Selected Financial Data (continued)

Amounts in accordance with US GAAP

	1998 US$m	1997 US$m
Income statement data for the year ended 31 December		
Net income available for ordinary shareholders	3,934	5,306
Dividends	2,328	2,007
Balance sheet data at 31 December		
Total assets	493,099	476,183
Shareholders' equity	30,351	28,240
Per share amounts*	US$	US$
Basic earnings per ordinary share	0.49	0.66
Diluted earnings per ordinary share	0.48	0.66
Net asset value per ordinary share	3.75	3.52
Dividends per ordinary share	0.29	0.25

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion is based on, and should be read in conjunction with, the Financial Statements and the notes thereto included elsewhere in this Registration Statement. The Financial Statements are prepared in accordance with UK GAAP, which varies in certain significant respects from US GAAP. For a discussion of the differences and a reconciliation of certain UK GAAP amounts to US GAAP, see Note 45 of the 'Notes on the Financial Statements'.

Introduction

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

HSBC has witnessed growth in its asset base and operating profits over the past several years, fuelled by an expansion of services and an added-value acquisition strategy. In 1997, HSBC established Banco HSBC Bamerindus in Brazil and completed the acquisition of HSBC Roberts in Argentina, augmenting its base of existing domestic franchises. In that year, HSBC also acquired Eversholt Holdings Limited (now Forward Trust Rail Services Limited) in the United Kingdom, which leases rolling stock; and First Federal Savings and Loans of Rochester in the United States together with minority interests in banks in Peru, Chile and Mexico. In February 1999, HSBC signed a Memorandum of Understanding to acquire an initial 70 per cent controlling interest in Seoul Bank from the Korean Government with a call and put option on the remaining 30 per cent. Seoul Bank has a substantial personal and corporate banking franchise with over 290 branches and an estimated 3.5 million customers throughout Korea.

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

Adverse changes in economic conditions can reduce demand for HSBC's products and services, impair the credit quality of its borrowers and counterparties and increase the level of HSBC's bad debt charge. In 1998, general economic conditions deteriorated, financial markets performed poorly and interest rates rose dramatically both throughout Asia and in Latin America, particularly in Brazil. As a result, HSBC recorded provisions for bad and doubtful debts of US$2,637 million in 1998, an increase of US$1,623 million, or 160 per cent, compared with 1997. HSBC's profit attributable to shareholders declined 21 per cent in 1998. Nevertheless, HSBC still generated a return on average shareholders' funds of 15.5 per cent for the year.

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

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

HSBC has economic, financial market, credit, legal, political and other specialists who monitor economic and market conditions and government policies and actions. However, because of the difficulty involved in predicting with accuracy changes in economic or market conditions or in governmental policies and actions, HSBC cannot fully anticipate the effects that such changes might have on its financial performance and business operations.

Summary

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
Net interest income	11,547	10,944	9,092
Other operating income	8,508	7,665	5,881
Operating income	20,055	18,609	14,973
Operating expenses	(11,004)	(10,056)	(7,919)
Operating profit before provisions	9,051	8,553	7,054
Provisions for bad and doubtful debts	(2,637)	(1,014)	(604)
Provisions for contingent liabilities and commitments	(144)	(56)	(11)
Amounts written off fixed asset investments	(85)	(49)	(75)
Operating profit	6,185	7,434	6,364
Income from associated undertakings	136	112	137
Gains on disposal of:			
— investments	222	555	500
— tangible fixed assets	28	29	51
Profit on ordinary activities before tax	6,571	8,130	7,052
Tax on profit on ordinary activities	(1,789)	(2,058)	(1,672)
Profit on ordinary activities after tax	4,782	6,072	5,380
Minority interests	(464)	(585)	(528)
Profit attributable to shareholders	4,318	5,487	4,852

Year ended 31 December 1998 compared with year ended 31 December 1997

HSBC made a profit on ordinary activities before tax of US$6,571 million in 1998, a decrease of US$1,559 million, or 19 per cent, compared with 1997.

Net interest income of US$11,547 million in 1998 was US$603 million, or 6 per cent, higher than 1997. The benefit of an 8 per cent increase in average interest-earning assets in 1998, mainly in Europe, North America and Hong Kong, was partly offset by a 7 basis point decrease in net interest margin to 2.84 per cent in that year. This decrease reflected increased levels of non-performing loans, together with increased funding costs and a reduced contribution from net free funds resulting from the reduction in the ratio of net free funds to average interest-earning assets.

Other operating income rose by US$843 million, or 11 per cent, to US$8,508 million in 1998. This increase reflected a full year's contribution from the Latin American acquisitions and the Forward Trust Rail business, together with increased income from wealth management and other personal sector products. Dealing profits were also higher as income from debt securities trading improved markedly compared with 1997 as credit spreads in Asian bond markets stabilised.

In 1998, operating expenses increased by US$948 million, or 9 per cent, to US$11,004 million. Approximately half of the increase recorded in 1998 was the result of the inclusion of a full year's operations of the Latin American acquisitions. In addition, US$180 million of the increase related to non-recurring property costs in the United Kingdom as a consequence of the prospective move to Canary Wharf.

HSBC's cost:income ratio deteriorated marginally to 54.9 per cent in 1998 from 54.0 per cent in 1997. If the non-recurring property costs related to the prospective move to Canary Wharf are excluded, the cost:income ratio in 1998 would have been 54.0 per cent.

The charge for bad and doubtful debts was US$2,637 million in 1998, an increase of US$1,623 million, or 160 per cent, compared with 1997, reflecting the continuing downturn in Asia and its impact on asset quality in several regions. The 1998 charge for bad and doubtful debts included a net increase in general provisions of US$10 million, compared with US$481 million in 1997, which included a special general provision charge of US$290 million for Asian risk. In view of the continuing unsettled economic environment in Asia, this special general provision has been left intact.

The gains on disposal of investments were US$222 million in 1998, US$333 million lower than in 1997. In 1997, gains on disposal of investments included a significant profit on disposal of HSBC's stake in Hong Kong International Terminals.

Year ended 31 December 1997 compared with year ended 31 December 1996

HSBC made a profit on ordinary activities before tax of US$8,130 million in 1997, an increase of US$1,078 million, or 15 per cent, over 1996.

Net interest income of US$10,944 million in 1997 was US$1,852 million, or 20 per cent, higher than 1996. 40 per cent of this increase was due to HSBC's Latin American acquisitions. Outside Latin America, average interest-earning assets increased in all geographical sectors, primarily reflecting growth in customer advances and debt securities. The net interest margin rose by 2 basis points in 1997 to 2.91 per cent, reflecting the inclusion of the new higher margin businesses in Latin America, the effect of which was partly offset by lower margins in North America, Hong Kong and Europe resulting in part from competitive pressures.

In 1997, other operating income was US$7,665 million, an increase of US$1,784 million, or 30 per cent, compared with 1996, mainly as a result of the acquisitions in Latin America and the Forward Trust Rail business and from increased fee income. Dealing profits also increased in 1997 compared with 1996 as volatility in certain Asian currency markets led to increased customer volumes and wider spreads.

HSBC's cost:income ratio increased to 54.0 per cent in 1997 from 52.9 per cent in 1996. The establishment of Banco HSBC Bamerindus and acquisition of HSBC Roberts, and the resulting increase in HSBC's cost base, added 2.8 per cent to the cost:income ratio.

The charge for bad and doubtful debts in 1997 was US$1,014 million, which was US$410 million, or 68 per cent, higher than 1996. General provisions were augmented by US$481 million in 1997, compared with US$120 million in 1996, and included a special general provision charge of US$290 million in view of deteriorating economic conditions within Asia, the impact of which was only beginning to emerge.

Net interest income

	Year ended 31 December		
Figures in US$ millions	1998	1997	1996
Net interest income	**11,547**	10,944	9,092
Average interest-earning assets	**405,948**	376,308	314,947
Gross interest yield (per cent)[1]	**8.28**	7.62	7.09
Net interest spread (per cent)[2]	**2.24**	2.26	2.25
Net interest margin (per cent)[3]	**2.84**	2.91	2.89

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

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

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

Year ended 31 December 1998 compared with year ended 31 December 1997

HSBC achieved an improvement of 6 per cent in net interest income in 1998 compared with 1997. A slowdown in a number of regions in which HSBC operates resulted in modest loan demand and increased levels of interest suspended on non-performing loans. In 1998, income levels rose in Latin America by 61 per cent primarily due to the inclusion of a full year's results, in Europe by 5 per cent, rose slightly in Hong Kong and fell by 1 per cent in the Rest of Asia-Pacific and 2 per cent in North America.

Average interest-earning assets increased by US$30 billion, or 8 per cent, in 1998 compared with 1997 to US$406 billion. In 1998, growth in customer advances occurred mainly in Europe, while growth in average interest-earning assets in North America and Hong Kong primarily reflected the placement of increased customer deposits. There was only modest growth in demand for advances in the weakening economies of the Asia-Pacific region in that year.

HSBC's net interest margin was 2.84 per cent in 1998, 7 basis points lower than for 1997. The impact of higher levels of interest suspended on non-performing loans, increased funding costs and the reduced contribution from net free funds resulting from the reduction in the ratio of net free funds to average interest-earning assets was only partially offset by the increased contribution from HSBC's higher margin business in Latin America.

Year ended 31 December 1997 compared with year ended 31 December 1996

The improvement in HSBC's net interest income in 1997 compared with 1996 resulted from growth in average interest-earning assets and a modest improvement in net interest margin in 1997. Acquisition-driven growth in Latin America contributed 40 per cent of the increase in HSBC's net interest income. Excluding acquisitions, the rate of increase in HSBC's net interest income declined in the second half of 1997, as average interest-earning assets grew more slowly and competitive pressures, together with actions taken by central banks to defend their countries' currencies, resulted in a decline in the interest spread in the latter part of the year.

Average interest-earning assets increased by US$61 billion, or 19 per cent, to US$376 billion in 1997 compared with 1996. The growth in 1997 was principally in customer advances and debt securities, financed mainly by increased customer deposits.

The modest improvement in HSBC's net interest margin to 2.91 per cent in 1997 reflected a change in mix. Margin pressures in most of HSBC's principal areas of operation, particularly in Hong Kong, were offset by the inclusion of the new higher-margin business in Latin America.

Other operating income

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
Dividend income	148	156	165
Fees and commissions (net)	5,736	5,469	4,296
Dealing profits/(losses)			
— foreign exchange	953	998	551
— interest rate derivatives	67	78	82
— debt securities	116	(61)	96
— equities and other trading	13	(25)	71
	1,149	990	800
Other			
— operating lease and other rental income	567	482	234
— other	908	568	386
	1,475	1,050	620
Total other operating income	8,508	7,665	5,881

Year ended 31 December 1998 compared with year ended 31 December 1997

Net fees and commissions increased by US$267 million in 1998, or 5 per cent, compared with 1997, with significant growth in Europe and Latin America partly offset by a decline in Hong Kong and the Rest of Asia-Pacific. In Europe, insurance, current accounts, mortgages, credit cards and lending services to corporate customers grew. In Latin America, the growth reflected the development of new bancassurance products, as well as the fact that 1997 included only nine months operation in Brazil and approximately five months in Argentina. In Hong Kong and the Rest of Asia-Pacific, net fees and commissions declined in most countries and business lines as a result of depressed market conditions. Declines were most noticeable in fees from securities business, credit facilities and cards and, in investment banking, in corporate finance, underwriting and structured financing.

Dealing profits increased in 1998 compared with 1997 as economic turmoil in many Asian currencies continued through the first half of 1998 and wide margins and high volumes in customer-driven business continued to underpin foreign exchange revenues. Income from debt securities trading improved markedly in 1998, following the loss incurred in 1997, as credit spreads in Asian bond markets stabilised. The equities trading business returned to profit in 1998, following losses in underwriting and trading in Hong Kong in 1997.

Other operating income increased by US$425 million in 1998, or 40 per cent, compared with 1997, with the majority of the increase recorded in Europe and North America. In Europe, other income was boosted by the rentals receivable on operating leased assets following the acquisition of Forward Trust Rail in 1997. Wealth management activities, which include sales of investment, insurance and private banking products, also showed strong growth. In North America, the benefit of a settlement with the US Internal Revenue Service regarding Brazilian tax credits disallowed in the 1980s and gains on disposal of credit card portfolios, as well as underlying business growth, contributed to the increase in 1998.

Year ended 31 December 1997 compared with year ended 31 December 1996

Net fees and commissions increased by US$1,173 million, or 27 per cent in 1997 compared with 1996, with growth recorded in all regions. The newly acquired businesses of Banco HSBC Bamerindus and HSBC Roberts contributed US$343 million of the increase. Corporate finance, advisory and structured finance activities in Asia and Europe also performed well. Increased volumes in most markets led to larger equities securities commission revenues. Insurance, account services and card products fee income also grew. Trade finance revenues grew modestly.

Dealing profits increased in 1997 compared with 1996 as Asian currency volatility led to higher foreign exchange earnings attributable to the growing volume of customer business and widening spreads. Trading losses were sustained in debt securities in Germany and in a number of other locations as the uncertain outlook for Asian government and corporate bond issuers resulted in wider credit spreads. In Hong Kong, market sentiment weakened and, as a result, declining market volumes and stock price levels contributed to losses in equity trading and in equity underwriting activity.

Other income rose by 69 per cent in 1997 compared with 1996 due primarily to higher operating lease and other rental income in the United Kingdom and a contribution of US$168 million from the insurance business in Brazil, before commissions and operating expenses.

Operating expenses

Figures in US$ millions	Year ended 31 December 1998	1997	1996
Staff costs	6,321	5,998	4,797
Premises and equipment (excluding depreciation)			
— vacant space provisions arising from the move to Canary Wharf	180	—	—
— other	1,274	1,245	1,018
Other administrative expenses	2,315	2,094	1,531
Administrative expenses	10,090	9,337	7,346
Depreciation and amortisation	914	719	573
Total operating expenses	11,004	10,056	7,919
Cost:income ratio (per cent)	54.9	54.0	52.9
Cost:income ratio (per cent) (excluding Canary Wharf vacant space costs)	54.0	54.0	52.9

Staff numbers (full-time equivalent)

	As at 31 December 1998	1997	1996
Europe	49,798	48,595	47,371
Hong Kong	24,447	25,050	24,428
Rest of Asia-Pacific	21,116	19,701	17,536
North America	14,500	14,499	13,101
Latin America	26,572	24,440	34
Total staff numbers	136,433	132,285	102,470

Year ended 31 December 1998 compared with year ended 31 December 1997

Operating expenses increased by US$948 million in 1998 compared with 1997. US$510 million of this arose in Latin America, principally reflecting a full year's operation of the businesses acquired during 1997. US$180 million was due to one-off costs related to the prospective move to Canary Wharf. Excluding Latin America and one-off costs, operating expenses increased by US$258 million with small increases in Europe partly offset by decreases in Hong Kong and the Rest of Asia-Pacific.

Year ended 31 December 1997 compared with year ended 31 December 1996

Operating expenses were US$10,056 million in 1997, an increase of US$2,137 million, or 27 per cent, compared with 1996. The acquisitions and investments made mainly in Latin America and the United States, together with further business expansion in Asia were the main contributors to the increase in HSBC's cost base. Businesses acquired in Latin America added 2.8 percentage points to HSBC's cost:income ratio, 24,406 to HSBC's headcount, and accounted for two-thirds of the increase in costs.

In the United Kingdom, costs continued to be tightly controlled, rising by less than 4 per cent in underlying currency terms. In Asia, HSBC's commercial banks made investments to further develop their core businesses and opened 27 new branches. Outside of Hong Kong, staff numbers increased notably in Taiwan, Indonesia, Sri Lanka, India, the Philippines, mainland China, Australia, Brunei Darussalam, Singapore, Malaysia and Thailand.

Provisions for bad and doubtful debts

Figures in US$ millions	Year ended 31 December 1998	1997	1996
Loans and advances to customers			
— specific charge:			
new provisions	3,273	1,247	1,159
releases and recoveries	(655)	(710)	(653)
	2,618	537	506
— general charge:			
new provisions	209	356	195
special provisions reflecting emerging credit difficulties in Asia	—	290	—
releases	(199)	(165)	(75)
	10	481	120
Customers bad and doubtful debt charge	2,628	1,018	626
Loans and advances to banks — net specific charge/(releases)	9	(4)	(22)
Total bad and doubtful debt charge	2,637	1,014	604

Year ended 31 December 1998 compared with year ended 31 December 1997

The charge for bad and doubtful debts of US$2,637 million in 1998 was US$1,623 million higher than in 1997, reflecting the deterioration in credit quality in the weak economic climate of a number of Asian countries. New specific provisions increased by US$689 million in Hong Kong, in part due to the impact of a decline in asset values throughout the property market on security held, and by US$1,059 million in the Rest of Asia-Pacific, principally from provisions for exposures to corporate customers in Malaysia, Indonesia and Thailand. The continuing global economic uncertainty that started in Asia spread to HSBC's banking operations in Latin America, which coupled with high domestic interest rates, resulted in credit weakness in Argentina and to a lesser extent in Brazil. In Europe, HSBC achieved lower recoveries on the loan book, in particular from the historical Latin American debt portfolio in Midland. The bad debt charge in Europe predominantly arose from personal lending, as corporate credit experience remained stable although with some signs of a weakening outlook.

The special general provision of US$290 million raised in 1997 was left intact, reflecting continuing uncertainty as to the economic outlook in Asia.

Year ended 31 December 1997 compared with year ended 31 December 1996

The charge for bad and doubtful debts of US$1,014 million in 1997 was US$410 million higher than in 1996. New specific customer provisions were US$88 million higher, notwithstanding the fact that the individually-significant provisions made in 1996 (on one relationship in each of the United Kingdom and Hong Kong) did not recur. In the United Kingdom, credit quality remained good and non-performing loans declined. Higher charge-offs for consumer credit card advances were recorded in the United States. The general bad debt charge was increased in response to the growth in advances and, to take account of emerging credit difficulties in Asia, a special general provision charge of US$290 million was made. This special general provision will be utilised to fund specific provisions and will be augmented or released as appropriate, depending on prospective economic conditions.

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

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

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

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	%	%	%	%	%	%
Year ended 31 December 1998						
Net charge for specific provisions	**0.33**	**1.08**	**3.78**	**0.32**	**3.19**	**1.05**
Total provisions charged	**0.38**	**1.05**	**3.75**	**0.24**	**3.64**	**1.05**
Amounts written off net of recoveries	**0.54**	**0.19**	**1.16**	**0.30**	**0.58**	**0.48**
Year ended 31 December 1997						
Net charge for specific provisions	0.10	0.18	0.67	0.24	0.16	0.23
Total provisions charged	0.09	0.34	1.88	0.18	0.74	0.44
Amounts written off net of recoveries	0.31	0.08	0.11	0.46	0.45	0.25
Year ended 31 December 1996						
Net charge for specific provisions	0.36	0.33	0.05	0.14	—	0.27
Total provisions charged	0.41	0.45	0.11	0.16	—	0.33
Amounts written off net of recoveries	0.67	0.06	0.11	0.58	—	0.41

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

Gains on disposal of investments

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
Gains on disposal of:			
— investment securities	**210**	543	382
— associated undertakings	**3**	3	59
— subsidiaries	**9**	9	59
	222	555	500

Year ended 31 December 1998 compared with year ended 31 December 1997

HSBC's gains on disposal of investments of US$222 million in 1998 were US$333 million lower than in 1997, due primarily to the fact that gains on disposal of investments in 1997 included a significant profit on the disposal of an investment in Hong Kong International Terminals. Hang Seng Bank recorded gains on the sale of listed equity investments of US$8 million compared with US$76 million in 1997. In 1998, HSBC Private Equity Europe reported gains of US$95 million from venture capital investment disposals compared with US$175 million in 1997.

Year ended 31 December 1997 compared with year ended 31 December 1996

In 1997, HSBC's gains on disposal of investment securities of US$555 million were US$55 million higher than in 1996 and included HSBC's profit on the disposal of its investment in Hong Kong International Terminals. Hang Seng Bank recorded gains on the sale of listed equity investments of US$76 million in 1997, compared with US$61 million in 1996. HSBC Private Equity reported gains of US$175 million from venture capital investment disposals compared with gains of US$128 million in 1996.

