount) fully offsets the Tax Credit Amount, and eligible US holders are no longer entitled to receive Treaty Payments.

United States

Eligible US holders will be subject to US tax on the sum of the cash dividend paid by HSBC Holdings and the associated Tax Credit Amount without deduction for UK withholding tax (the 'gross dividend'). The gross dividend will constitute foreign source dividend income, and will not be eligible for the dividends received deduction. Dividends paid in pounds sterling will be included in income in a US dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the eligible US holder (or by the Depositary, in the case of ADSs). If such dividends are converted into US dollars on the day they are received, eligible US holders generally should not be required to recognise any foreign currency gain or loss in respect of the dividend income.

The UK withholding tax imposed under the Treaty will be treated as a foreign income tax. Subject to generally applicable limitations (including limitations applicable to short-term US holders and to US holders that enter into hedging transactions in respect of the Shares or ADSs), foreign income taxes may be claimed as credits against a holder's US federal income tax liability or, at the election of the holder, may be deducted in computing taxable income.

Taxation of capital gains

Gains realised by an eligible US holder on the sale or other disposition of Shares or ADSs will normally not be subject to UK taxation. Such gains will be included in income for US tax purposes, and will be long-term capital gains if the Shares or ADSs were held for more than one year. A long-term capital gain realised by an individual holder generally is subject to taxation at a maximum rate of 20 per cent.

Stamp duty and stamp duty reserve tax

Shares

Transfers of Shares generally will be subject to stamp duty at the rate of 50p per £100 (or part thereof) of the consideration paid for the transfer, and such stamp duty generally is payable by the transferee.

An agreement to transfer Shares, or any interest therein, normally will give rise to a charge to stamp duty reserve tax at the rate of 0.5 per cent of the consideration. However, provided an instrument of transfer of the Shares is executed in pursuance of the agreement and duly stamped before the date on which the stamp duty reserve tax becomes payable, under current UK Inland Revenue practice it will not be necessary to pay the stamp duty reserve tax, nor to apply for such tax to be cancelled. Stamp duty reserve tax generally is payable by the transferee.

Paperless transfers of Shares within CREST, the United Kingdom's paperless share transfer system, are liable to stamp duty reserve tax at the rate of 0.5 per cent of the consideration. In CREST transactions, the tax is calculated and payment made automatically. Deposits of Shares into CREST generally will not be subject to stamp duty reserve tax, unless the transfer into CREST is itself for consideration.

ADSs

If Shares are transferred into a clearance service or depositary receipt arrangement (which will include a transfer of Shares to the Depositary) stamp duty and/or stamp duty reserve tax will be payable. The stamp duty or stamp duty reserve tax is generally payable on the consideration for the transfer and is payable at the aggregate rate of 1.5 per cent.

No stamp duty will be payable on the transfer of, or agreement to transfer, an ADS, provided that the ADR and any separate instrument of transfer or written agreement to transfer remains at all times outside the United Kingdom, and provided further that any such transfer or written agreement to transfer is not executed in the United Kingdom. No stamp duty reserve tax will be payable on a transfer of, or agreement to transfer, an ADS effected by the transfer of an ADR.

On a transfer of Shares from the Depositary to a registered holder of an ADS upon cancellation of the ADS, a fixed stamp duty of 50p per instrument of transfer will be payable by the registered holder of the ADR cancelled.

Backup withholding tax and information reporting

Distributions made on Shares and proceeds from the sale of Shares or ADSs that are paid within the United States, or through certain US-related financial intermediaries to US holders, are subject to information reporting and may be subject to a 'backup' withholding tax unless, in general, the US holder complies with certain procedures or is a corporation or other person exempt from such withholding. Holders that are not US persons generally are not subject to information reporting or backup withholding tax, but may be required to comply with applicable certification procedures to establish that they are not US persons in order to avoid the application of such information reporting requirements or backup withholding tax to payments received within the United States or through certain US-related financial intermediaries.

SELECTED FINANCIAL DATA

The financial information set out below has been derived from the audited financial statements of HSBC for each of the years in the five year period ended 31 December 1998. The data should be read in conjunction with the Consolidated Financial Statements and notes included elsewhere in this Registration Statement.

HSBC's consolidated financial statements are prepared in accordance with UK generally accepted accounting principles ('UK GAAP'), which differ in certain respects from US generally accepted accounting principles ('US GAAP'). For a discussion of significant differences between UK GAAP and US GAAP and a reconciliation to US GAAP of certain amounts see Note 45 of the 'Notes on the Financial Statements'. UK GAAP, as applied to banks, encompasses the Statements of Recommended Accounting Practice ('SORPs') issued by the British Bankers' Association and the Irish Bankers' Federation.

Amounts in accordance with UK GAAP

	1998	1997	1996	1995	1994
	US$m	US$m	US$m	US$m	US$m
Profit and loss account data for the year ended 31 December					
Net interest income	**11,547**	10,944	9,092	8,078	7,052
Other operating income	**8,508**	7,665	5,881	5,330	4,572
Operating profit before provisions	**9,051**	8,553	7,054	5,952	4,694
Provisions for bad and doubtful debts	**(2,637)**	(1,014)	(604)	(657)	(422)
Profit on ordinary activities before tax	**6,571**	8,130	7,052	5,794	4,857
Profit attributable to shareholders	**4,318**	5,487	4,852	3,885	3,149
Dividends	**(2,495)**	(2,206)	(1,738)	(1,330)	(1,078)
Balance sheet data at 31 December					
Share capital	**3,443**	3,406	3,426	3,296	3,265
Shareholders' funds	**27,402**	27,080	25,833	20,776	16,854
Customer accounts	**308,910**	294,189	257,104	220,572	201,040
Undated subordinated loan capital	**3,247**	3,245	3,007	2,753	2,751
Dated subordinated loan capital	**7,597**	7,281	7,156	5,843	5,386
Loans and advances to customers*	**235,295**	240,421	194,514	169,747	154,318
Total assets	**483,128**	471,686	402,377	352,022	314,771
Per share amounts**	**US$**	US$	US$	US$	US$
Basic earnings per ordinary share	**0.54**	0.69	0.61	0.49	0.41
Headline earnings per ordinary share	**0.53**	0.68	0.60	0.49	0.39
Net asset value per ordinary share	**3.38**	3.37	3.24	2.63	2.16
Dividends per ordinary share	**0.31**	0.28	0.22	0.16	0.14
Financial ratios	**%**	%	%	%	%
Dividend payout ratio	**57.8**	40.2	35.8	34.2	34.2
Post-tax return on average total assets	**0.98**	1.37	1.45	1.28	1.14
Return on average shareholders' funds	**15.5**	20.7	21.3	20.7	20.4
Average shareholders' funds to average total assets	**5.71**	5.98	6.14	5.49	4.91
Capital ratios					
Total capital	**13.6**	14.2	15.3	14.7	14.4
Tier 1 capital	**9.7**	9.3	9.9	9.5	9.1

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

** Per share amounts have been restated to reflect the share capital reorganisation as discussed on page 4.