Taxation

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
UK corporation tax charge	**732**	811	629
Overseas taxation	**1,118**	1,109	933
Deferred taxation	**(71)**	129	93
Associated undertakings	**10**	9	17
Total charge for taxation	**1,789**	2,058	1,672
Effective tax rate (per cent)	**27.2**	25.3	23.7
Standard UK corporation tax rate (per cent)	**31.0**	31.5	33.0

Year ended 31 December 1998 compared with year ended 31 December 1997

The 1998 effective rate of tax was 27.2 per cent, compared with 25.3 per cent in 1997. For both years, the effective rate of tax was below the standard UK corporation tax rate, mainly because of lower rates of tax in major operations outside the United Kingdom, in particular in Hong Kong, where profits were taxed at a rate of 16 per cent in 1998 and 16.5 per cent in 1997. The benefit of lower rates of tax in major operations overseas was diluted in 1998 as profits from these operations represented a lower proportion of HSBC's 1998 pre-tax profit and there were higher unrelieved trading losses in the rest of Asia-Pacific in 1998 for which no potential tax benefit has been recognised. The benefit in 1997 of capital gains in Hong Kong, which are tax-free, was not repeated in 1998.

Year ended 31 December 1997 compared with year ended 31 December 1996

The 1997 effective rate of tax was 25.3 per cent, compared with 23.7 per cent in 1996. The effective tax rate was below the average standard rate of UK corporation tax for both years mainly because of lower rates of tax in major operations outside the United Kingdom, in particular in Hong Kong where profits were taxed at a rate of 16.5 per cent in both 1997 and 1996. The recognition of previously unrecognised tax losses was lower in 1997. The benefit of tax-free capital gains in Hong Kong in 1997, unlike 1996, was offset by the impact of unrelieved losses and growth in general provisions for which tax relief is not available.

Analysis by operating segment

Profit on ordinary activities before tax by segment

	Year ended 31 December					
	1998		1997		1996	
	US$m	%	US$m	%	US$m	%
Europe	**2,884**	**44**	3,201	39	2,368	34
Hong Kong	**2,427**	**37**	3,246	40	2,775	39
Rest of Asia-Pacific	**39**	**1**	651	8	1,101	16
North America	**987**	**15**	950	12	792	11
Latin America	**234**	**3**	82	1	16	—
Total	**6,571**	**100**	8,130	100	7,052	100

The results of investment banking operations are included in the above table and following segmental disclosures in the appropriate geographic segment. A separate commentary is provided on the aggregate results of the investment banking operations on pages 48 and 49.

In the analysis of profit by segment which follows, the total of operating income and operating expenses includes intra-HSBC items of US$231 million in 1998, US$185 million in 1997 and US$310 million in 1996.

Europe

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
Net interest income	4,007	3,831	3,441
Other operating income	4,369	3,852	3,301
Operating income	8,376	7,683	6,742
Operating expenses	(5,197)	(4,688)	(4,383)
Operating profit before provisions	3,179	2,995	2,359
Provisions for bad and doubtful debts	(369)	(69)	(292)
Provisions for contingent liabilities and commitments	(96)	(22)	—
ounts written off fixed asset investments	(16)	15	(65)
Operating profit	2,698	2,919	2,002
Income from associated undertakings	—	14	38
Gains on disposal of investments and tangible fixed assets	186	268	328
Profit on ordinary activities before tax	2,884	3,201	2,368
Cost:income ratio (per cent)	62.0	61.0	65.0

Year ended 31 December 1998 compared with year ended 31 December 1997

The United Kingdom's GDP growth rate was 2.1 per cent in 1998 as the economy gradually slowed down during the year. In 1998, underlying inflation averaged 2.6 per cent compared with 2.8 per cent in 1997. During the year, the Bank of England made several s in its base rate as economic activity slowed and business confidence weakened. The UK banking sector continued to be highly competitive as new entrants to the personal banking market provided further pressure on spreads on current accounts, savings accounts and residential mortgages. HSBC's core UK banking business grew strongly, notwithstanding the gradual economic slowdown in 1998.

In 1998, the eleven countries in continental Europe that participated in the introduction of the European single currency, the euro, achieved GDP growth of 2.9 per cent with inflation of 1.2 per cent. The economic policies pursued by these countries reflected the need to achieve economic convergence of the countries participating in the euro.

In 1998, Europe's contribution to HSBC's profit on ordinary activities before tax was US$2,884 million, or 44 per cent, of which UK operations contributed US$2,542 million. The operating profits of most of Midland's European operations increased, with the Channel Islands, the Isle of Man, Turkey, Greece and France all reporting significantly improved results. In Germany, all business areas reported improved performance, other than bond trading, which was negatively impacted by market volatility. The proportion of HSBC's assets in Europe increased to 40 per cent in 1998 from 39 per cent in 1997.

Net interest income was US$4,007 million in 1998, an increase of US$176 million, or 5 per cent, compared with 1997. This increase was recorded principally in the United Kingdom. Midland's net interest income increased, reflecting higher personal and business current account balances and increased holdings of debt securities, together with improved spreads on residential mortgages. These increases were partly offset by: lower interest spread caused by competitive pressures within the UK domestic market, which affected spreads on personal savings and cards; a flatter sterling yield curve affecting spreads on treasury assets; lower interest recoveries from Latin American debt booked in London; and the cost of funding the growth in the operating lease portfolio. The decrease in interest spread in 1998 was partly mitigated by an increased contribution from higher levels of net free funds.

Other operating income grew by US$517 million, or 13 per cent, in 1998 compared with 1997, resulting from Midland's continued emphasis on broadening the range, competitiveness and accessibility of wealth management services. Dealing profits were negatively affected by difficult trading conditions in most major markets, although foreign exchange, money market and sterling bond issues achieved sound results in 1998. New business growth in vehicle finance contributed to increased operating lease income.

Operating costs increased by US$509 million, or 11 per cent, in 1998 compared with 1997. This increase was caused by higher depreciation charges resulting from the growth in operating leased assets, and costs associated with the prospective move of City of London-based operations to Canary Wharf. Staff costs rose modestly reflecting increased staff numbers and the effect of the annual pay award.

The bad debt charge rose by US$300 million in 1998 compared with 1997. This increase principally arose in the United Kingdom and was mainly due to lower recoveries being achieved, particularly from

Midland's historic Latin American debt portfolio. The majority of Midland's Latin American exposure is booked in London and, accordingly, changes in provisions in respect of this exposure affect Europe's results of operation. At 31 December 1998, Midland's Latin American exposure represented less than 1 per cent of Europe's gross customer loans and advances. There was a US$63 million net increase in the charge for general provisions compared with 1997 which benefited from the release of general provisions following a re-assessment of the level of unidentified impaired loans in the portfolio. New specific provisions were predominantly related to personal lending as corporate credit experience remained stable despite signs of a weakening outlook.

In 1998, a charge of US$99 million was recorded for the amount of redress potentially payable to personal pension customers in the United Kingdom, following an extension by the FSA of the pension review of customers who may have been disadvantaged when transferring from or opting out of occupational pension schemes.

Gains on disposal of investments and tangible fixed assets decreased by US$82 million in 1998, or 31 per cent, compared with 1997, principally as a result of lower profits on the disposal of venture capital investments.

Year ended 31 December 1997 compared with year ended 31 December 1996

The United Kingdom's GDP grew by 3.5 per cent in 1997. In that year, the consumer sector benefited from an estimated £35 billion of windfalls from de-mutualising financial institutions. Inflation pressures remained subdued, unemployment continued to fall and the pound sterling appreciated, particularly against the deutschmark. The UK banking sector continued to be extremely competitive, with additional pressures on spreads on current accounts, savings and residential mortgages. Midland achieved strong growth at operating and pre-tax profit levels. The asset finance business expanded following the acquisition of the rail leasing business of Eversholt Holdings Limited (now called Forward Trust Rail Services Limited).

In continental Europe, GDP growth of 2.6 per cent in 1997 was the strongest for some years and, at 2 per cent, inflation was at its lowest level since the 1960s. Average unemployment rose slightly to 12.6 per cent, as economic policies were pursued to achieve the Maastricht convergence criteria for European economic and monetary union.

Europe's contribution to HSBC's profit before tax in 1997 was US$3,201 million, 35 per cent higher than in 1996. The UK contributed US$2,959 million to this. In 1997, results for France, the Channel Islands and Turkey improved significantly, while corporate banking profits in Greece were enhanced by the acquisition of a shipping portfolio. In Germany, higher fee income was offset by lower dealing profits. The proportion of HSBC's assets in Europe was 39 per cent in 1997, broadly unchanged from 1996.

Net interest income grew by US$390 million, or 11 per cent, in 1997 compared with 1996. In the UK, Midland's net interest income increased, reflecting strong customer recruitment and continued growth in lending, particularly mortgages, together with the benefit of improved spreads in the branch network, particularly on residential mortgage lending as discounts granted in earlier periods rolled off. A reduction in the level of interest suspended and foregone, mainly due to lower non-performing loans, also contributed to the growth in net interest income in 1997. These increases were partly offset by the cost of funding the newly-acquired operating leased asset portfolio which generates other operating income.

Other operating income increased by US$551 million, or 17 per cent, in 1997 compared with 1996. Net fees and commissions grew, mainly in personal and business lending and from corporate finance, advisory and structured finance deals. Insurance and operating lease income also rose. In 1997, UK dealing profits improved, principally due to foreign exchange trading. Midland's overall 1997 dealing profits, however, were in line with 1996, as dealing profits from international operations were lower due to difficult bond market conditions.

Operating expenses continued to be tightly controlled, rising by less than 3 per cent in underlying currency terms in 1997 compared with 1996, notwithstanding business expansion. The net effect of increased income and controlled costs was an improvement in the cost:income ratio of 4.0 percentage points compared with 1996 to 61.0 per cent.

The bad debt charge in 1997 was lower than 1996 following improved recoveries and a higher net release of provisions resulting from sales from Midland's historic Latin American debt book. In 1997, the general provision charge increased, reflecting growth in the loan book.

Hong Kong

Figures in US$ millions	1998	1997	1996
	Year ended 31 December		
Net interest income	3,472	3,454	3,127
Other operating income	1,573	1,656	1,430
Operating income	5,045	5,110	4,557
Operating expenses	(1,851)	(1,915)	(1,757)
Operating profit before provisions	3,194	3,195	2,800
Provisions for bad and doubtful debts	(747)	(223)	(227)
Provisions for contingent liabilities and commitments	—	(12)	—
Amounts written off fixed asset investments	(57)	(41)	(10)
Operating profit	2,390	2,919	2,563
Income from associated undertakings	23	31	33
Gains on disposal of investments and tangible fixed assets	14	296	179
Profit on ordinary activities before tax	2,427	3,246	2,775
Cost:income ratio (per cent)	36.7	37.5	38.6

Year ended 31 December 1998 compared with year ended 31 December 1997

In 1998, Hong Kong's economy experienced the toughest economic conditions in three decades, contracting by 5.1 per cent. There was continuing turmoil in certain Asia-Pacific currency markets which caused volatile interest rates, together with a further decline in the property market. In an already tough competitive environment, the banking sector experienced a decline in the volume of loan demand and a deterioration in credit quality on corporate loans, causing a significant rise in non-performing loans.

Operations in Hong Kong contributed 37 per cent, or US$2,427 million, of HSBC's profit before tax for 1998, compared with 40 per cent in 1997.

Net interest income was slightly higher in 1998 than in 1997. The benefit of increased interest-earning assets, reflecting growth in residential mortgages and corporate lending in the early part of 1998, was largely offset by a decrease in margin in that year. Spreads narrowed due to the higher level of interest suspended and a change in mix towards lower-yielding liquid assets. The periodic narrowing and occasional inversion of the gap between the best lending rate and interbank rates in Hong Kong and increased competition for customer deposits also adversely affected spreads. The reduction in spread was partly offset by an increased contribution from net free funds due to higher average interest rates in 1998.

Other operating income decreased in 1998 compared with 1997 by US$83 million, or 5 per cent, to US$1,573 million. Net fees and commissions decreased substantially, due primarily to reduced fees from credit facilities, stockbroking, trade finance and card services, reflecting depressed market conditions, together with a rise in insurance commissions payable. Fee income from corporate finance, underwriting, project finance and structured finance business also fell sharply. Dealing profits were, however, higher in 1998 than in 1997, reflecting increased profits in interest rate derivatives and debt securities, which were offset slightly by lower profits in foreign exchange trading as volatility in the relevant Asia-Pacific currencies subsided. In addition, the equities trading business returned to profits in 1998 after losses in underwriting and trading in 1997.

Operating expenses were US$64 million lower in 1998 compared with 1997. Staff costs decreased slightly in 1998 due to a decrease in profit-related remuneration. A decrease in depreciation on bank premises, resulting from the fall in property valuations recorded since the end of 1997, was offset by depreciation on newly-acquired properties and on equipment. Other operating expenses were US$69 million, or 19 per cent, lower in 1998 than in 1997 due to reductions in most items, particularly advertising and promotion, reflecting careful cost control.

The net charge for bad and doubtful debts of US$747 million was US$524 million higher in 1998 than in 1997. New specific provisions increased by US$689 million, due to a deterioration in the credit quality of corporate customers resulting from the region's economic contraction. In particular, higher provisions were made for corporate lending, trade finance, small business loans and residential mortgages, taking into account where relevant a decline in collateral values, particularly in the property market. There was a net release of US$18 million in general provisions in 1998 compared with a charge of US$105 million in 1997. Whilst market conditions deteriorated in Hong Kong, the proportion of low-risk residential mortgages and Hong Kong Government Home Ownership Scheme loans in the portfolio increased. This change, together with the substantial specific provisions raised in the year and a reduction in the level of advances to customers changed the overall risk profile of the portfolio.

Gains on disposal of investments and tangible fixed assets fell by US$282 million in 1998 compared with 1997. In 1997, HSBC realised a significant profit on the disposal of an investment in Hong Kong

International Terminals. In addition, in 1998 there were lower profits in Hang Seng Bank from the sale of equity investments.

Year ended 31 December 1997 compared with year ended 31 December 1996

Hong Kong's economy performed strongly in the first half of 1997. The resumption of the exercise of sovereignty over Hong Kong by China was successfully completed on 1 July 1997; the smoothness of this transition meant that, of itself, it had no material effect on HSBC's Hong Kong operations. In the second half of 1997, the turmoil in foreign exchange markets across Asia put pressure on the Hong Kong dollar which, in turn, led to higher interest rates. This caused a fall in the property and stock markets, and a slowdown in the rate of growth in domestic and external demand. The major effects on the banking sector were a significant reduction in interest spreads, a slowdown in growth of mortgage business in the last quarter of the year, and restraint on trade finance business due to weak export growth in 1997.

Operations in Hong Kong contributed US$3,246 million, or 40 per cent, of HSBC's profit before tax for 1997, compared with 39 per cent in 1996.

Net interest income was US$3,454 million in 1997, an increase of US$327 million, or 10 per cent, compared with 1996. Spreads narrowed due to competitive pressure on residential mortgage pricing which persisted until August, and a narrowing of the gap between best lending rate and interbank rates in the second half, partly offset by the positive impact of an increase in the advances-to-deposits ratio. These pressures were partly mitigated in 1997 by a higher contribution from net free funds, reflecting both higher interest rates and increased net free funds.

Other operating income was US$1,656 million in 1997, an increase of US$226 million, or 16 per cent, compared with 1996. Fees and commissions increased as fee income from securities, cards and credit facilities grew. The growth in fee income from credit facilities reflected the strong growth in advances to customers. Dealing profits in the commercial bank improved in 1997 with higher foreign exchange profits due to widened spreads arising from the volatility of certain Asian currencies. Fees from advisory and corporate finance business also grew significantly in 1997, particularly from the aviation and structured finance business and from initial public offerings. In 1997, the investment bank suffered a substantial loss on an underwriting transaction in the first half of the year.

Operating expenses increased by US$158 million, or 9 per cent, to US$1,915 million in 1997. Staff costs were higher in 1997 compared with 1996, reflecting increased headcount due to new branch openings and general business expansion. Other costs increased as a result of higher marketing and premises expenses, branch openings, expansion in personal banking and cards and higher professional fees relating to customer transactions in the investment bank.

The charge for bad and doubtful debts in 1997 was broadly in line with 1996. An increase in the charge for general provisions due to the strong loan growth in 1997 was offset by the non-recurrence of a significant, individual provisioning requirement in 1996.

Gains on disposal of investments and tangible fixed assets were US$117 million higher in 1997 than in 1996 reflecting the profit on disposal of the investment in Hong Kong International Terminals and profits on sales of equities by Hang Seng Bank.

Rest of Asia-Pacific (including the Middle East)

	Year ended 31 December		
Figures in US$ millions	**1998**	1997	1996
Net interest income	**1,255**	1,268	1,101
Other operating income	**1,014**	1,012	844
Operating income	**2,269**	2,280	1,945
Operating expenses	**(1,052)**	(1,077)	(881)
Operating profit before provisions	**1,217**	1,203	1,064
Provisions for bad and doubtful debts	**(1,219)**	(615)	(30)
Provisions for contingent liabilities and commitments	**(37)**	(12)	(13)
Amounts written off fixed asset investments	**(11)**	(5)	(1)
Operating (loss)/profit	**(50)**	571	1,020
Income from associated undertakings	**91**	74	55
(Losses)/gains on disposal of investments and tangible fixed assets	**(2)**	6	26
Profit on ordinary activities before tax	**39**	651	1,101
Cost:income ratio (per cent)	**46.4**	47.2	45.3

Year ended 31 December 1998 compared with year ended 31 December 1997

All the major economies in the rest of Asia-Pacific region experienced a slowdown or contraction in 1998. The round of currency devaluations, which began in

Thailand in July 1997, spread to South Korea, Indonesia, Malaysia and Singapore. Despite difficulties in the rest of Asia-Pacific, mainland China's GDP grew by 7.8 per cent. The decline in world oil prices and downturn in trade also affected the economies of the Gulf States.

The Rest of Asia-Pacific's contribution to HSBC's profit before tax was severely impacted by the significant increase in provisions for bad and doubtful debts in the region. Operating profit before provisions improved slightly but was more than offset by bad debt charges resulting in a decrease in profit before tax of US$612 million in 1998 compared with 1997. The proportion of HSBC's total assets in the Rest of Asia-Pacific in 1998 was broadly in line with 1997 at 12 per cent.

Net interest income in 1998 remained in line with 1997. Strong growth in the Middle East was more than offset by a sharp decrease elsewhere due to the adverse effect of increased levels of suspended interest, particularly in Indonesia and Thailand. The increase in the Middle East was driven by increased corporate and personal lending in the United Arab Emirates, together with growth in high-yield personal lending in Qatar and in hire purchase lending by the Middle East Finance Company.

In 1998, other operating income was in line with 1997. Dealing profits were higher than 1997, as the turmoil in Asia-Pacific currencies continued through the first half of 1998 and wide margins and high volumes in customer-driven business continued to underpin foreign exchange revenues. However, fee income fell as increased fee income in the Middle East from trade finance related activities and personal loan and card products was more than offset by a reduction in fee and commission income elsewhere due to depressed market conditions.

Operating costs decreased by US$25 million, or 2 per cent, in 1998 compared with 1997. The increase in operating costs in the Middle East, mainly due to an investment in additional staff resources in target growth areas, was more than offset by administrative cost savings elsewhere in the region.

Provisions for bad and doubtful debts rose by US$604 million in 1998 compared with 1997 reflecting the deterioration in credit quality due to the poor economic environment in many Asian countries. In particular, new specific provisions increased by US$343 million in Indonesia, by US$269 million in Malaysia and by US$162 million in Thailand. Speculative attacks on regional currencies undermined business confidence and falling asset values together with reduced liquidity exacerbated difficulties for many of HSBC's commercial relationships in the region. In addition, it had been market practice in some countries, in particular Indonesia and Thailand, to lend in foreign currencies to customers who did not have a hedge in place and this contributed to problems with a number of accounts. Lending guidelines have been revised to further restrict lending of this type. Total non-performing loans in the region increased to US$3,035 million in 1998 from US$1,257 million in 1997.

The charge for provisions for contingent liabilities and commitments was US$25 million higher in 1998 than in 1997 and primarily related to customer guarantees in Indonesia and Thailand.

Income from associated undertakings increased by US$17 million, or 23 per cent, in 1998 compared with 1997. The Saudi British Bank reported higher profits despite a decline in oil prices. This was primarily due to improved net interest income and higher returns from banking services and foreign exchange trading.

Year ended 31 December 1997 compared with year ended 31 December 1996

The currency turmoil which started in Thailand in mid-1997 changed the outlook for the rest of Asia-Pacific's growth prospects. The resulting decline in stock and property markets adversely affected the region's economies. High domestic interest rates in many countries, combined with reduced government spending, dampened domestic consumption and declining investment expenditure, led to a slowdown in economic growth throughout the region in the second half of the year. Despite difficulties in the rest of the region, China's GDP grew by 8.8 per cent in 1997 with inflation at 2.8 per cent. The Gulf States, except Qatar, experienced slower GDP growth due to weaker oil prices. Qatar remained buoyant as developments in the gas sector stimulated growth and offset the impact of falling oil prices.

The region contributed 8 per cent, or US$651 million, of HSBC's profit before tax in 1997 compared with 16 per cent in 1996. The proportion of HSBC assets in the Rest of Asia-Pacific in 1997 was broadly in line with 1996 at 12 per cent.

Net interest income increased 15 per cent, or US$167 million, in 1997 compared with 1996 primarily as a result of the strong growth in interest-earning assets across the region. Interest margins also rose in the rest of Asia-Pacific operations of The

Hongkong and Shanghai Banking Corporation Limited due mainly to higher spreads on customer lending, as liquidity tightened in the second half of the year. The asset and liability mix also improved and treasury earnings increased. In Malaysia, the net interest margin decreased in the face of considerable pressure on the Malaysian ringgit and a reduced contribution was made from lower levels of net free funds.

Other operating income was US$1,012 million in 1997, an increase of US$168 million, or 20 per cent, compared with 1996. Fees and commissions increased as fees from securities, cards and credit facilities showed good growth. Foreign exchange profits increased as the volatility in certain Asian currencies led to increased customer business and wider spreads.

Operating expenses were US$196 million, or 22 per cent, higher in 1997 compared with 1996. HSBC's expansion in the rest of Asia-Pacific region was reflected in higher staff numbers, notably in Australia, Brunei Darussalam, mainland China, India, Indonesia, Malaysia, the Philippines, Singapore, Sri Lanka, Thailand and Taiwan, and resulted in an increase in operating expenses.

Provisions for bad and doubtful debts increased to US$615 million in 1997 from US$30 million in the previous year due largely to a special general provision of US$290 million taken in 1997 reflecting the deteriorating economic environment in the region. The special general provision increased provisions against exposure to non-financial corporates and personal borrowers principally in Indonesia, Korea, Malaysia and Thailand to a level that reflected HSBC's perception of the credit losses inherent in the portfolio taking into account the uncertain economic environment. In particular, contracting exports, reduced liquidity and a significant fall in asset values meant that the proportion of borrowers in the loan portfolio which would incur liquidity or solvency problems, leading to an inability to repay all or part of their obligations, increased significantly. However, at 31 December 1997, it was too early in the economic cycle to identify all the specific relationships that were impaired.

Income from associated undertakings increased by US$19 million, or 35 per cent, in 1997 compared with 1996. The Saudi British Bank reported good profit growth in an increasingly competitive environment. The bank focused on improving services to high net-worth individuals and increased its loan portfolio, partly as a result of advertising its personal instalment loan. The British Arab Commercial Bank Limited also recorded satisfactory profit growth.

North America

	Year ended 31 December		
Figures in US$ millions	**1998#**	1997	1996
Net interest income	**1,618**	1,649	1,422
Other operating income	**871**	722	608
Operating income	**2,489**	2,371	2,030
Operating expenses	**(1,424)**	(1,360)	(1,206)
Operating profit before provisions	**1,065**	1,011	824
Provisions for bad and doubtful debts	**(109)**	(79)	(55)
Provisions for contingent liabilities and commitments	**(10)**	(6)	2
Amounts written off fixed asset investments	**—**	—	1
Operating profit	**946**	926	772
Income from associated undertakings	**2**	—	2
Gains on disposal of investments and tangible fixed assets	**39**	24	18
Profit on ordinary activities before tax	**987**	950	792
Cost:income ratio (per cent)	**57.2**	57.4	59.4

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

Year ended 31 December 1998 compared with year ended 31 December 1997

While economic growth in the United States in 1998 was robust at 3.9 per cent with inflation at 1.6 per cent, the New York State economy continued to lag the country as a whole, particularly in job creation. The real estate market, both residential and commercial, remained generally strong.

The Canadian economy's fundamentals remained strong in 1998 with GDP growth of 3.0 per cent, unemployment improving to 8.0 per cent and inflation at 1.0 per cent. The Canadian dollar lost significant ground in the year against the US dollar in part as a result of continued low commodity prices.

North America's contribution to HSBC's profit before tax increased to US$987 million, or 15 per cent, in 1998 compared with 12 per cent in 1997. The proportion of HSBC's total assets in North America at 31 December 1998 declined to 13 per cent, compared with 15 per cent in 1997, mainly due to reduced financial market transactions and the disposal of two national credit card portfolios.

Net interest income decreased by US$31 million, or 2 per cent, in 1998 compared with 1997. Interest-earning assets increased as a result of growth in commercial lending and the acquisition of National Westminster Bank Canada. The benefit of the increase in interest-earning assets was, however, more than offset by lower spreads reflecting competitive pressures, a flat yield curve in the United States and lower recoveries of interest from non-performing loans in 1998.

Other operating income increased by US$149 million, or 21 per cent, to US$871 million in 1998 compared with 1997. The increase reflected higher levels of core fee income in most categories, together with growth in the investment businesses, which yielded increased brokerage commissions and mutual fund fees, and higher trading income. HSBC Americas, Inc. benefited from US$28 million gains on the sale of credit card portfolios and a US$33 million settlement with the US Internal Revenue Service regarding Brazilian tax credits disallowed in the 1980s.

Operating costs increased by US$64 million, or 5 per cent, in 1998 compared with 1997. Canada increased its cost base due to acquisitions and increased investment in new businesses and delivery channels, such as telephone banking. Adjusting for the impact of the inclusion of fourteen months' expenses due to the change in financial year end from 31 October to 31 December in Canada, operating expenses in North America remained broadly unchanged compared with 1997.

The bad debt charge increased by US$30 million to US$109 million in 1998 due largely to higher general provision levels in HSBC Bank Canada reflecting current economic decline in certain provinces. HSBC Bank Canada has a high concentration of exposure in British Columbia. Low prices in wood products, gold and other metals and minerals, the key industries of this province, caused deterioration in credit quality although provisions for specific relationships had not been identified at the year end. Specific provisions in 1998 were broadly in line with 1997.

Year ended 31 December 1997 compared with year ended 31 December 1996

Economic growth in the United States was strong in 1997 at 3.9 per cent with inflation at 2.3 per cent. The economy in New York State, where most of HSBC's US operations are concentrated, grew more slowly than in the nation as a whole.

The Canadian economy achieved growth of 3.8 per cent in 1997, with inflation remaining at 1.6 per cent. Interest rates declined and unemployment fell to 9.2 per cent.

North America's contribution to HSBC's operating profit before tax in 1997 was US$950 million, or 12 per cent, representing an increase of 20 per cent over 1996. The proportion of HSBC's total assets in North America remained at 15 per cent.

Net interest income grew by US$227 million, or 16 per cent, in 1997 compared with 1996, mainly in the United States. Average interest-earning assets increased as a result of the acquisition of First Federal Savings and Loan Association of Rochester and growth in the core consumer and commercial lending portfolios. Margins in 1997 were lower when compared with 1996 as a result of changes in the asset and liability mix. In Canada, net interest income was slightly higher in 1997 compared with 1996, due to the growth in the commercial loan and residential mortgage portfolios, the effect of which was only partly offset by margins falling in response to competitive pressures.

Other operating income increased by US$114 million or 19 per cent in 1997 compared with 1996. In HSBC Americas, Inc., core fees increased in most areas, particularly branch and deposit services and trade finance, mortgage and investment services. These increases resulted from both improved product marketing and acquisitions in 1997. A smaller increase in Canada mainly reflected the expansion of financial services offered by the bank in corporate finance, retail brokerage and mutual fund transactions.

Operating costs increased by US$154 million, or 13 per cent, in 1997 compared with 1996, primarily due to acquisitions effected in 1997 and related integration expenses. Continued tight cost control elsewhere resulted in a slight improvement of the cost:income ratio in 1997 compared with 1996.

The charge for bad debts increased from US$55 million in 1996 to US$79 million in 1997 mainly due to a significant increase in credit card portfolio provisions in HSBC Americas, Inc. in line with general industry experience in the United States.

Latin America

	Year ended 31 December		
Figures in US$ millions	1998#	1997#	1996
Net interest income	1,195	742	1
Other operating income	912	608	8
Operating income	2,107	1,350	9
Operating expenses	(1,711)	(1,201)	(2)
Operating profit before provisions	396	149	7
Provisions for bad and doubtful debts	(193)	(28)	—
Provisions for contingent liabilities and commitments	(1)	(4)	—
Amounts written off fixed asset investments	(1)	(18)	—
Operating profit	201	99	7
Income from associated undertakings	20	(7)	9
Gains/(losses) on disposal of investments and tangible fixed assets	13	(10)	—
Profit on ordinary activities before tax	234	82	16
Cost:income ratio (per cent)	81.2	89.0	22.2

\# Banco HSBC Bamerindus was established in March 1997 and HSBC Roberts was acquired in August 1997. 1998 is, therefore, the first year to reflect a full year contribution from each of these businesses.

Year ended 31 December 1998 compared with year ended 31 December 1997

The Brazilian economy, impacted by emerging market sentiment following the turmoil in Asia, was unsettled during the year and suffered from high interest rates. The Argentinian economy was also impacted by the unsettled international markets.

HSBC made further progress in 1998 in building its business in Brazil, continuing to focus on developing and distributing personal wealth products. HSBC continued to rationalise the Banco HSBC Bamerindus's infrastructure and centralise back-office functions, which included a US$25 million investment in a back-up site for data processing operations.

HSBC Roberts focused in 1998 on introducing HSBC standards across the business and in all operational areas, installing the HSBC treasury system in the fourth quarter; implementing a communications policy; and investing further in staff training. Work also began on consolidating the product range, client base and management skills in order to create a highly competitive financial services business.

The increase in profit on ordinary activities before tax for 1998 compared with 1997 reflected primarily a full year's contribution from Brazil.

Net interest income of US$1,195 million in 1998 was US$453 million higher than 1997. On an annualised basis, higher net interest income was generated in Brazil as its balance sheet remained liquid and, in Argentina, from growth in customer deposits and assets, together with a widening of spreads.

Other operating income increased by US$304 million to US$912 million in 1998. On an annualised basis, income from the Brazilian insurance business grew. The insurance business achieved a combined ratio (i.e. the ratio of claims and direct expenses to premium income) of 104 per cent in 1998 compared with 113 per cent in 1997 following a critical review of underwriting practices and a tight cost control policy.

Operating costs rose by US$510 million in 1998 compared with 1997. In Brazil, annualised costs were higher reflecting one-off redundancy costs and the levying of higher transactional taxes by the Government.

The provision for bad and doubtful debts in Brazil rose as interest rates increased sharply, reflecting investor concern with regard to all emerging markets. Recognising that continuing high interest rates affected credit quality, Banco HSBC Bamerindus took a general provision charge of 1.5 per cent above and beyond specific product provisioning on the whole commercial loan book. In Argentina, HSBC Roberts increased its provision for bad and doubtful debts, in response to the economic downturn and the impact of structural adjustment on the economy.

Funds under management in Brazil increased to US$3.9 billion in 1998, 22 per cent higher than in 1997. Several funds performed extremely well, with some of them receiving industry awards in recognition.

Year ended 31 December 1997 compared with year ended 31 December 1996

In 1997, Latin America enjoyed its best economic performance for two decades, with growth for the region averaging 5.5 per cent, although the knock-on effect in 1998 of the turbulence in Asia was foreseen. Inflation for the region as a whole averaged 11 per cent.

In the first half of 1997, HSBC embarked on an ambitious expansion programme in Latin America to capitalise on growing intra-regional and international trade flows. In March 1997, Banco Bamerindus do Brasil S.A. was subject to intervention by the Central Bank of Brazil. HSBC Holdings established a new subsidiary, Banco HSBC Bamerindus S.A., which assumed selected assets, liabilities and subsidiaries of the intervened bank. Assets assumed included the second-largest private branch network in Brazil, a significant insurance business and leasing and securities businesses.

In Argentina, HSBC acquired the Roberts Group, in which it previously held a minority banking interest, in August 1997 and renamed it HSBC Roberts. HSBC Roberts made a pre-tax profit of US$10 million for the period of trading after acquisition.

The growth in income and expense categories for 1997 compared with 1996 reflected the first periods of contribution from the subsidiaries in Argentina and Brazil. In 1996, the pre-tax profit of US$16 million was primarily driven by income from HSBC's initial stake in the Roberts Group and income from other smaller equity investments in the area.

Net interest income of US$742 million in 1997 reflected the highly liquid balance sheet in Brazil. The charge for bad and doubtful debts arose primarily in Argentina. In Brazil, assets which became non-performing could be put back to the interventor with good value until 26 March 1998.

The first nine months of operation of Banco HSBC Bamerindus were spent stabilising the business, moving the control environment towards HSBC standards and completing the process of due diligence on assets acquired. Despite this internal focus, the operation generated a pre-tax profit of US$58 million in 1997 and attracted nearly 1.5 million new customer accounts, with deposit growth of more than 50 per cent.

HSBC also acquired 10 per cent of Banco del Sur del Peru and raised its equity investment in Banco Santiago in Chile to 6.99 per cent. These investments yielded a small amount of dividend income in 1997. In addition, HSBC acquired a 19.9 per cent stake in Grupo Financiero Serfin of Mexico, whose principal banking subsidiary, Banca Serfin S.A., is that country's third-largest bank.

HSBC Investment Banking

	Year ended 31 December		
Figures in US$ millions	1998	1997	1996
Net interest income	**270**	235	191
Fees and commissions (net)	**1,199**	1,255	933
Trading income*	**63**	(38)	82
Other income**	**217**	297	303
Operating income	**1,749**	1,749	1,509
Operating expenses	**(1,340)**	(1,379)	(1,103)
Operating profit before provisions	**409**	370	406
Provisions for bad and doubtful debts	**(17)**	(1)	(9)
Other	**(11)**	28	68
Profit on ordinary activities before tax	**381**	397	465
Segmental analysis of pre-tax profit:			
Asset Management	**40**	69	67
Private Banking & Trustee***	**172**	145	135
Other	**169**	183	263
Total	**381**	397	465
Cost:income ratio (per cent)	**76.6**	78.8	73.1

* 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 36.

** Includes profit on disposal of venture capital investments of US$95 million in 1998, US$175 million in 1997 and US$127 million in 1996, which were included in gains on disposal of fixed assets and investments at the HSBC level.

*** This category includes most of HSBC's Private Banking and Trustee business but does not include all on-shore Private Banking activities.

Year ended 31 December 1998 compared with year ended 31 December 1997

Investment banking contributed US$381 million, or 6 per cent, to HSBC's profit on ordinary activities before tax in 1998. Profit on ordinary activities before tax was 4 per cent lower in 1998 compared with 1997.

Net interest income increased by US$35 million, or 15 per cent, in 1998 compared with 1997, reflecting strong customer deposit growth and improved margins in the Private Banking and Trustee businesses in both Europe and Asia.

Net fees and commissions decreased by US$56 million in 1998 compared with 1997, mainly as a result of economic turmoil in Asia that led to lower equity commissions and fund management fees. This decrease was partly offset by strong growth in new issue advisory fees and equity commissions in Europe.

Trading income increased by US$101 million in 1998 due primarily to the non-recurrence of a substantial loss incurred in 1997 on an underwriting transaction in Hong Kong.

Other income was US$80 million lower in 1998 compared with 1997, principally in HSBC Private Equity, which benefited in 1997 from a one-off gain of US$119 million on a single transaction.

Operating expenses in 1998 were US$39 million, or 3 per cent, lower than in 1997, reflecting the continued focus on cost management and decreased staff costs reflecting lower profit-related bonus provisions.

Year ended 31 December 1997 compared with year ended 31 December 1996

Investment banking contributed US$397 million, or 5 per cent, to HSBC's profit on ordinary activities before tax in 1997. Profit on ordinary activities before tax was 15 per cent lower in 1997 compared with 1996.

Net interest income increased by US$44 million, or 23 per cent in 1997, compared with 1996, reflecting increased customer business in Private Banking and specialised financing.

Net fees and commissions increased by US$322 million, or 35 per cent, in 1997 compared with 1996, reflecting higher equity commissions in most key markets and higher fee income resulting from business growth in the Asian and European corporate finance, advisory and structured finance businesses.

Trading income showed a net loss of US$38 million due to losses on a few positions in Asia and, in particular, an equity underwriting loss in Hong Kong. Excluding losses on these positions, which were undertaken in the normal course of business, trading performance was good.

Other income decreased by US$6 million in 1997 compared with 1996. Higher profits on disposal of investments by HSBC Private Equity in 1997 were offset by lower dividend income and reduced income from Commercial Banking.

Operating expenses in 1997 were US$276 million, or 25 per cent, higher than in 1996. Staff costs increased due to increased headcount in the advisory activities and asset management business and profit-related staff payments.

Profit on ordinary activities before tax in 1997 declined largely due to the non-recurrence of a profit of US$59 million on the disposal of shares in an associated company in 1996.

UK GAAP compared with US GAAP

Under US GAAP, HSBC's net income was US$3,934 million in 1998 and US$5,306 million in 1997, compared with US$4,318 million in 1998 and US$5,487 million in 1997 under UK GAAP. Under US GAAP, shareholders' equity was US$30,351 million in 1998 and US$28,240 million in 1997, compared with US$27,402 million in 1998 and US$27,080 million in 1997 under UK GAAP. Differences result from the different treatment of lease financing, debt swaps, shareholders' interest in long-term assurance fund, pension costs, stock-based compensation, goodwill, revaluation of property, purchase accounting adjustments, fair value adjustment for securities available for sale, dividends payable and deferred taxation. See Note 45 of the 'Notes on the Financial Statements'.

Average balance sheet and net interest income

Average balances and the related interest are shown for the domestic operations of HSBC's principal commercial banks by geographic region with all other commercial banking and investment banking balances and transactions included in 'Other operations'. Additional information on the basis of preparation is set out in the notes on page 57.

		Year ended 31 December 1998			Year ended 31 December 1997			Year ended 31 December 1996		
		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
Assets		US$m	US$m	%	US$m	US$m	%	US$m	US$m	%
Short-term funds and loans to banks										
Europe	Midland	17,374	1,109	6.38	15,237	922	6.05	12,755	603	4.73
Hong Kong	Hang Seng Bank	16,982	1,210	7.13	14,921	922	6.18	15,650	920	5.88
	The Hongkong and Shanghai Banking Corporation Limited.	20,804	1,479	7.11	19,641	1,198	6.10	14,860	824	5.55
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	6,992	477	6.82	5,445	355	6.52	3,555	233	6.55
	HSBC Bank Malaysia Berhad	401	31	7.73	316	26	8.23	764	52	6.81
	HSBC Bank Middle East	1,356	75	5.53	1,035	57	5.51	1,221	78	6.39
North America	HSBC Americas, Inc.	3,592	206	5.73	2,144	121	5.64	1,713	95	5.55
	HSBC Bank Canada (i)	1,150	76	5.66	1,027	63	6.13	1,019	54	5.30
	HSBC Markets Inc.	3,176	202	6.36	4,876	234	4.80	1,144	58	5.07
Latin America	Banco HSBC Bamerindus	2,521	510	20.23	1,735	373	21.50	—	—	—
Other operations		14,016	943	6.73	12,590	747	5.93	12,307	701	5.70
		88,364	6,318	7.15	78,967	5,018	6.35	64,988	3,618	5.57
Loans and advances to customers										
Europe	Midland	81,911	6,685	8.16	70,415	5,473	7.77	61,564	4,691	7.62
Hong Kong	Hang Seng Bank	26,351	2,534	9.62	24,162	2,149	8.89	19,606	1,746	8.91
	The Hongkong and Shanghai Banking Corporation Limited.	42,643	3,894	9.13	38,760	3,367	8.69	30,779	2,705	8.79
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	22,083	1,690	7.65	22,494	1,680	7.47	19,026	1,418	7.45
	HSBC Bank Malaysia Berhad	4,003	426	10.64	4,735	489	10.33	4,699	455	9.68
	HSBC Bank Middle East	4,394	416	9.47	3,658	340	9.29	2,782	259	9.31
North America	HSBC Americas, Inc.	21,776	1,789	8.22	20,107	1,718	8.54	14,302	1,278	8.94
	HSBC Bank Canada (i)	12,153	1,176	8.29	11,533	779	6.75	10,754	819	7.62
	HSBC Markets Inc.	5,604	475	8.48	6,475	556	8.59	8,695	537	6.18
Latin America	Banco HSBC Bamerindus	2,463	802	32.56	2,534	806	31.81	—	—	—
Other operations		17,451	1,535	8.80	18,229	1,422	7.80	16,552	1,045	6.31
		240,832	21,422	8.89	223,102	18,779	8.42	188,759	14,953	7.92

Assets (continued)		Year ended 31 December 1998 Average balance US$m	Interest income US$m	Yield %	Year ended 31 December 1997 Average balance US$m	Interest income US$m	Yield %	Year ended 31 December 1996 Average balance US$m	Interest income US$m	Yield %
Trading securities										
Europe	Midland	24,343	1,481	6.08	19,835	1,197	6.03	15,538	984	6.33
Hong Kong	Hang Seng Bank	87	7	8.05	189	11	5.82	655	38	5.80
	The Hongkong and Shanghai Banking Corporation Limited.	1,857	151	8.13	1,547	99	6.40	2,430	144	5.93
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	823	84	10.21	948	76	8.02	2,307	165	7.15
	HSBC Bank Malaysia Berhad	50	4	8.00	18	2	11.11	—	—	—
North America	HSBC Americas, Inc.	849	51	6.01	977	59	6.04	845	51	6.04
	HSBC Bank Canada (i)	85	6	6.05	153	6	3.92	—	—	—
	HSBC Markets Inc.	3,183	221	6.94	5,861	304	5.19	3,130	146	4.66
Latin America	Banco HSBC Bamerindus	315	81	25.71	173	36	20.81	—	—	—
Other operations		2,904	237	8.16	4,266	238	5.58	3,950	219	5.54
		34,496	2,323	6.73	33,967	2,028	5.97	28,855	1,747	6.05
Investment securities										
Europe	Midland	8,268	559	6.76	6,308	513	8.13	6,337	364	5.74
Hong Kong	Hang Seng Bank	4,620	307	6.65	5,418	315	5.81	4,461	268	6.01
	The Hongkong and Shanghai Banking Corporation Limited.	7,391	439	5.94	4,402	259	5.88	4,106	251	6.11
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	2,280	211	9.25	3,070	205	6.68	2,975	205	6.89
	HSBC Bank Malaysia Berhad	714	60	8.40	999	67	6.71	264	18	6.82
	HSBC Bank Middle East	518	51	9.85	562	55	9.79	139	15	10.79
North America	HSBC Americas, Inc.	4,429	266	6.01	4,083	251	6.15	2,996	176	5.87
	HSBC Bank Canada (i)	2,503	168	5.75	2,213	123	5.56	2,192	134	6.11
	HSBC Markets Inc.	14	1	7.14	14	1	7.14	13	1	7.69
Latin America	Banco HSBC Bamerindus	3,940	1,003	25.46	2,524	516	20.44	—	—	—
Other operations		7,214	444	6.15	8,908	409	4.59	7,600	486	6.39
		41,891	3,509	8.38	38,501	2,714	7.05	31,083	1,918	6.17

Assets (continued)		1998 Average balance US$m	1998 Interest income US$m	1998 Yield %	1997 Average balance US$m	1997 Interest income US$m	1997 Yield %	1996 Average balance US$m	1996 Interest income US$m	1996 Yield %
		Year ended 31 December 1998			Year ended 31 December 1997			Year ended 31 December 1996		
Other interest-earning assets										
Europe	Midland	6,338	365	5.76	8,151	355	4.36	6,418	247	3.85
Hong Kong	Hang Seng Bank	1,523	106	6.96	1,785	121	6.78	2,251	148	6.57
	The Hongkong and Shanghai Banking Corporation Limited	6,926	401	5.79	5,632	370	6.57	4,667	286	6.13
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	3,347	170	5.08	1,459	122	8.36	1,459	99	6.79
	HSBC Bank Malaysia Berhad	69	1	1.45	28	1	3.57	43	2	4.65
	HSBC Bank Middle East	656	42	6.40	724	47	6.49	826	48	5.81
North America	HSBC Americas, Inc.	203	10	4.93	82	4	4.88	94	5	5.32
	HSBC Markets Inc.	732	53	7.24	1,409	53	3.76	635	33	5.20
Latin America	Banco HSBC Bamerindus	192	24	12.50	227	22	9.69	—	—	—
Other operations		(19,621)	(1,124)	5.73	(17,726)	(963)	5.43	(15,131)	(782)	5.17
		365	48	13.15	1,771	132	7.45	1,262	86	6.81
Total interest-earning assets										
Europe	Midland	138,234	10,199	7.38	119,946	8,460	7.05	102,612	6,889	6.71
Hong Kong	Hang Seng Bank	49,563	4,164	8.40	46,475	3,518	7.57	42,623	3,120	7.32
	The Hongkong and Shanghai Banking Corporation Limited	79,621	6,364	7.99	69,982	5,293	7.56	56,842	4,210	7.41
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	35,525	2,632	7.41	33,416	2,438	7.30	29,322	2,120	7.23
	HSBC Bank Malaysia Berhad	5,237	522	9.97	6,096	585	9.60	5,770	527	9.13
	HSBC Bank Middle East	6,924	584	8.43	5,979	499	8.35	4,968	400	8.05
North America	HSBC Americas, Inc.	30,849	2,322	7.53	27,393	2,153	7.86	19,950	1,605	8.05
	HSBC Bank Canada (i)	15,891	1,426	7.69	14,926	971	6.51	13,965	1,007	7.21
	HSBC Markets Inc.	12,709	952	7.49	18,635	1,148	6.16	13,617	775	5.69
Latin America	Banco HSBC Bamerindus	9,431	2,420	25.66	7,193	1,753	24.37	—	—	—
Other operations		21,964	2,035	9.27	26,267	1,853	7.05	25,278	1,669	6.60
		405,948	33,620	8.28	376,308	28,671	7.62	314,947	22,322	7.09
Summary										
Total interest-earning assets		405,948	33,620	8.28	376,308	28,671	7.62	314,947	22,322	7.09
Allowance for bad and doubtful debts		(5,603)			(4,782)			(4,786)		
Non interest-earning assets		85,814			73,310			61,323		
Total assets & interest income		486,159	33,620	6.92	444,836	28,671	6.45	371,484	22,322	6.01

		1998 %	1997 %	1996 %
		Year ended 31 December		
Assets (continued)				
Distribution of average total assets:				
Europe	Midland	**34.9**	33.6	34.4
Hong Kong	Hang Seng Bank	**10.9**	11.3	12.4
	The Hongkong and Shanghai Banking Corporation Limited.	**24.0**	22.7	19.3
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	**8.3**	8.7	8.8
	HSBC Bank Malaysia Berhad	**1.2**	1.6	1.8
	HSBC Bank Middle East	**1.5**	1.6	1.5
North America	HSBC Americas, Inc.	**6.9**	6.6	5.7
	HSBC Bank Canada (i)	**3.5**	3.7	3.8
	HSBC Markets Inc.	**4.8**	5.2	3.8
Latin America	Banco HSBC Bamerindus	**2.4**	2.1	—
Other operations (including consolidation adjustments)		**1.6**	2.9	8.5
		100.0	100.0	100.0

Liabilities and shareholders' funds		Year ended 31 December 1998 Average balance US$m	Interest expense US$m	Cost %	Year ended 31 December 1997 Average balance US$m	Interest expense US$m	Cost %	Year ended 31 December 1996 Average balance US$m	Interest expense US$m	Cost %
Deposits#										
Europe	Midland	101,138	5,230	5.17	90,698	4,000	4.41	74,947	3,217	4.29
Hong Kong	Hang Seng Bank	42,411	2,598	6.13	40,082	2,048	5.11	36,928	1,767	4.78
	The Hongkong and Shanghai Banking Corporation Limited.	63,973	3,804	5.95	56,553	2,877	5.09	46,149	2,072	4.49
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	23,277	1,302	5.59	21,350	1,089	5.10	18,184	935	5.14
	HSBC Bank Malaysia Berhad	3,921	281	7.17	4,520	309	6.84	4,112	252	6.13
	HSBC Bank Middle East	5,236	285	5.44	4,484	238	5.31	3,638	187	5.14
North America	HSBC Americas, Inc.	12,771	423	3.31	11,890	421	3.54	7,804	245	3.14
	HSBC Bank Canada (i)	12,345	858	5.96	12,067	527	4.37	11,579	571	4.93
	HSBC Markets Inc.	12,470	857	6.87	12,290	865	7.04	9,644	564	5.85
Latin America	Banco HSBC Bamerindus	7,684	1,357	17.66	5,488	934	17.02	—	—	—
Other operations		28,052	1,799	6.41	25,415	1,685	6.63	26,902	1,437	5.34
		313,278	18,794	6.00	284,837	14,993	5.26	239,887	11,247	4.69
CDs and other money market instruments#										
Europe	Midland	5,325	382	7.17	3,504	188	5.37	2,049	98	4.78
Hong Kong	Hang Seng Bank	1,140	96	8.42	275	21	7.64	343	22	6.41
	The Hongkong and Shanghai Banking Corporation Limited.	4,277	359	8.39	3,177	248	7.81	1,879	119	6.33
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	1,812	130	7.17	2,065	148	7.17	1,936	144	7.44
	HSBC Bank Malaysia Berhad	273	26	9.52	505	40	7.92	127	9	7.09
	HSBC Bank Middle East	40	3	7.50	—	—	—	132	8	6.06
North America	HSBC Americas, Inc.	9,059	488	5.39	7,836	411	5.25	5,955	297	4.99
	HSBC Bank Canada (i)	1,229	71	4.95	1,160	42	3.62	1,118	58	5.19
Latin America	Banco HSBC Bamerindus	—	—	—	150	15	10.00	—	—	—
Other operations		1,568	73	4.66	3,443	187	5.43	1,915	122	6.37
		24,723	1,628	6.58	22,115	1,300	5.88	15,454	877	5.67

\# Further analysis is given on pages 84 and 85 in respect of 1998 and 1997.

		Year ended 31 December 1998			Year ended 31 December 1997			Year ended 31 December 1996		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
Liabilities and shareholders' funds (continued)		**US$m**	**US$m**	**%**	US$m	US$m	%	US$m	US$m	%
Loan capital										
Europe	Midland	**9,110**	**651**	**7.15**	6,634	501	7.55	4,957	379	7.65
Hong Kong	The Hongkong and Shanghai Banking Corporation Limited	**1,777**	**115**	**6.47**	1,795	111	6.18	1,815	110	6.06
North America	HSBC Americas, Inc.	**1,438**	**93**	**6.47**	1,722	96	5.57	699	45	6.44
	HSBC Bank Canada (i)	**746**	**59**	**6.78**	204	13	6.37	95	6	6.32
Latin America	Banco HSBC Bamerindus	**159**	**49**	**30.82**	366	64	17.49	—	—	—
Other operations		**3,572**	**254**	**7.11**	3,057	235	7.69	3,263	224	6.86
		16,802	**1,221**	**7.27**	13,778	1,020	7.40	10,829	764	7.06
Other interest-bearing liabilities										
Europe	Midland	**8,175**	**486**	**5.94**	6,585	596	9.05	7,750	387	4.99
Hong Kong	Hang Seng Bank	**115**	**5**	**4.35**	176	9	5.11	162	9	5.56
	The Hongkong and Shanghai Banking Corporation Limited	**3,397**	**168**	**4.95**	2,709	114	4.21	2,354	162	6.88
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**7,289**	**448**	**6.15**	6,910	440	6.37	7,297	408	5.59
	HSBC Bank Malaysia Berhad	**381**	**24**	**6.30**	219	12	5.48	448	34	7.59
	HSBC Bank Middle East	**235**	**16**	**6.81**	376	27	7.18	152	15	9.87
North America	HSBC Americas, Inc.	**3,115**	**163**	**5.23**	1,132	62	5.48	1,158	63	5.44
	HSBC Bank Canada (i)	**471**	**28**	**5.10**	359	31	8.64	304	21	6.91
	HSBC Markets Inc.	**6,028**	**242**	**4.01**	6,024	276	4.58	3,819	202	5.29
Latin America	Banco HSBC Bamerindus	**376**	**30**	**7.98**	568	66	11.62	—	—	—
Other operations		**(18,912)**	**(1,180)**	**6.24**	(15,128)	(1,219)	8.06	(16,239)	(959)	5.91
		10,670	**430**	**4.03**	9,930	414	4.17	7,205	342	4.75

Liabilities and shareholders' funds (continued)		Year ended 31 December 1998 Average balance US$m	Interest expense US$m	Cost %	Year ended 31 December 1997 Average balance US$m	Interest expense US$m	Cost %	Year ended 31 December 1996 Average balance US$m	Interest expense US$m	Cost %
Total interest-bearing liabilities										
Europe	Midland	123,748	6,749	5.45	107,421	5,285	4.92	89,703	4,081	4.55
Hong Kong	Hang Seng Bank	43,666	2,699	6.18	40,533	2,078	5.13	37,433	1,798	4.80
	The Hongkong and Shanghai Banking Corporation Limited	73,424	4,446	6.06	64,234	3,350	5.22	52,197	2,463	4.72
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	32,378	1,880	5.81	30,325	1,677	5.53	27,417	1,487	5.42
	HSBC Bank Malaysia Berhad	4,575	331	7.23	5,244	361	6.88	4,687	295	6.29
	HSBC Bank Middle East	5,511	304	5.52	4,860	265	5.45	3,922	210	5.35
North America	HSBC Americas, Inc.	26,383	1,167	4.42	22,580	990	4.38	15,616	650	4.16
	HSBC Bank Canada (i)	14,791	1,016	5.89	13,790	613	4.45	13,096	656	5.01
	HSBC Markets Inc.	18,498	1,099	5.94	18,314	1,141	6.23	13,463	766	5.69
Latin America	Banco HSBC Bamerindus	8,219	1,436	17.47	6,572	1,079	16.42	—	—	—
Other operations		14,280	946	6.62	16,787	888	5.29	15,841	824	5.20
		365,473	22,073	6.04	330,660	17,727	5.36	273,375	13,230	4.84
Total interest-bearing liabilities		365,473	22,073	6.04	330,660	17,727	5.36	273,375	13,230	4.84
Non interest-bearing current accounts		22,030			22,655			22,211		
Shareholders' funds & other non interest-bearing liabilities		98,656			91,521			75,898		
Total liabilities & interest expense		486,159	22,073	4.54	444,836	17,727	3.99	371,484	13,230	3.56

Net interest margin		1998 %	1997 %	1996 %
		Year ended 31 December		
Europe	Midland	**2.50**	2.65	2.74
Hong Kong	Hang Seng Bank	**2.96**	3.10	3.10
	The Hongkong and Shanghai Banking Corporation Limited.	**2.41**	2.78	3.07
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited.	**2.12**	2.28	2.16
	HSBC Bank Malaysia Berhad	**3.65**	3.67	4.02
	HSBC Bank Middle East	**4.05**	3.91	3.82
North America	HSBC Americas, Inc.	**3.74**	4.25	4.79
	HSBC Bank Canada (i)	**2.21**	2.40	2.51
	HSBC Markets Inc.	**(1.16)**	0.04	0.07
Latin America	Banco HSBC Bamerindus	**10.43**	9.37	n/a
Other operations		**4.96**	3.67	3.34
HSBC margin		**2.84**	2.91	2.89

Notes

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

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

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

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

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

Analysis of changes in net interest income

The following table allocates changes in net interest income between volume and rate for 1998 compared with 1997, and for 1997 compared with 1996. Changes due to a combination of volume and rate are allocated to rate.

			1998 compared with 1997 Increase/(decrease)			1997 compared with 1996 Increase/(decrease)		
Interest income		1998 US\$m	Volume US\$m	Rate US\$m	1997 US\$m	Volume US\$m	Rate US\$m	1996 US\$m
Short-term funds and loans to banks								
Europe	Midland	1,109	129	58	922	117	202	603
Hong Kong	Hang Seng Bank	1,210	127	161	922	(43)	45	920
	The Hongkong and Shanghai Banking Corporation Limited	1,479	71	210	1,198	265	109	824
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	477	101	21	355	124	(2)	233
	HSBC Bank Malaysia Berhad	31	7	(2)	26	(30)	4	52
	HSBC Bank Middle East	75	18	—	57	(12)	(9)	78
North America	HSBC Americas, Inc.	206	82	3	121	24	2	95
	HSBC Bank Canada	76	8	5	63	—	9	54
	HSBC Markets Inc.	202	(82)	50	234	189	(13)	58
Latin America	Banco HSBC Bamerindus	510	169	(32)	373	373	—	—
Other operations		943	85	111	747	16	30	701
		6,318	597	703	5,018	778	622	3,618
Loans and advances to customers								
Europe	Midland	6,685	894	318	5,473	674	108	4,691
Hong Kong	Hang Seng Bank	2,534	195	190	2,149	406	(3)	1,746
	The Hongkong and Shanghai Banking Corporation Limited	3,894	337	190	3,367	701	(39)	2,705
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	1,690	(31)	41	1,680	258	4	1,418
	HSBC Bank Malaysia Berhad	426	(76)	13	489	3	31	455
	HSBC Bank Middle East	416	68	8	340	82	(1)	259
North America	HSBC Americas, Inc.	1,789	143	(72)	1,718	519	(79)	1,278
	HSBC Bank Canada	1,176	42	355	779	59	(99)	819
	HSBC Markets Inc.	475	(75)	(6)	556	(137)	156	537
Latin America	Banco HSBC Bamerindus	802	(23)	19	806	806	—	—
Other operations		1,535	(61)	174	1,422	106	271	1,045
		21,422	1,492	1,151	18,779	2,720	1,106	14,953

Interest income (continued) *Trading securities*		1998 compared with 1997 Increase/(decrease) 1998 US$m	Volume US$m	Rate US$m	1997 compared with 1996 Increase/(decrease) 1997 US$m	Volume US$m	Rate US$m	1996 US$m
Europe	Midland	**1,481**	**272**	**12**	1,197	272	(59)	984
Hong Kong	Hang Seng Bank	**7**	**(6)**	**2**	11	(27)	—	38
	The Hongkong and Shanghai Banking Corporation Limited	**151**	**20**	**32**	99	(52)	7	144
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**84**	**(10)**	**18**	76	(97)	8	165
	HSBC Bank Malaysia Berhad	**4**	**4**	**(2)**	2	2	—	—
North America	HSBC Americas, Inc.	**51**	**(8)**	**—**	59	8	—	51
	HSBC Bank Canada	**6**	**(3)**	**3**	6	6	—	—
	HSBC Markets Inc.	**221**	**(139)**	**56**	304	127	31	146
Latin America	Banco HSBC Bamerindus	**81**	**30**	**15**	36	36	—	—
Other operations		**237**	**(76)**	**75**	238	18	1	219
		2,323	**32**	**263**	2,028	310	(29)	1,747
Investment securities								
Europe	Midland	**559**	**159**	**(113)**	513	(2)	151	364
Hong Kong	Hang Seng Bank	**307**	**(46)**	**38**	315	57	(10)	268
	The Hongkong and Shanghai Banking Corporation Limited	**439**	**176**	**4**	259	18	(10)	251
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	**211**	**(53)**	**59**	205	7	(7)	205
	HSBC Bank Malaysia Berhad	**60**	**(19)**	**12**	67	50	(1)	18
	HSBC Bank Middle East	**51**	**(4)**	**—**	55	46	(6)	15
North America	HSBC Americas, Inc.	**266**	**21**	**(6)**	251	64	11	176
	HSBC Bank Canada	**168**	**16**	**29**	123	1	(12)	134
	HSBC Markets Inc.	**1**	**—**	**—**	1	—	—	1
Latin America	Banco HSBC Bamerindus	**1,003**	**289**	**198**	516	516	—	—
Other operations		**444**	**(78)**	**113**	409	84	(161)	486
		3,509	**239**	**556**	2,714	458	338	1,918

		1998 compared with 1997 Increase/(decrease)			1997 compared with 1996 Increase/(decrease)			
Interest expense		1998 US$m	Volume US$m	Rate US$m	1997 US$m	Volume US$m	Rate US$m	1996 US$m
Deposits								
Europe	Midland	5,230	460	770	4,000	676	107	3,217
Hong Kong	Hang Seng Bank	2,598	119	431	2,048	151	130	1,767
	The Hongkong and Shanghai Banking Corporation Limited	3,804	377	550	2,877	467	338	2,072
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	1,302	98	115	1,089	163	(9)	935
	HSBC Bank Malaysia Berhad	281	(41)	13	309	25	32	252
	HSBC Bank Middle East	285	40	7	238	43	8	187
North America	HSBC Americas, Inc.	423	31	(29)	421	128	48	245
	HSBC Bank Canada	858	12	319	527	24	(68)	571
	HSBC Markets Inc.	857	13	(21)	865	155	146	564
Latin America	Banco HSBC Bamerindus	1,357	374	49	934	934	—	—
Other operations		1,799	175	(61)	1,685	(79)	327	1,437
		18,794	1,497	2,304	14,993	2,107	1,639	11,247
CDs and other money market instruments								
Europe	Midland	382	98	96	188	70	20	98
Hong Kong	Hang Seng Bank	96	66	9	21	(4)	3	22
	The Hongkong and Shanghai Banking Corporation Limited	359	86	25	248	82	47	119
Rest of Asia-Pacific	The Hongkong and Shanghai Banking Corporation Limited	130	(18)	—	148	10	(6)	144
	HSBC Bank Malaysia Berhad	26	(18)	4	40	27	4	9
	HSBC Bank Middle East	3	3	—	—	(8)	—	8
North America	HSBC Americas, Inc.	488	64	13	411	94	20	297
	HSBC Bank Canada	71	2	27	42	2	(18)	58
Latin America	Banco HSBC Bamerindus	—	(15)	—	15	15	—	—
Other operations		73	(102)	(12)	187	97	(32)	122
		1,628	153	175	1,300	378	45	877
Loan capital								
Europe	Midland	651	187	(37)	501	128	(6)	379
Hong Kong	The Hongkong and Shanghai Banking Corporation Limited	115	(1)	5	111	(1)	2	110
North America	HSBC Americas, Inc.	93	(16)	13	96	66	(15)	45
	HSBC Bank Canada	59	35	11	13	7	—	6
Latin America	Banco HSBC Bamerindus	49	(36)	21	64	64	—	—
Other operations		254	40	(21)	235	(14)	25	224
		1,221	224	(23)	1,020	208	48	764

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 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.

Residential mortgages increased by US$2.2 billion during 1998 to US$62.2 billion and comprised 26 per cent of the overall loan portfolio at 31 December 1998. Residential mortgages in Europe increased by US$1.6 billion, reflecting further growth in Midland's domestic portfolio. Residential mortgage lending also increased in Hong Kong and the Rest of Asia-Pacific, although lending volumes declined in Hong Kong in the second half of 1998. These increases were partly offset by a US$0.8 billion decrease in North America as a result of prepayments. Additionally, residential mortgage loans made under the Hong Kong SAR Government Home Ownership Scheme increased by 36 per cent to US$6.3 billion, with strong growth in both the first and second halves of 1998.

Commercial lending decreased by US$9.1 billion in 1998. The commercial loan portfolio in Hong Kong and the rest of Asia-Pacific declined by US$6.1 billion, reflecting the background of economic contraction in many Asian countries. In addition, the commercial loan portfolio in North America declined by US$3.2 billion due primarily to reduced financial market transactions in 1998.

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 branch.

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

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans	Provisions for bad and doubtful debts
31 December 1998	US$m	US$m	US$m	US$m	US$m	US$m	%	US$m
Commercial:								
Commercial, industrial and international trade	28,224	10,952	13,189	6,444	2,602	61,411	25.3	(1,973)
Commercial real estate	6,418	9,420	3,601	4,615	62	24,116	9.9	(232)
Other property related	2,110	2,248	2,126	1,591	174	8,249	3.4	(194)
Non-bank financial institutions	4,638	2,259	1,527	3,238	101	11,763	4.9	(156)
Government	3,381	551	567	651	135	5,285	2.2	(141)
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	(967)
Total commercial	60,848	32,885	26,312	24,207	4,002	148,254	61.1	(3,663)
Personal:								
Residential mortgages	20,716	25,051	2,746	13,059	640	62,212	25.7	(156)
Hong Kong SAR Government Home Ownership Scheme	—	6,291	—	—	—	6,291	2.6	—
Other personal	12,000	4,257	3,322	5,265	888	25,732	10.6	(789)
Total personal	32,716	35,599	6,068	18,324	1,528	94,235	38.9	(945)
Total	93,564	68,484	32,380	42,531	5,530	242,489	100.0	(4,608)
General provisions								(2,019)
Suspended interest						(567)		
Total						241,922		(6,627)
31 December 1997								
Commercial:								
Commercial, industrial and international trade	28,277	11,947	14,464	5,601	2,267	62,556	25.4	(1,047)
Commercial real estate	6,092	10,424	3,660	4,955	14	25,145	10.2	(240)
Other property related	2,023	2,569	1,757	1,585	148	8,082	3.3	(102)
Non-bank financial institutions	5,569	5,283	1,632	8,230	649	21,363	8.7	(84)
Government	3,530	120	277	576	11	4,514	1.8	(148)
Settlement accounts	1,248	182	211	2,644	54	4,339	1.8	—
Other commercial*	13,943	7,649	5,171	3,811	786	31,360	12.7	(923)
Total commercial	60,682	38,174	27,172	27,402	3,929	157,359	63.9	(2,544)
Personal:								
Residential mortgages	19,133	24,364	2,233	13,858	414	60,002	24.4	(58)
Hong Kong SAR Government Home Ownership Scheme	—	4,631	—	—	—	4,631	1.9	—
Other personal	10,236	4,367	3,187	5,597	788	24,175	9.8	(509)
Total personal	29,369	33,362	5,420	19,455	1,202	88,808	36.1	(567)
Total	90,051	71,536	32,592	46,857	5,131	246,167	100.0	(3,111)
General provisions								(2,021)
Suspended interest						(614)		
Total						245,553		(5,132)

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

31 December 1996	Europe	Hong Kong	Rest of Asia-Pacific	North America	Gross loans and advances to customers	Gross loans by customer type as a % of total gross loans	Provisions for bad and doubtful debts
	US$m	US$m	US$m	US$m	US$m	%	US$m
Commercial:							
Commercial, industrial and international trade	25,119	11,007	14,261	5,288	55,675	27.9	(1,027)
Real estate	5,504	8,012	3,419	4,494	21,429	10.7	(321)
Other property related	1,988	2,213	1,769	953	6,923	3.5	(116)
Non-bank financial institutions	4,537	2,512	1,497	1,213	9,759	4.9	(43)
Government	3,895	145	832	659	5,531	2.7	(333)
Settlement accounts	1,565	195	150	1,609	3,519	1.8	—
Other commercial*	12,666	5,644	4,750	3,774	26,834	13.4	(864)
Total commercial	55,274	29,728	26,678	17,990	129,670	64.9	(2,704)
Personal:							
Residential mortgages	16,942	18,406	2,028	7,614	44,990	22.5	(58)
Hong Kong SAR Government Home Ownership Scheme	—	4,235	—	—	4,235	2.1	—
Other personal	9,420	3,605	2,412	5,455	20,892	10.5	(371)
Total personal	26,362	26,246	4,440	13,069	70,117	35.1	(429)
Total	81,636	55,974	31,118	31,059	199,787	100.0	(3,133)
General provisions							(1,572)
Suspended interest					(568)		
Total					199,219		(4,705)

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

Analysis of loans and advances to banks by geographical region

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Gross loans and advances to banks	Provisions for bad and doubtful debts
	US$m	US$m	US$m	US$m	US$m	US$m	US$m
31 December 1998	**22,713**	**44,938**	**11,433**	**4,523**	**1,740**	**85,347**	**(31)**
Suspended interest						**(1)**	
Total						**85,346**	
31 December 1997	22,471	36,725	11,993	10,563	4,827	86,579	(46)
Suspended interest						(11)	
Total						86,568	
31 December 1996	26,131	38,878	6,279	12,093	—	83,381	(53)
Suspended interest						(13)	
Total						83,368	

Provisions for bad and doubtful debts

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

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

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

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

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

Specific provisions

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

Other than where provisions on smaller balance homogenous loans are assessed on a portfolio basis, the amount of specific provision raised is assessed on a case-by-case basis. The amount of specific provision raised is HSBC's conservative estimate of the amount needed to reduce the carrying value of the asset to the expected ultimate net realisable value, and in reaching a decision consideration is given, 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$1.5 billion during 1998 and at US$6.6 billion represented 2.73 per cent of gross customer advances at 31 December 1998 compared with 2.08 per cent at 31 December 1997. The increase was driven by the US$2 billion charge against lending in Hong Kong and the Rest of Asia-Pacific due to the economic uncertainty prevailing in those regions. All sections of the portfolio were impacted, with investment holding companies, manufacturing enterprises, trading companies and real estate among the worst affected.

The total general provision showed little change during 1998, rising marginally from 0.82 per cent to 0.83 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, but general provisions may also be held in excess of the minimum requirement where local regulators require higher levels, as for instance in Canada and Argentina, or where local management deem it to be prudent in the light of local economic conditions, as in the case of Brazil and Malaysia. Releases are taken when the size of the surplus 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.

The following tables show details of the movements in HSBC's provisions for bad and doubtful debts by location of lending office for each of the past three years. A discussion of the material movements in the charge for provisions by region is included within the analysis of results by operating segments on pages 39 to 48.

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
1998	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Provisions at 1 January	2,076	934	1,300	629	239	5,178
Amounts written off:						
Banks	(24)	—	(4)	—	—	(28)
Commercial, industrial and international trade	(147)	(34)	(19)	(32)	(3)	(235)
Real estate	(54)	(10)	(18)	(13)	—	(95)
Non-bank financial institutions	(2)	—	—	—	—	(2)
Governments	(10)	—	—	—	—	(10)
Other commercial	(203)	(50)	(300)	(19)	(4)	(576)
Residential mortgages	(3)	—	(1)	(10)	—	(14)
Other personal	(190)	(47)	(55)	(122)	(24)	(438)
Total amounts written off	(633)	(141)	(397)	(196)	(31)	(1,398)
Recoveries of amounts written off in previous years:						
Commercial, industrial and international trade	28	1	6	3	—	38
Real estate	25	—	1	21	—	47
Non-bank financial institutions	1	—	—	1	—	2
Governments	1	—	—	—	—	1
Other commercial	4	3	—	14	—	21
Other personal	27	5	9	22	—	63
Total recoveries	86	9	16	61	—	172
Charge to profit and loss account:						
Banks	4	—	5	—	—	9
Commercial, industrial and international trade	67	361	679	48	70	1,225
Real estate	(54)	105	113	(45)	2	121
Non-bank financial institutions	(1)	45	43	—	—	87
Governments	—	—	—	1	—	1
Other commercial	60	107	272	4	26	469
Residential mortgages	—	59	27	8	9	103
Other personal	245	88	88	129	62	612
General provisions	48	(18)	(8)	(36)	24	10
Total charge	369	747	1,219	109	193	2,637
Foreign exchange and other movements	34	5	43	(9)	(4)	69
Provisions at 31 December	1,932	1,554	2,181	594	397	6,658
Provisions against banks:						
Specific provisions	28	—	3	—	—	31
Provisions against customers:						
Specific provisions	1,286	1,059	1,701	223	339	4,608
General provisions*	618	495	477	371	58	2,019
Provisions at 31 December	1,932	1,554	2,181	594	397	6,658
Provisions against customers as a % of gross loans and advances to customers:						
Specific provisions	1.37	1.55	5.26	0.53	6.13	1.90
General provisions	0.66	0.72	1.47	0.87	1.05	0.83
Total	2.03	2.27	6.73	1.40	7.18	2.73

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

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

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

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

Risk elements in the loan portfolio

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

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

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

Suspended interest

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

Assets acquired in exchange for advances

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

Troubled debt restructurings

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

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

Potential problem loans

Credit risk elements also cover potential problem loans. These are loans where known information about possible credit problems of borrowers causes management serious doubts as to the borrowers' ability to comply with the loan repayment terms. At 31 December 1998, there were no significant potential problem loans, other than the amounts shown in the following table.

Total non-performing loans increased by US$3.4 billion during 1998. A US$3.7 billion increase in Hong Kong and the Rest of Asia-Pacific reflected the economic contraction in many Asian countries. In Hong Kong, a large number of relationships were downgraded including facilities that were less than 90 days overdue. Specific provisions as a percentage of gross non-performing loans declined from 57.7 per cent to 52.0 per cent. This reflects the fact that the more recently categorised non-performing advances include advances which are better collateralised, e.g. residential mortgages.

Credit weakness in Argentina, and to a lesser extent in Brazil, reflecting the impact of the Asian uncertainty and high domestic interest rates, led to a US$143 million increase in Latin America's non-performing loans. Non-performing loans decreased by US$331 million in Europe primarily reflecting loan write-offs in the United Kingdom. Non-performing loans in the United Kingdom remain at a relatively low level despite the economic slowdown.

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

	1998 US$m	1997 US$m	1996 US$m
Loans accounted for on a non-accrual basis:			
Europe	1,092	1,064	1,310
Hong Kong	77	22	23
Rest of Asia-Pacific	344	181	133
North America	546	564	701
Latin America	355	260	—
Total non-accrual loans	2,414	2,091	2,167
Loans on which interest has been accrued but suspended:			
Europe	1,243	1,558	1,838
Hong Kong	2,443	597	521
Rest of Asia-Pacific	2,691	1,076	863
North America	24	39	167
Latin America	48	—	—
Total suspended interest loans	6,449	3,270	3,389
Assets acquired in exchange for advances:			
Europe	28	72	143
North America	22	35	47
Total assets acquired in exchange for advances	50	107	190
Total non-performing loans	8,913	5,468	5,746
Troubled debt restructurings:			
Europe	22	98	49
Hong Kong	187	6	7
Rest of Asia-Pacific	68	38	17
North America	1	6	25
Total troubled debt restructurings	278	148	98
Accruing loans contractually past due 90 days or more as to principal or interest:			
Europe	1	49	65
Hong Kong	121	91	152
Rest of Asia-Pacific	69	79	122
North America	30	57	75
Total accruing loans contractually past due 90 days or more	221	276	414
Total risk elements:			
Europe	2,386	2,841	3,405
Hong Kong	2,828	716	703
Rest of Asia-Pacific	3,172	1,374	1,135
North America	623	701	1,015
Latin America	403	260	—
Total risk elements	9,412	5,892	6,258
Provisions for bad and doubtful debts as a % of total risk elements	70.7	87.9	76.0

Comparable figures are not available for 1994 and 1995. The level of non-performing loans showed a declining trend in both 1994 and 1995, following the higher levels experienced in the early 1990s as a result of the economic downturn which affected most economies. There was a substantial reduction in non-performing loans in 1994. While the level of non-performing loans fell in all regions, the largest portion of the decrease was in Europe, arising partly from reductions in emerging markets non-performing loans following asset sales and the Brazilian Brady agreement. The reduction in the level of non-performing loans in 1995 and 1996 was less dramatic.

Interest foregone on non-performing lendings

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

Country distribution of outstandings and cross-border exposures

HSBC restricts the risk of payment difficulties arising with respect to individual countries through a central system of internal country limits which are determined by taking into account both economic and political risks. Exposure to individual countries and cross-border exposure in aggregate is kept under continuous review.

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

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

31 December 1997*	Banks	Government, official institutions and other*	Total
	US$bn	US$bn	US$bn
Hong Kong	1.6	14.0	15.6
United States	7.4	6.4	13.8
Japan	9.4	2.1	11.5
Germany	8.2	0.8	9.0
Canada	5.1	3.0	8.1
France	5.8	0.8	6.6

31 December 1996*	Banks	Government, official institutions and other*	Total
	US$bn	US$bn	US$bn
Hong Kong	1.7	9.0	10.7
Japan	9.0	1.2	10.2
United States	4.5	5.7	10.2
Germany	5.6	2.0	7.6
Canada	3.7	3.6	7.3
France	5.2	0.6	5.8

* The data required to provide an analysis of non-bank cross-border and in-country foreign currency outstandings between 'government and official institutions' and 'other' is not available prior to 1998. While outstandings to 'government and official institutions' may vary from one period to the next due to changes in trading strategies and liquidity policies, management does not believe the inclusion of this analysis would lead to a different view of overall risk.

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

As at 31 December 1997, HSBC had in-country foreign currency and cross-border outstandings to mainland China, South Korea, Italy, the Netherlands and Singapore of between 0.75% and 1% of total assets. The aggregate in-country foreign currency and cross-border outstandings were: mainland China: US$4.6 billion; South Korea: US$3.7 billion; Italy: US$4.7 billion; the Netherlands: US$4.5 billion; and Singapore: US$4.0 billion.

At 31 December 1996, HSBC had in-country foreign currency and cross-border outstandings to mainland China, the Netherlands and Singapore of between 0.75% and 1% of total assets. The aggregate in-country foreign currency and cross-border outstandings were: mainland China: US$3.4 billion; the Netherlands: US$3.4 billion; and Singapore: US$3.6 billion.

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

	Brazil	Malaysia	South Korea	Thailand	Indonesia
As at 31 December 1998					
Figures in US$bn					
In-country local currency outstandings	**7.6**	**6.1**	**0.5**	**1.2**	**0.2**
In-country foreign currency outstandings	**1.2**	**0.7**	**0.8**	**0.7**	**0.8**
Net cross-border outstandings	**0.4**	**0.5**	**2.3**	**0.3**	**0.4**
	1.6	**1.2**	**3.1**	**1.0**	**1.2**
Claims under contracts in financial derivatives	**—**	**0.1**	**—**	**0.1**	**—**
Total	**9.2**	**7.4**	**3.6**	**2.3**	**1.4**
Figures in US$m					
Non-performing customer loans*	**135**	**693**	**34**	**575**	**643**
Specific provisions outstanding	**89**	**357**	**23**	**350**	**410**
As at 31 December 1997					
Figures in US$bn					
In-country local currency outstandings	9.6	6.2	0.3	1.0	0.4
In-country foreign currency outstandings	0.7	0.4	0.9	0.7	0.9
Net cross-border outstandings	0.4	0.5	2.8	0.5	0.4
	1.1	0.9	3.7	1.2	1.3
Claims under contracts in financial derivatives	—	0.3	0.1	0.6	0.1
Total	10.7	7.4	4.1	2.8	1.8
Figures in US$m					
Non-performing customer loans*	58	143	33	125	6
Specific provisions outstanding	18	68	20	77	6

* Net of suspended interest

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 inter-bank 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 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 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, 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.

Thailand has not entered into any specific arrangements with the foreign banking community to restructure its foreign currency obligations. 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 which is applicable on a case-by-case basis.

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. The company believes that dividends from subsidiaries, coupled with debt and equity financing, will enable it to meet anticipated cash obligations.

As at 31 December 1998, HSBC did not have any material capital commitments. The aggregate consideration for its proposed acquisitions of RNYC and Safra, and HSBC's initial investment in Seoul Bank, is approximately US$11.2 billion. The company has already raised approximately US$3.0 billion of this through an equity issuance and expects to fund the remainder from cash on hand and debt and preference share issuances.

Customer accounts and deposits by banks 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

Customer accounts and deposits by banks 1997

	%	US$bn
Deposits by banks	11.7	38.9
Current	30.0	100.0
Savings and other deposits	58.3	194.2
Total	100.0	333.1

Customer accounts were US$309 billion at 31 December 1998 and accounted for 90.0 per cent of HSBC's deposit base compared with US$294 billion, or 88.3 per cent of the deposit base, at 31 December 1997. The US$15 billion increase in retail deposits, included within the net cash flow from operating activities on page 162 as a movement in customer accounts, principally reflected growth in the retail deposit base in Hong Kong and the United Kingdom.

As at 31 December 1998, 76.2 per cent of HSBC's customer accounts were deployed in loans and advances to customers, compared with 81.7 per cent at 31 December 1997. Overall there was a net cash inflow of US$3.7 billion from loans and advances to customers. Reduced corporate lending in Hong Kong and the Rest of Asia-Pacific, reflecting the economic contraction in many Asian countries, was only partly offset by increased personal lending in Hong Kong and growth in Midland's mortgage and term-lending books.

The increase in liquidity attributable to the increased customer deposit base and reduced customer lending was principally re-deployed in short-dated investment securities with the US$59.8 billion cash outflow on new purchases exceeding proceeds from the sale and maturing of investment securities by US$9.2 billion.

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 that 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 one-day movements in market rates and prices, a 95 per cent confidence level and takes account of correlations between different markets and rates. The one-day movement in market prices is calculated by reference to market data from the last two years. Aggregation of VAR from different risk types is based upon the assumption of independence between risk types.

HSBC 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 one-day holding period assumes that all positions can be liquidated or hedged in one day. This does not fully capture the market risk arising during periods of illiquidity, when one day liquidation or hedging may not be possible;
- the use of a 95 per cent confidence level does not take account of any losses that might occur beyond this level of confidence;
- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the assumption of independence between risk types may 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.

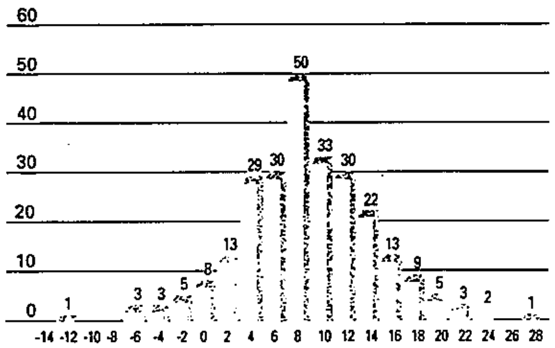
HSBC VAR should not, therefore, be viewed as a maximum amount that HSBC can lose on its market risk positions. HSBC recognises these limitations by augmenting the VAR limits with other position and sensitivity limit structures, as well as with stress testing, both on individual portfolios and on a consolidated 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 year.

The average daily revenue earned from market risk-related treasury activities in 1998, including accrual book net interest income and funding related to dealing positions, was US$7.8 million compared with US$7.1 million in 1997. The standard deviation of these daily revenues was US$5.8 million compared with US$4.4 million in 1997. An analysis of the frequency distribution of daily revenues shows a maximum daily loss of US$13 million, with only 20 out of 260 days showing losses. The most frequent result was a daily revenue of between US$6 million and US$8 million, with 50 occurrences. The highest daily revenue was US$28 million.

Daily distribution of market risk revenues 1998
Group treasury centres

Number of days

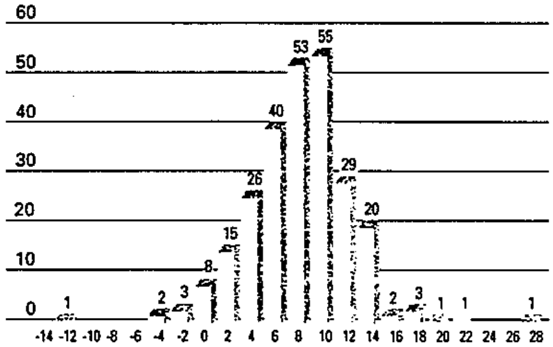


Revenues *(US$m)*

Profit and loss frequency

Daily distribution of market risk revenues 1997
Group treasury centres

Number of days



Revenues *(US$m)*

Profit and loss frequency

During the mid-1997 to mid-1998 period, currency turmoil in the Asia-Pacific region led to significant increases in the volatility of interest and foreign exchange rates. Throughout this period, HSBC maintained its trading-related value at risk in line with previous levels by reducing trading positions to offset the increased volatility. During this period, value at risk from trading activities peaked at US$11.8 million and averaged US$7.4 million. However, HSBC continued to manage value at risk related to accrual book activities by reference to the longer term nature of these exposures and did not reduce these positions solely in response to this short-term volatility. Value at risk from accrual book activities peaked at US$63.6 million, and averaged US$23.6 million, during this period.

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.

Value at risk related to foreign exchange dealing positions as at 31 December 1998 was US$3.2 million compared with US$4.8 million at 31 December 1997. The average for 1998 was US$4.6 million with a maximum of US$8.1 million and a minimum of US$2.9 million in the year. The average one-day foreign exchange trading revenue in 1998 was US$4.0 million, compared with US$3.8 million in 1997. The value at risk and average dealing profit information noted excludes structural foreign currency exposures, since related gains or losses are taken through reserves.

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

Value at risk at 31 December 1998 related to interest rate exposures arising from trading activities was US$2.9 million compared with US$8.2 million at 31 December 1997 and the average for 1998 was US$5.9 million, the maximum was US$10.5 million and the minimum was US$2.6 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 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.

Value at risk related to equities dealing positions as at 31 December 1998 was US$2.3 million compared with US$3.5 million at 31 December 1997.

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 value at risk techniques.

It is HSBC's policy to maintain a strong capital base to support development of HSBC's business. HSBC seeks to maintain a prudent balance between the different components of 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 at the end of 1998 and 1997.

	1998 US$m	1997 US$m
Composition of capital		
Tier 1:		
Shareholders' funds	27,402	27,080
Minority interests	4,275	4,497
Less: property revaluation reserves	(2,121)	(4,261)
intangible assets and goodwill	(204)	(35)
Total qualifying tier 1 capital	29,352	27,281
Tier 2:		
Property revaluation reserves	2,121	4,261
General provisions	1,807	1,785
Perpetual subordinated debt	3,276	3,273
Term subordinated debt	6,433	6,693
Total qualifying tier 2 capital	13,637	16,012
Unconsolidated investments	(1,266)	(1,122)
Investments in other banks	(503)	(485)
Other deductions	(128)	(124)
Total capital	41,092	41,562
Total risk-weighted assets	301,950	291,985
Capital ratios (per cent)		
Total capital	13.6	14.2
Tier 1 capital	9.7	9.3

During 1998, HSBC's tier 1 capital ratio increased from 9.3 per cent to 9.7 per cent and its total capital ratio decreased from 14.2 per cent to 13.6 per cent.

Tier 1 capital increased by US$2,071 million from the level at the end of 1997, mainly due to retained earnings of US$1,823 million and the take-up of shares issued in lieu of dividends of US$584 million.

Tier 2 property revaluation reserves decreased due to the deficit arising on revaluation of HSBC properties. Term subordinated debt decreased in 1998, mainly as a result of regulatory amortisation exceeding the issuance of new debt net of redemptions.

Risk-weighted assets increased by US$10 billion in 1998, reflecting balance sheet growth.

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 year. Selective hedges were transacted during 1998 and there was no material effect from foreign currency exchange rate movements on HSBC or subsidiary tier 1 capital ratios.

Some investments are denominated in underlying currencies that are linked to the US dollar, including primarily Hong Kong dollars, UAE dirhams, Saudi riyals, Argentinian pesos and from September 1998, Malaysian ringgit. Foreign currency investments not denominated in the US dollar or US dollar-linked currencies amounted to the foreign currency equivalent of US$11,053 million (40 per cent of shareholders' funds) at 31 December 1998, an increase from US$10,960 million (40 per cent of shareholders' funds) at 31 December 1997.

The increase in foreign currency investments mainly reflects profit retentions. This was partly offset by the impact of property revaluations in 1998 as a result of the fall in property values in Hong Kong and Singapore.

The Brazilian real has depreciated significantly since the 1998 year-end. Had the closing balance sheet been retranslated at the rate on 12 February 1999, shareholders' funds would have been reduced by the equivalent of US$220 million.

Deployment of shareholders' funds

The shareholders' funds of HSBC Holdings plc are deployed mainly in investments in its subsidiaries. At 31 December 1998, the major investments of shareholders' funds by legal entity, compared with the previous year, were as shown in the table.

	1998 US$m	1997 US$m
Hang Seng Bank (62.14% owned (1997: 62.10%))	3,456	3,989
The Hongkong and Shanghai Banking Corporation Limited and other subsidiaries	6,462	7,776
The Hongkong and Shanghai Banking Corporation Limited and subsidiaries	9,918	11,765
Midland Bank plc	7,059	6,459
HSBC Americas, Inc.	1,857	1,621
HSBC Bank Middle East	625	549
HSBC Bank Malaysia Berhad	333	413
HSBC Bank Canada	530	471
Banco HSBC Bamerindus	423	475
HSBC Roberts	339	216
HSBC Investment Bank plc	538	504
HSBC Holdings and non-trading subsidiaries	2,133	1,248
Other subsidiaries	3,208	2,921
Associates	439	438
	27,402	27,080

It is HSBC's policy for subsidiaries to retain sufficient profits to support planned business growth and to dividend any surplus profits to the holding company. Movements in the figures principally reflect these retentions, the impact of the property revaluation in 1998 and capital injections to fund expansions in business operations.

The shareholders' funds of HSBC Holdings and non-trading subsidiaries represent the surplus of HSBC Holdings' equity capital over its equity investments, after adjusting for the capital structure of its immediate non-trading holding companies.

OTHER INFORMATION

Loan maturity and interest sensitivity analysis

There follows a geographic analysis of loan maturity and interest sensitivity by loan type on a contractual repayment basis as at 31 December 1998. All amounts are net of suspended interest.

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	USSm
Maturity of 1 year or less						
Loans and advances to banks*	20,124	44,731	10,896	4,451	1,733	81,935
Commercial loans to customers						
— Commercial, industrial and international trade	14,643	7,960	10,624	4,129	1,951	39,307
— Real estate and other property related	3,256	3,791	3,252	2,416	177	12,892
— Non-bank financial institutions	2,912	1,527	1,214	2,991	98	8,742
— Governments	194	449	335	226	1	1,205
– Other commercial	7,837	3,015	3,209	6,581	779	21,421
	28,842	16,742	18,634	16,343	3,006	83,567
Hong Kong SAR Government Home Ownership Scheme	—	321	—	—	—	321
Residential mortgages and other personal loans	6,883	5,015	2,116	4,470	915	19,399
Loans and advances to customers	35,725	22,078	20,750	20,813	3,921	103,287
Total loans maturing in one year or less	55,849	66,809	31,646	25,264	5,654	185,222
Maturity after 1 year but within 5 years						
Loans and advances to banks	1,507	207	485	59	7	2,265
Commercial loans to customers						
— Commercial, industrial and international trade	8,728	2,203	2,097	1,725	594	15,347
— Real estate and other property related	3,467	6,891	2,183	2,312	55	14,908
— Non-bank financial institutions	1,559	728	304	133	2	2,726
— Governments	1,215	80	149	35	134	1,613
— Other commercial	3,669	3,119	1,561	948	119	9,416
	18,638	13,021	6,294	5,153	904	44,010
Hong Kong SAR Government Home Ownership Scheme	—	1,388	—	—	—	1,388
Residential mortgages and other personal loans	8,133	5,272	1,900	6,518	438	22,261
Loans and advances to customers	26,771	19,681	8,194	11,671	1,342	67,659
Total loans maturing after 1 year but within 5 years	28,278	19,888	8,679	11,730	1,349	69,924

* Excludes sight balances with central banks

	Europe	Hong Kong	Rest of Asia-Pacific	North America	Latin America	Total
	US$m	US$m	US$m	US$m	US$m	US$m
Maturity after 1 year but within 5 years (continued)						
Interest rate sensitivity of loans and advances to banks and commercial loans to customers:						
— Fixed interest rate	5,864	346	2,408	2,649	342	11,609
— Variable interest rate	14,281	12,882	4,371	2,563	569	34,666
Total	20,145	13,228	6,779	5,212	911	46,275
Maturity after 5 years						
Loans and advances to banks	1,081	—	52	13	—	1,146
Commercial loans to customers						
— Commercial, industrial and international trade	4,834	674	329	585	47	6,469
— Real estate and other property related	1,768	953	256	1,479	4	4,460
— Non-bank financial institutions	167	2	5	113	—	287
— Governments	1,963	22	82	391	—	2,458
— Other commercial	4,552	1,296	505	138	26	6,517
	13,284	2,947	1,177	2,706	77	20,191
Hong Kong SAR Government Home Ownership Scheme	—	4,582	—	—	—	4,582
Residential mortgages and other personal loans	17,686	18,977	2,036	7,336	168	46,203
Loans and advances to customers	30,970	26,506	3,213	10,042	245	70,976
Total loans maturing after 5 years	32,051	26,506	3,265	10,055	245	72,122
Interest rate sensitivity of loans and advances to banks and commercial loans to customers:						
— Fixed interest rate	10,836	424	253	1,419	15	12,947
— Variable interest rate	3,529	2,523	976	1,300	62	8,390
Total	14,365	2,947	1,229	2,719	77	21,337

Deposits

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

	Year ended 31 December 1998		1997	
	Average balance	Average rate	Average balance	Average rate
	US$m	%	US$m	%
Deposits by banks				
Europe				
Demand and other — non-interest bearing	4,191	—	3,931	—
Demand — interest bearing	2,697	5.0	1,765	5.0
Time	8,971	5.6	8,298	4.1
Other	7,156	6.0	6,295	5.7
Total	23,015		20,289	
Hong Kong				
Demand and other — non-interest bearing	1,159	—	884	—
Demand — interest bearing	386	4.4	372	4.3
Time	4,246	5.8	4,591	5.7
Other	42	9.2	22	7.5
Total	5,833		5,869	
Rest of Asia-Pacific				
Demand and other — non-interest bearing	100	—	189	—
Demand — interest bearing	481	3.3	450	2.4
Time	5,082	5.3	4,393	5.2
Other	349	7.2	242	6.9
Total	6,012		5,274	
North America				
Demand and other — non-interest bearing	366	—	893	—
Demand — interest bearing	1,229	4.3	2,063	3.8
Time	2,587	5.9	1,578	5.2
Other	2,978	6.2	2,753	5.5
Total	7,160		7,287	
Latin America				
Demand and other — non-interest bearing	17	—	20	—
Demand — interest bearing	371	10.2	238	13.0
Time	588	10.3	528	11.7
Other	343	23.9	119	24.1
Total	1,319		905	
Total				
Demand and other — non-interest bearing	5,833	—	5,917	—
Demand — interest bearing	5,164	5.0	4,888	4.6
Time	21,474	5.8	19,388	5.0
Other	10,868	6.7	9,431	5.9
Total	43,339		39,624	

	Year ended 31 December			
	1998		1997	
	Average balance	Average rate	Average balance	Average rate
	US$m	%	US$m	%
Customer accounts				
Europe				
Demand and other — non-interest bearing	13,382	—	11,798	—
Demand — interest bearing	44,379	4.0	39,242	3.4
Savings	13,700	6.1	15,512	5.4
Time	35,468	6.3	30,187	6.0
Other	1,370	5.7	802	4.8
Total	108,299		97,541	
Hong Kong				
Demand and other — non-interest bearing	4,588	—	5,690	—
Demand — interest bearing	34,154	4.8	33,873	4.1
Savings	66,951	6.6	56,968	5.6
Time	5,907	6.0	5,929	5.6
Other	334	5.8	597	4.0
Total	111,934		103,057	
Rest of Asia-Pacific				
Demand and other — non-interest bearing	3,239	—	3,895	—
Demand — interest bearing	5,734	4.3	6,237	4.3
Savings	16,670	7.2	15,233	6.7
Time	8,014	5.9	5,984	6.0
Other	404	4.1	469	6.3
Total	34,061		31,818	
North America				
Demand and other — non-interest bearing	7,317	—	6,869	—
Demand — interest bearing	2,073	4.8	2,934	4.0
Savings	17,440	3.5	17,246	3.0
Time	2,736	6.9	3,173	6.7
Other	11,460	8.4	10,776	8.0
Total	41,026		40,998	
Latin America				
Demand and other — non-interest bearing	859	—	762	—
Demand — interest bearing	1,352	22.9	1,261	20.7
Savings	7,125	14.0	4,449	13.0
Time	171	5.5	75	4.7
Other	330	11.8	183	17.1
Total	9,837		6,730	
Total				
Demand and other — non-interest bearing	29,385	—	29,014	—
Demand — interest bearing	87,692	4.7	83,547	4.0
Savings	121,886	6.7	109,408	5.6
Time	52,296	6.3	45,348	6.0
Other	13,898	7.5	12,827	7.7
Total	305,157		280,144	
CDs and other money market instruments				
Europe	5,645	7.1	4,040	6.0
Hong Kong	5,417	8.4	3,452	7.8
Rest of Asia-Pacific	2,563	7.0	3,296	6.9
North America	11,094	5.3	11,176	5.3
Latin America	4	8.1	151	10.1
Total	24,723	6.6	22,115	6.1

Certificates of deposit and other time deposits

At 31 December 1998 the maturity analysis of certificates of deposit and other wholesale time deposits, by remaining maturity, was as follows:

	3 months or less	After 3 months but within 6 months	After 6 months but within 12 months	After 12 months	Total
	US$m	US$m	US$m	US$m	US$m
Europe					
Certificates of deposit	2,043	1,089	762	138	4,032
Time deposits:					
—banks	6,037	556	320	562	7,475
—customers	25,306	2,693	1,100	4,483	33,582
Total	33,386	4,338	2,182	5,183	45,089
Hong Kong					
Certificates of deposit	830	690	387	3,091	4,998
Time deposits:					
—banks	1,087	33	—	7	1,127
—customers	5,295	91	37	116	5,539
Total	7,212	814	424	3,214	11,664
Rest of Asia-Pacific					
Certificates of deposit	828	244	90	112	1,274
Time deposits:					
—banks	2,908	570	382	151	4,011
—customers	6,869	439	232	452	7,992
Total	10,605	1,253	704	715	13,277
North America					
Certificates of deposit	4,044	1,771	1,668	974	8,457
Time deposits:					
—banks	1,074	262	325	—	1,661
—customers	1,318	75	213	116	1,722
Total	6,436	2,108	2,206	1,090	11,840
Latin America					
Time deposits:					
—banks	295	38	37	23	393
—customers	142	15	—	—	157
Total	437	53	37	23	550
Total					
Certificates of deposit	7,745	3,794	2,907	4,315	18,761
Time deposits:					
—banks	11,401	1,459	1,064	743	14,667
—customers	38,930	3,313	1,582	5,167	48,992
Total	58,076	8,566	5,553	10,225	82,420

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

Short-term borrowings

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

	Year ended 31 December		
	1998 **US$m**	1997 US$m	1996 US$m
Outstanding at 31 December	**13,055**	21,245	12,672
Average amount outstanding during the year	**21,615**	20,288	16,442
Maximum quarter-end balance outstanding during the year	**20,416**	21,245	17,039
Weighted average interest rate during the year	**7.6%**	7.5%	6.1%
Weighted average interest rate at the year-end	**8.5%**	11.0%	7.4%

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 plans to replace the small number of computer systems which remain non-compliant by mid-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 year ended 31 December 1998 were US$113 million (including US$48 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$52 million (including US$20 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.

MANAGEMENT

The objectives of the management structures within HSBC, headed by the Board of Directors (the 'Board') and led by the Group Chairman, are to deliver sustainable value to shareholders. The Group Executive Committee, under the leadership of the Group Chief Executive, implements the strategy set by the Board.

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

The management of the business of HSBC Holdings is vested in the Board who determine the overall strategy of HSBC. At each Annual General Meeting of HSBC Holdings, up to one third of the Directors are required to retire from office by rotation. The Directors to retire by rotation each year are those who wish to retire and thereafter those who have been longest in office since their last election, but, as between persons who became Directors on the same day, those to retire will, unless they otherwise agree among themselves, be determined by lot. A retiring Director is eligible for re-election. Non-executive Directors are appointed for fixed terms not exceeding three years.

The Board has the power to appoint Directors to fill any vacancies on the Board and to appoint additional Directors. All Directors initially appointed by the Board hold office until the next Annual General Meeting and shall then be eligible for re-election, but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting.

HSBC Holdings may by ordinary resolution remove any Director before the expiration of his or her period of office and appoint another person in his or her place. The Board may from time to time appoint one or more Directors to any executive office for such period and on such terms as it decides, and the Board may terminate any such appointment.

The Board has appointed a number of committees consisting of certain Directors and senior executives. The following are the principal committees:

Group Executive Committee

The Group Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. The members of the Group Executive Committee are K R Whitson (Chairman), Sir John Bond, W R P Dalton, D G Eldon, D J Flint and S K Green, all of whom are executive Directors, and I M Burnett, A P Hope, A W Jebson, M B McPhee, A Mehta and R M J Orgill, all of whom are Group General Managers.

Group Audit Committee

The Group Audit Committee meets regularly with HSBC's senior financial, internal audit and compliance management and the external auditor to consider HSBC Holdings' financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The members of the Group Audit Committee are Sir Brian Moffat (Chairman), D E Connolly and C E Reichardt, all of whom are non-executive Directors.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues, particularly terms and conditions of employment, remuneration, retirement benefits, development of high potential employees and key succession planning. The members of the Remuneration Committee are Baroness Dunn (Chairman), H Sohmen and Sir Peter Walters, all of whom are non-executive Directors.

Nomination Committee

The Nomination Committee carries out the process of nominating candidates to fill vacancies on the Board of Directors. Nominations are considered by the Board. The Nomination Committee is composed of the members of the Remuneration Committee, together with the Group Chairman.

The current Directors and executive officers of HSBC Holdings are as follows:

Directors

Sir John Bond, *Group Chairman*

Age 57. An executive Director since 1990; Group Chief Executive from 1993 to May 1998. Joined HSBC in 1961; an executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1988 to 1992. Chairman of Midland Bank plc, HSBC Bank USA, HSBC Americas, Inc. and HSBC Bank Middle East. A Director of The Hongkong and Shanghai Banking Corporation Limited and The Saudi British Bank and a non-executive Director of the London Stock Exchange and Orange Plc. Chairman of the Institute of International Finance and a member of the Banking Advisory Group of the International Finance Corporation.

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

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

Sir Peter Walters*, *Deputy Chairman and senior non-executive Director*

Age 68. Deputy Chairman of EMI Group plc, non-executive Chairman of SmithKline Beecham plc and a non-executive Director of Saatchi & Saatchi plc. A non-executive Director since 1992 and a non-executive Deputy Chairman since 1993. Chairman of Midland Bank plc from 1991 to 1994.

K R Whitson

Age 56. Group Chief Executive. An executive Director since 1994. A Director of Midland Bank plc since 1992, Chief Executive from 1994 to March 1998 and Deputy Chairman since January 1998. Joined HSBC in 1961. Deputy Chairman of the Supervisory Board of HSBC Trinkaus & Burkhardt KGaA. A Director of The Hongkong and Shanghai Banking Corporation Limited, HSBC Americas, Inc., HSBC Bank Canada and HSBC Roberts S.A. de Inversiones. A non-executive Director of The Financial Services Authority.

Lord Butler*, GCB, CVO

Age 61. Master, University College, Oxford and a non-executive Director of Imperial Chemical Industries plc. A non-executive Director since May 1998. Secretary of the Cabinet and Head of the Home Civil Service in the United Kingdom from 1988 to January 1998.

R K F Ch'ien*, CBE

Age 47. A Director of Inchcape plc and Chairman of Inchcape Greater China. A non-executive Director since May 1998. Chairman of HSBC Private Equity Management Limited and Co-Chairman of Beijing CAST Information System Technology Co., Ltd. A member of the Executive Council of the Hong Kong SAR. Chairman of the Industry & Technology Development Council, the Hong Kong Industrial Technology Centre Corporation and the Hong Kong/Japan Business Co-operation Committee and a member of the Economic Advisory Committee to the Financial Secretary of the Hong Kong SAR. A Director of Hsin Chong Construction Group Ltd., Kader Holdings Company Limited and Tianjin Development Holdings Limited. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1997.

D E Connolly*, OBE

Age 67. Chartered Accountant. A Director of Kowloon-Canton Railway Corporation. A non-executive Director since 1990 and a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited from 1985 to 1997.

W R P Dalton

Age 55. An executive Director since April 1998. Director and Chief Executive, Midland Bank plc and Chairman of Forward Trust Group Limited with effect from 1 April 1998. Joined HSBC Bank Canada in 1980. President and Chief Executive Officer, HSBC Bank Canada from 1992 to December 1997. A Director of HSBC Investment Bank Holdings plc. A non-executive Director of MasterCard International Inc. and a non-executive Director and Chairman of Young Enterprise Limited.

D G Eldon

Age 53. An executive Director of HSBC Holdings since 1 January 1999. Joined HSBC in 1968. Appointed an executive Director and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited in 1996; Chairman since 1 January 1999. Non-executive Chairman of Hang Seng Bank Limited and a non-executive Director of Swire Pacific Limited and MTR Corporation.

D J Flint

Age 43. Group Finance Director. An executive Director since 1995. A Director of HSBC Investment Bank Holdings plc, HSBC Bank Malaysia Berhad, HSBC Roberts S.A. de Inversiones and HSBC Bank USA. A member of the Urgent Issues Task Force of the Accounting Standards Board. A former partner in KPMG.

W K L Fung*, OBE

Age 50. Group Managing Director and Chief Executive Officer of Li & Fung Limited. A non-executive Director since May 1998. Past Chairman of the Hong Kong General Chamber of Commerce. A member of the Economic Advisory Committee to the Financial Secretary of the Hong Kong SAR and Chairman of the Hong Kong Committee for Pacific Economic Co-operation. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1995.

S K Green

Age 50. Executive Director Investment Banking and Markets. Joined HSBC in 1982. Group Treasurer from 1992 to February 1998. Chairman of HSBC Investment Bank Holdings plc and a Director of Midland Bank plc and HSBC Guyerzeller Bank AG.

Lord Marshall*

Age 65. Chairman of British Airways Plc, Inchcape plc and Invensys plc. Deputy Chairman of British Telecommunications plc. A non-executive Director since 1993. Deputy President of the Confederation of British Industry and a member of the Board of the New York Stock Exchange. A non-executive Director of Midland Bank plc from 1989 to 1994.

C Miller Smith*

Age 59. Chairman of Imperial Chemical Industries plc. A non-executive Director since 1996. A former Director of Unilever plc and Unilever N.V. and a non-executive Director of Midland Bank plc from 1994 to 1996.

Sir Brian Moffat*, OBE

Age 60. Chairman of British Steel plc. A non-executive Director since March 1998. A non-executive Director of Enterprise Oil plc.

M Murofushi*

Age 67. Chairman of ITOCHU Corporation. A non-executive Director since 1992. Chairman of the Japan Foreign Trade Council. Special Advisor to the Chairman of the Japan Chamber of Commerce and Industry. Vice Chairman of the Tokyo Chamber of Commerce and Industry. Chairman of the Japan-Brazil Economic Committee of Keidanren (Japan Federation of Economic Organizations). A member of the Foreign Investment Advisory Council of the Russian Federation.

C E Reichardt*

Age 67. Former Chairman and Chief Executive of Wells Fargo & Company. A non-executive Director since 1996. A Director of Columbia/HCA Healthcare Corporation, ConAgra Inc., Ford Motor Company, McKesson HBOC, Inc., Newhall Management Corporation and PG&E Corporation.

H Sohmen*, OBE

Age 59. Chairman of World-Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited, World Finance International Limited and N&T Argonaut AB. A non-executive Director since 1990. A non-executive Director of The Hongkong and Shanghai Banking Corporation Limited since 1984 and Deputy Chairman since 1996.

Sir Adrian Swire*

Age 67. Executive Director and Honorary President of John Swire & Sons Limited and a Director of Swire Pacific Limited and Cathay Pacific Airways Limited. A non-executive Director since 1995. Former Chairman of the International Chamber of Shipping and former President of the General Council of British Shipping.

* Independent non-executive Directors

Directors' service contracts

No executive Director has a service contract with HSBC Holdings or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination which exceeds one year's salary and benefits-in-kind.

Executive Officers

D W Baker

Age 56. Chief Operating Officer, Midland Bank. Joined Midland Bank in 1962 and appointed a Director in 1996. Appointed a Group General Manager on 1 June 1999.

R G Barber

Age 48. Group Company Secretary since 1990. Joined HSBC in 1980; Corporation Secretary of The

Hongkong and Shanghai Banking Corporation Limited from 1986 to 1992. Company Secretary of Midland Bank from 1994 to 1996.

D Beath

Age 60. General Manager and Group Audit Controller. Joined HSBC in 1960. Appointed a Group General Manager in 1993.

R E T Bennett

Age 47. General Manager and Group Legal Adviser. Joined HSBC in 1979. Appointed a Group General Manager in 1998.

I M Burnett

Age 51. Chief Executive, HSBC Americas, Inc., and President and Chief Executive, HSBC Bank USA. Joined HSBC in 1966. Appointed a Group General Manager in 1997.

V H C Cheng, OBE

Age 50. Executive Director, The Hongkong and Shanghai Banking Corporation Limited and Chief Executive Officer, Hang Seng Bank. Joined HSBC in 1978. Appointed a Group General Manager in 1995.

A Dixon, OBE

Age 54. Deputy Chairman, HSBC Bank Middle East. Joined HSBC in 1965. Appointed a Group General Manager in 1998.

M F Geoghegan

Age 45. President and Chief Executive Officer, Banco HSBC Bamerindus. Joined HSBC in 1973. Appointed a Group General Manager in 1997.

A [illegible] Hope

Age 52. General Manager Group Insurance. Joined Antony Gibbs & Sons Insurance in 1971. Appointed a Group General Manager in 1996.

A W Jebson

Age 49. Group General Manager Technical Services. Joined HSBC in 1978. Appointed a Group General Manager in 1996.

C P Langley, OBE

Age 54. Executive Director, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1961. Appointed a Group General Manager in 1994.

M B McPhee

Age 57. Group General Manager Credit and Risk. Joined HSBC Bank Canada in 1984. Appointed a Group General Manager in 1997.

A Mehta

Age 52. Chief Executive Officer, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1968. Appointed a Group General Manager in 1992.

Y A Nasr

Age 44. President and Chief Executive Officer, HSBC Bank Canada. Joined HSBC Bank USA in 1976. Appointed a Group General Manager in 1998.

T W O'Brien

Age 51. Deputy Chairman and Chief Executive Officer, HSBC Bank Malaysia Berhad. Joined HSBC in 1969. Appointed a Group General Manager in 1992.

R M J Orgill

Age 60. Group General Manager and Global Head of Corporate and Institutional Banking. Joined HSBC in 1958. Appointed a Group General Manager in 1986.

R C Picot

Age 42. Group Chief Accountant since 1995. Joined HSBC Holdings in 1993.

J C S Rankin

Age 57. General Manager and Chief Executive Officer Singapore, The Hongkong and Shanghai Banking Corporation Limited. Joined HSBC in 1960. Appointed a Group General Manager in 1990.

R A Tennant

Age 56. General Manager Group Human Resources. Joined Midland Bank in 1960. Appointed a Group General Manager in 1993.

Terms of office

HSBC Holdings has employment contracts with the executive officers listed above which generally provide for a term of service expiring at the end of a period of up to two years, or the individual's 60th birthday, whichever is earlier.

Remuneration of Directors and executive officers

Remuneration policy

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

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

In determining the terms of annual bonus and incentive schemes, individual remuneration awards, retirement benefit arrangements, notice periods and severance terms, the Remuneration Committee considers the practices and levels of remuneration in appropriate comparator companies which operate in similar industry sectors and territories to those in which the individual HSBC company operates and the executive Director or employee is employed. Due regard is paid to advice rendered by external professional consultants.

As part of the recent review of HSBC's five-year strategy, it has been decided to extend the use of the existing share schemes so that more employees are able to participate in the success they help to create. The vesting of all awards will be subject to the attainment of total shareholder return targets.

Basic salary and benefits

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

Annual performance-related payments

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

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

Long-term share awards

The Restricted Share Plan is intended to align the interests of executives with those of shareholders by linking executive rewards to the creation of superior shareholder value. This is achieved by focusing on predetermined total shareholder return targets.

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

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

Directors' pensions

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

The pension arrangements for Sir John Bond, S K Green and K R Whitson to contractual retirement age of 60 are provided under the Midland Bank Pension Scheme. The pensions accrue at a rate of one thirtieth of pensionable salary per year of pensionable service in the United Kingdom.

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

The pension arrangements for W R P Dalton to contractual retirement age of 60 are provided under the Hongkong Bank of Canada Pension Plan A (to be renamed HSBC Pension Plan A in 1999) at an accrual rate of one thirtieth of pensionable salary per year of pensionable service and under the HSBC Holdings Overseas (No. 1) Pension Plan on a defined contribution basis, with an employer contribution of £129,000 having been made during 1998.

	Accrued annual pension at 31 December 1998	Increase in accrued pension during 1998, excluding any increase for inflation	Personal contributions towards pension	Transfer value relating to increase in accrued pensions*
	(£000)	(£000)	(£000)	(£000)
Sir John Bond	103	27	—	434
W R P Dalton	218	—	—	—
S K Green	74	22	—	254
J E Strickland	182	18	11	12
K R Whitson	87	27	—	402

* The transfer value represents a liability of HSBC's pension funds and not a sum paid or due to the individual; it cannot meaningfully be added to annual remuneration.

In recognition of extended unpensioned UK service, B H Asher, who retired on 28 February 1998, was granted an unfunded pension of £75,000 per annum, subject to annual review, with effect from 1 March 1998.

In recognition of five-and-a-half years of unpensioned service in the UK, Sir William Purves, who retired on 29 May 1998, was granted an unfunded pension of £80,000 per annum, subject to annual review, with effect from 1 June 1998.

Only basic salary is pensionable. No other Director participated in any HSBC pension schemes.

Other directorships

Executive Directors, if so authorised by the Board, may accept appointments as non-executive Directors of suitable companies which are not part of HSBC. Executive Directors normally would be permitted to take on no more than two such appointments. Any remuneration receivable in respect of these appointments is paid to the HSBC company by which the executive Director is employed.

Directors' and executive officers' interests

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

	At 1 January 1998[1]	At 31 December 1998 Personal	Family	Corporate	Other	Total
Ordinary Shares of HK$10						
Sir John Bond	18,259	18,390	501	—	—	18,891
R K F Ch'ien	7,405	7,405	—	—	—	7,405
D E Connolly	15,855	16,400	—	—	—	16,400
W R P Dalton	304	314	—	—	—	314
Baroness Dunn	20,000	22,788	—	—	—	22,788
D G Eldon[4]	850	850	—	—	—	850
D J Flint	1,000	1,730	—	—	—	1,730
W K L Fung	95,834	95,834	—	—	—	95,834
S K Green	4,152	—	4,221	—	—	4,221
Sir Wilfrid Newton[6]	3,869	4,003	—	—	—	4,003
C E Reichardt	—	10,000	—	—	—	10,000
H Sohmen	820,437	—	120,666	749,771[2]	—	870,437
J E Strickland	30,987	30,805	714	—	—	31,519
Sir Adrian Swire	98,000	—	—	—	108,833[3]	108,833
K R Whitson	1,755	1,814	—	—	—	1,814
Ordinary Shares of 75p[5]						
Baroness Dunn	8,000	—	—	—	8,000[3]	8,000
Lord Marshall	2,122	2,196	—	—	—	2,196
Sir Brian Moffat	1,655	—	1,713	—	—	1,713
Sir Wilfrid Newton[6]	2,000	4,500	—	—	—	4,500
J E Strickland	10,364	13,597	—	—	—	13,597
Sir Adrian Swire	8,000	—	—	—	8,000[3]	8,000
Sir Peter Walters	13,005	13,005	—	—	—	13,005
11.69% Subordinated Bonds 2002 of £1						
Sir John Bond	500,000	500,000	—	—	—	500,000
Baroness Dunn	70,000	—	—	—	—	—
Lord Marshall	975	975	—	—	—	975
Sir Wilfrid Newton[6]	35,000	—	—	—	—	—
Sir Adrian Swire	359	—	—	—	—	—
Sir Peter Walters	6,500	6,500	—	—	—	6,500

1 Or at date of appointment if later.
2 Interests held by private investment companies.
3 Non-beneficial.
4 Interests at 1 January 1999, i.e. date of appointment.
5 Details of additional interests in ordinary shares of 75p each under the Share Option Schemes and Restricted Share Plan are set out on pages 99 and 100.
6 Retired on 28 May 1999.

At 31 December 1998, Directors and executive officers held, in aggregate, the following beneficial interests in the ordinary share capital of HSBC Holdings:

Title of class	Number	Per cent of class
Ordinary Shares of HK$10	1,121,342	0.06%
Ordinary Shares of 75p	212,949	0.02%

None of the disclosures included in this section have been restated to reflect the share capital reorganisation, which is discussed on page 4.

Directors' emoluments

The emoluments of the Directors of HSBC Holdings for 1998 were as follows:

	Fees	Salary and other remuneration	Benefits in kind	Discretionary bonuses[1]	Total 1998	Total 1997
	£000	£000	£000	£000	£000	£000
Executive Directors						
B H Asher[2]	4	103	14	—	121	598
Sir John Bond	25	494	1	135	655	626
— waived	(20)	—	—	—	(20)	(20)
W R P Dalton[3]	19	296	—	100	415	—
D J Flint	25	356	7	77	465	450
S K Green[4]	21	293	4	80	398	—
Sir William Purves[5]	10	267	21	100	398	731
— waived	(8)	—	—	—	(8)	(20)
J E Strickland[6]	20	336	578	—	934	958
— waived	(25)	—	—	—	(25)	(25)
K R Whitson	25	377	34	90	526	478
— waived	(20)	—	—	—	(20)	—
Non-executive Directors						
Lord Butler[7]	17	—	—	—	17	—
R K F Ch'ien[7]	92	—	—	—	92	—
D E Connolly	33	—	—	—	33	41
Baroness Dunn	33	—	—	—	33	33
W K L Fung[7]	30	—	—	—	30	—
Sir Joseph Hotung[5]	14	—	—	—	14	33
C D Mackay[5]	10	—	—	—	10	25
Lord Marshall	25	—	—	—	25	25
C Miller Smith	25	—	—	—	25	25
Sir Brian Moffat[8]	23	—	—	—	23	—
M Murofushi	25	—	—	—	25	25
Sir Wilfrid Newton[9]	60	—	—	—	60	60
C E Reichardt	25	—	—	—	25	25
H Sohmen	25	—	—	—	25	25
— waived	(30)	—	—	—	(30)	(30)
Sir Adrian Swire	25	—	—	—	25	25
Sir Peter Walters	30	—	—	—	30	30
Total (£000)	641	2,522	659	582	4,404	4,213
Total (US$000)	1,063	4,182	1,093	965	7,303	6,907

1 These discretionary bonuses are in respect of 1998 and will be paid in 1999.
2 Retired on 28 February 1998.
3 Appointed on 1 April 1998.
4 Appointed on 1 March 1998.
5 Retired on 29 May 1998.
6 The emoluments of J E Strickland include housing and other expatriate benefits in kind which are normal within the location in which he was employed. J E Strickland retired on 31 December 1998.
7 Appointed on 2 May 1998.
8 Appointed on 27 March 1998.
9 Retired on 28 May 1999.

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

Aggregate remuneration of Directors and executive officers

The aggregate remuneration of Directors and executive officers of HSBC Holdings for the year ended 31 December 1998 was US$18,687,000.

1999 Conditional awards under the Restricted Share Plan

The Remuneration Committee decided that conditional awards under the Restricted Share Plan should be made in 1999 and the Trustee to the Plan was provided with funds to acquire ordinary shares of 75p each between 22 February and 5 March 1999. The 1999 awards to executive Directors and Group General Managers in respect of 1998 had an aggregate value at the date of award of £3,025,000 and included awards to the following values to executive Directors:

	£000
Sir John Bond	300
W R P Dalton	175
D G Eldon	175
D J Flint	175
S K Green	175
K R Whitson	250
Total	1,250

Purpose

The Restricted Share Plan is intended to reward the delivery of sustained financial growth of HSBC Holdings. So as to align the interests of Directors and senior employees more closely with those of shareholders, the Restricted Share Plan links the vesting of 1999 awards to the attainment of predetermined total shareholder return ('TSR') targets.

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

The vesting of previous years' awards was linked to growth in earnings per share. The performance conditions and vesting rules for those awards are as set out in the Report by the Remuneration Committee in the 1996 and 1997 *Annual Report and Accounts*.

To illustrate how the Restricted Share Plan is to be applied for 1999 awards, particulars of the terms are set out below.

Vesting schedule

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

(1) a peer group of nine banks;

(2) the five largest banks from each of the United States, the United Kingdom, continental Europe and the Far East, other than any within (1) above; and

(3) the banking sector of the Morgan Stanley Capital International World Index, excluding any within (1) and (2) above.

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

For vesting of the 1999 awards to be achieved, HSBC Holdings' TSR over a three-year period must exceed the mean of the benchmark. The calculation of the share price component within HSBC Holdings' TSR is the average market price over the 20 trading days commencing on the day when the annual results are announced, which in 1999 was 22 February. The starting point is, therefore, the average over the period 22 February to 19 March inclusive. TSR for the benchmark banks has been based on the published share price for 19 March 1999.

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

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

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

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

Options to purchase securities from registrant or subsidiaries

At 31 December 1998, the undernamed Directors held options to acquire the number of ordinary shares of 75p each set against their respective names. The options were awarded for nil consideration at exercise prices equivalent to the market value at the date of award except that options awarded under the Savings-Related Share Option Scheme are exercisable at a 15 per cent discount to the market value at the date of award. Except as otherwise indicated, there are no performance criteria conditional upon which the outstanding options are exercisable. The market value of the ordinary shares of 75p each at 31 December 1998 was 1,630 pence. The highest and lowest market values during the year were 2,025 pence and 982 pence. Market value is the mid-market price quoted on the London Stock Exchange on the relevant date.

	Options held at 1 January 1998[1]	Options awarded during year	Options exercised during year	Options held at 31 December 1998	Exercise price in pence	Date of award	Exercisable from[4]	Exercisable until[4]
Sir John Bond	20,181	—	—	20,181	721.84	12 Oct 1993	12 Oct 1996	12 Oct 2003
	20,181	—	—	20,181	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	25,000	—	—	25,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	3,183	—	—	3,183[2]	541.80	10 Apr 1995	1 Aug 2000	31 Jan 2001
	25,000	—	—	25,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
W R P Dalton	7,568	—	—	7,568	721.84	12 Oct 1993	12 Oct 1996	12 Oct 2003
	10,091	—	—	10,091	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	12,000	—	—	12,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	2,875	—	—	2,875[2]	541.80	10 Apr 1995	1 Aug 2000	31 Jan 2001
	12,000	—	—	12,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
D G Eldon[5]	8,577	—	—	8,577	721.84	12 Oct 1993	12 Oct 1996	12 Oct 2003
	10,091	—	—	10,091	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	12,000	—	—	12,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	13,500	—	—	13,500[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
D J Flint	12,000	—	—	12,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,271	—	—	1,271[2]	1,356.18	9 Apr 1997	1 Aug 2002	31 Jan 2003
S K Green	8,072	—	—	8,072	721.84	12 Oct 1993	12 Oct 1996	12 Oct 2003
	12,108	—	—	12,108	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	15,000	—	—	15,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	15,000	—	—	15,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,879	—	—	1,879[2]	917.70	3 Apr 1996	1 Aug 2001	31 Jan 2002
J E Strickland	15,136	—	—	15,136	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	15,000	—	—	15,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	15,000	—	—	15,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006
	1,271	—	—	1,271[2]	1,356.18	9 Apr 1997	1 Aug 2002	31 Jan 2003
K R Whitson	12,613	—	—	12,613	851.27	8 Mar 1994	8 Mar 1997	8 Mar 2004
	20,000	—	—	20,000	651.80	7 Mar 1995	7 Mar 1998	7 Mar 2005
	3,183	—	—	3,183[2]	541.80	10 Apr 1995	1 Aug 2000	31 Jan 2001
	20,000	—	—	20,000[3]	1,000.00	1 Apr 1996	1 Apr 1999	1 Apr 2006

1 Or at date of appointment if later.
2 Options awarded under the Savings-Related Share Option Scheme.
3 The exercise of these options is conditional upon the growth in earnings per share over a three-year period being equal to or greater than a composite rate of inflation (comprising 50 per cent of the Hong Kong Composite Consumer Price Index, 35 per cent of the UK Retail Price Index and 15 per cent of the USA All Urban Consumer Price Index) plus 2 per cent per annum.
4 May be advanced to an earlier date in certain circumstances, e.g. retirement.
5 Options at 1 January 1999, i.e. date of appointment.

The table above has not been restated to reflect the share capital reorganisation, which is discussed on page 4. The Share Option Schemes will be adjusted, subject to approval by the Inland Revenue, to increase by a factor of three the number of shares under option or subject to award, and to reduce by two-thirds the option price payable per share.

Restricted Share Plan (Ordinary Shares of 75p)

	Awards held at 1 January 1998[1]	Awards made during year	Monetary value of awards made during year (£000)	Awards vested during year	Awards held at 31 December 1998[2]	Year in which awards will vest
Sir John Bond	7,884	—	—	—	8,156	2001 or 2002
	—	8,333	150	—	8,613	2002 or 2003
W R P Dalton	4,931	—	—	—	5,101	2001 or 2002
	10,000	—	—	—	10,345[4]	2001
	—	5,556[3]	100	—	5,748	2002 or 2003
D G Eldon[5]	6,121	—	—	—	6,121	2001 or 2002
	—	6,896	120	—	6,896	2002 or 2003
D J Flint	4,931	—	—	—	5,101	2001 or 2002
	—	5,556	100	—	5,748	2002 or 2003
S K Green	5,917	—	—	—	6,121	2001 or 2002
	—	6,666	120	—	6,896	2002 or 2003
J E Strickland	5,917	—	—	3,060	—	—
K R Whitson	5,917	—	—	—	6,121	2001 or 2002
	—	6,666	120	—	6,896	2002 or 2003

Unless otherwise indicated, vesting of these shares is subject to certain performance tests being satisfied.

1 Or at date of appointment if later.
2 Includes additional shares arising from scrip dividends.
3 Held on date of appointment.
4 Award not subject to performance conditions.
5 Interests at 1 January 1999, i.e. date of appointment.

The table above has not been restated to reflect the share capital reorganisation, which is discussed on page 4. The Share Option Schemes will be adjusted, subject to approval by the Inland Revenue, to increase by a factor of three the number of shares under option or subject to award, and to reduce by two-thirds the option price payable per share.

S K Green has a personal interest in £100,000 of Midland Bank plc 9 per cent Subordinated Notes 2005, which he held on the date of his appointment and at the end of the year.

H Sohmen has a corporate interest in £1,200,000 of Midland Bank plc 9 per cent Subordinated Notes)05, which he held throughout the year.

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

Interests held by D G Eldon at the date of his appointment as a Director, i.e. 1 January 1999, have been included in the above tables.

Sir Adrian Swire acquired a non-beneficial interest in an additional 19,000 ordinary shares of HK$10 each on 12 February 1999.

At 31 December 1998, Directors and executive officers held, in aggregate, options to subscribe for 802,850 ordinary shares of 75p each under the Executive and Savings-Related Share Option Schemes. These options are exercisable between 1999 and 2008 at prices ranging from £5.4180 to £18.830.

The following changes in Directors' interests in the shares and loan capital of HSBC Holdings plc and its subsidiaries occurred between 22 February 1999 (the date of the Report of the Directors) and 7 June 1999. All such interests are beneficial unless otherwise indicated.

a) the undernamed Directors were granted conditional awards under the HSBC Holdings plc Restricted Share Plan (as set out on page 97) which gave rise to interests in the number of Ordinary Shares of 75p each shown below:

Sir John Bond	16,741
W R P Dalton	9,765
D G Eldon	9,765
D J Flint	9,765
S K Green	9,765
K R Whitson	13,950

b) D G Eldon transferred 282 Ordinary Shares of HK$10 each.

c) H Sohmen sold 114,000 Ordinary Shares of HK$10 each.

d) Sir John and Lady Bond each purchased 465 Ordinary Shares of HK$10 each through Personal Equity Plans and sold a corresponding 930 Ordinary Shares of HK$10 each held jointly.

e) the undernamed Directors received new shares in lieu of the second interim dividend for 1998 under the HSBC Holdings scrip dividend scheme:

	Ordinary Shares of HK$10 each	Ordinary Shares of 75p each
Sir John Bond	333	610
D E Connolly	294	—
W R P Dalton	5	557
Baroness Dunn	409	—
D G Eldon	9	411
D J Flint	28	371
S K Green	75	411
Lord Marshall	—	39
Sir Brian Moffat	—	31
K R Whitson	32	486

f) Baroness Dunn purchased 10,000 Ordinary Shares of HK$10 each.

g) D G Eldon exercised options held over 18,668 Ordinary Shares of 75p each and sold the resultant shares.

h) Dr H Sohmen purchased 3,000,000 Midland Bank plc US$375 million Subordinated Step-Up Coupon Floating Rate Notes 2009.

i) Sir Adrian Swire acquired a non-beneficial interest in 6,420 Ordinary Shares of 75p each.

As at 7 June 1999, Directors and executive officers held, in aggregate, options to subscribe for 731,703 Ordinary Shares of 75p each under the Executive and Savings-Related Share Option Schemes.

As at 7 June 1999, Directors and executive officers held, in aggregate, the following beneficial interests in the ordinary share capital of HSBC Holdings:

	Number	Per cent of issued Ordinary Shares
Ordinary Shares of HK$10 each and 75p each	1,339,833	0.05%

Details of total options outstanding at 31 December 1998 are disclosed in Note 31 of the 'Notes on the Financial Statements'.

DESCRIPTION OF SECURITIES TO BE REGISTERED

Description of Shares

The following information is a summary of the material terms of the ordinary shares of nominal value US$0.50 each (the 'Shares') as set out in the HSBC Holdings' Memorandum and Articles of Association (the 'Articles') and certain relevant provisions of the Companies Act 1985, as amended (the 'Companies Act'). Holders of the Shares are encouraged to read the full HSBC Holdings Articles, which are filed as an exhibit to this Registration Statement.

General

The authorised share capital of HSBC Holdings consists of 10,500,000,000 ordinary shares of nominal value US$0.50 each (the 'Shares'), 301,500 non-voting deferred shares of nominal value £1 each and 500,000,000 sterling preference shares of nominal value £1 each.

HSBC Holdings maintains two share registers, a principal share register in London and an overseas branch share register in Hong Kong.

Voting

Unless otherwise required by the Companies Act or the Articles, shareholders vote by ordinary resolution (such as for the election of directors, the declaration of a dividend, the appointment of auditors, an increase of authorised share capital or the grant of authority to allot shares) at general meetings.

Subject to the restrictions referred to under 'Restrictions on voting' below and any special voting rights or restrictions attached to any class of shares, ordinary resolutions will be decided on a show of hands by a simple majority of shareholders present and voting at the meeting where each shareholder has one vote, regardless of the number of shares held, unless a poll is demanded. On a poll, every holder who is present in person or by proxy and entitled to vote shall have one vote for every Share held. Holders of record of Shares may appoint a proxy to attend and vote on their behalf.

The chairman of the meeting has the swing vote in the event of a tie in either a show of hands or poll vote, in addition to any other vote he may have.

HSBC Holdings will send out written notice at least 21 days before an Annual General Meeting or an Extraordinary General Meeting convened to consider a special or extraordinary resolution, and at least 14 days before all other Extraordinary General Meetings. For general meetings to be valid, at least three shareholders entitled to vote must be present in person or by proxy.

Disclosure of interests in shares

The Companies Act gives HSBC Holdings the power to require persons who it believes to be, or to have been within the previous three years, interested in its voting shares, to disclose prescribed particulars of those interests. Failure to supply the information required may lead to disenfranchisement of the relevant shares and, where those shares represent at least 0.25 per cent of the Shares in issue, a prohibition on their transfer and receipt of dividends and other payments in respect of those shares. In this context, the term 'interest' is widely defined and will generally include an interest of any kind whatsoever in voting shares, including the interest of a holder of an HSBC Holdings ADS.

Restrictions on voting

Any shareholder (or any other person appearing to be interested in the shares) who has been served with a notice under section 212 of the Companies Act 1985 and has not given HSBC Holdings any information required by the notice within 14 days from receiving the notice, will not be entitled to be present or to vote either personally or by proxy at a general meeting unless the Directors determine that this restriction should not apply.

A shareholder can vote (whether in person or by proxy) and exercise other rights or privileges as a shareholder only if he has paid all calls or other amounts presently due.

Dividends and other distributions

HSBC Holdings may, by ordinary resolution, declare dividends, but it may not pay dividends in excess of the amount recommended by the Directors. Except as otherwise provided by the terms of issue or special rights of any shares, dividends are declared and paid pro rata according to the amounts paid on the Shares during any portion or portions of the period in respect of which the dividends are paid. HSBC Holdings may pay interim dividends. Dividends declared but not yet paid do not bear interest. The Board may deduct from any dividend declared but not yet paid to any person any amounts due from that person to HSBC Holdings on account of calls or otherwise in relation to the Shares. The Directors may, if authorised by an ordinary resolution, offer shareholders the right to elect to receive Shares instead of cash for the whole or any part of any dividend specified by the ordinary resolution. The Board can forfeit a shareholder's right to a dividend that remains unclaimed for 12 years. Dividends with respect to HSBC Holdings' ADSs held by HSBC Bank USA will be paid in US dollars and the depositary will distribute them to the holders of HSBC Holdings' ADSs.

Liquidation

If HSBC Holdings is wound up, after payment of all liabilities and the deduction of any provision made under section 719 of the Companies Act 1985 or section 187 of the Insolvency Act 1986 (which enables the liquidator to make payments to employees or former employees on the cessation or transfer of HSBC Holdings' business), the remaining assets available for distribution to holders of the Shares will be distributed among the shareholders in proportion to the number of Shares that they hold. On the date of the distribution, the amount paid to any shareholder who has not fully paid for his shares will be reduced to reflect the amount owed. After receiving approval of the shareholders by an extraordinary resolution and meeting any legal requirements, the liquidator may divide the assets in kind among the shareholders in the manner that it sees fit.

Untraced shareholders

HSBC Holdings can sell any Share (including any further share issued in respect of that Share) if the holder has not cashed any cheque, order or warrant payable and HSBC Holdings has not received any communication in respect of the Share from the relevant shareholder (or other person entitled to the Share) for a period of 12 years during which at least three dividends were payable with respect to the Share. HSBC Holdings must advertise its intention to sell the Share in newspapers published in the United Kingdom and in Hong Kong (in the manner specified in the Articles) and inform the London Stock Exchange and the Hong Kong Stock Exchange of the same.

HSBC Holdings may then sell the Shares if it does not receive any response from the shareholder within three months of publishing the advertisements. After selling the Share, HSBC Holdings will owe the former shareholder (or other person previously entitled to the Share) only the sale amount, without interest.

Transfer of Shares

HSBC Holdings Shares may be transferred by an instrument in any usual form or in any other form acceptable to the Directors. The Directors may refuse to register a transfer:

(1) if it is of Shares which are not fully paid (unless to do so would prevent dealing in the Shares taking place on an open and proper basis);

(2) if it is not stamped (if required);

(3) if it is not duly presented for registration together with the share certificate and other evidence of title as the Directors reasonably require;

(4) if it is in respect of more than one class of shares or shares denominated in different currencies;

(5) if it is in favour of more than four persons jointly;

(6) if HSBC Holdings has a lien on the shares; or

(7) in certain circumstances, if the holder has failed to provide the required particulars as described under 'Disclosure of interests in shares' above.

The transferor will remain the holder of the shares concerned until the name of the transferee is entered in the share register in respect of the transfer.

If the Board refuses to register a transfer of a share it must inform the transferee of its refusal within two months of receiving the transfer request. The Board must return the refused instrument of transfer to the person depositing it, except in the case of suspected fraud.

The registration of transfers may be suspended at any time and for any periods as the Directors may determine, although these suspensions may not exceed 30 days in any year.

Unless expressly provided by the Articles or required by law or court order, HSBC Holdings cannot recognise any person other than the registered holder of a share as the owner of such share.

Uncertificated shares

Shares may be held in uncertificated form. HSBC Holdings may refuse to register a transfer of uncertificated shares only in limited circumstances, such as where prohibited by court order. HSBC Holdings cannot refuse to register uncertificated shares for failure to comply with a notice given pursuant to section 212 of the Companies Act 1985. See 'Disclosure of interests in shares' and 'Restrictions on voting' above.

Variation of class rights and alteration of share capital

Subject to the provisions of the Companies Act, the consent in writing of the holders of at least threequarters of the shares in a class, or the sanction by the shareholders of that class of an extraordinary resolution passed at a separate general meeting, is required to vary or abrogate the rights of the class, unless otherwise provided by the terms of issue of the shares of that class. Two persons holding or representing by proxy at least one-third of the shares of the relevant class must be present for the separate general meeting to be valid. The issuance of new shares ranking in priority to or pari passu with an existing class of shares is not considered to be a 'variation' in the rights of already existing shares, unless the existing shares provide so expressly.

HSBC Holdings may also vary or abrogate rights attached to the Shares by a special resolution without the separate consent or sanction of the holders of any class of Shares so long as the rights attached to all the Shares are varied or abrogated in the same manner and to the same extent.

HSBC Holdings may issue shares with rights or restrictions as it sees fit, including redeemable shares, so long as it does so in accordance with the Companies Act and the Articles and without reducing any rights attached to any existing shares.

HSBC Holdings can increase its share capital, consolidate and divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its share capital into shares of a smaller amount (subject to the provisions of the Companies Act) or cancel any shares not taken or agreed to be taken by any person and reduce the amount of its authorised share capital accordingly.

Pre-emptive rights

Because HSBC Holdings is a public company ncorporated in the United Kingdom, in general, its :hareholders have automatic pre-emptive rights ›u[illegible]ıt to section 89 of the Companies Act 1985.

.ien on shares

ISBC Holdings has a lien on shares which are not ılly paid (to the extent permitted by the Companies .ct). The Board may waive the lien in whole or in ırt, or temporarily, and may sell shares subject to a ɜn as it sees fit. The Board is entitled to sell a share ıbject to the lien only after giving 14 days' notice of ; intent to sell in default.

ɜlls

ıe Board may from time to time make calls on the ɜreholders for any amounts unpaid on the shares. These calls must be made with 14 days' notice specifying the time, place and manner of payment which may include payment in instalments. The person on whom a call is made remains liable for the call despite any subsequent transfer of the shares on which the call was made. The joint holders of a share are jointly and severally liable for the payment of all calls.

Shareholders who have not paid all calls (and any accrued interest) due are not entitled to receive a dividend or vote at shareholders' meetings either in person or by proxy (except as proxy for another member), are not counted as present and may not form part of a quorum.

Forfeiture of shares

If any shareholder does not pay any part of any call on or before the payment date, the Board may send the shareholder a notice of the amount unpaid (including interest and other costs and expenses incurred by HSBC Holdings) and if the shareholder does not pay the amount owed within 14 days after receiving the notice, the Board may forfeit the relevant share, at any time before full payment is made. The forfeited share and any dividends declared or other moneys payable in respect of the forfeited share will then become the property of HSBC Holdings.

Purchase of shares

HSBC Holdings can purchase any of its own shares of any class, including any redeemable shares, in any manner that it deems fit, subject to the provisions of the Companies Act and the Articles.

Description of ADSs

General

HSBC Bank USA, as depositary, issues HSBC Holdings ADSs in certificated or book-entry form. If the share capital reorganisation is effected each ADS will represent ownership interests in five Shares (or the right to receive five Shares) which have been deposited with the custodian of the underlying Shares (currently the London office of Midland). The office of HSBC Bank USA is located at 140 Broadway, New York, New York 10005.

The holder may hold ADSs either directly or indirectly through his broker or other financial institution. This description assumes the holder holds his ADSs directly. If the holder holds the ADSs indirectly, he must rely on the procedures of his broker or other financial institution to assert the rights of ADS holders described in this section. Any indirect holder should consult with his broker or financial institution to find out what those procedures are.

The following is a summary of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to holders of ADSs. For more complete information, the holder should read the entire agreement and the American Depositary Receipt ('ADR'). Copies of the agreement and the ADR will be available for inspection at the office of HSBC Bank USA. The laws of the State of New York govern the deposit agreement.

The term deposited securities, as used in this description, includes Shares deposited under the deposit agreement and other securities, cash and property received by HSBC Bank USA in respect of the Shares, or in respect of any other securities, property or cash previously received, and held under the deposit agreement.

Deposit and withdrawal of deposited securities

HSBC Bank USA will issue the ADSs that the holder is entitled to receive against deposits of Shares. HSBC Bank USA will issue additional ADSs if the holder or his broker deposits Shares, along with any appropriate instruments of transfer or endorsement, with the custodian. HSBC Bank USA may also require the holder to deliver evidence of certain governmental approvals and an agreement transferring his right as a shareholder to receive dividends or other property. Upon payment of its fees and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, HSBC Bank USA will register the appropriate number of ADSs in the names the holder requests and will issue book-entry ADSs or, if the holder specifically requests, deliver certificates representing the ADSs at its New York office to the persons the holder requests.

The holder may submit a written request to withdraw Shares and turn in his certificated ADSs, if any, at the New York office of HSBC Bank USA. Upon payment of its fees and of any taxes or charges, such as stamp taxes, stock transfer taxes or fees, HSBC Bank USA will deliver at the office of its custodian in London the deposited securities underlying the ADSs, and at HSBC Bank USA's New York office any dividends or distributions with respect to the deposited securities represented by the ADSs, or any proceeds from the sale of any dividends, distributions or rights held by HSBC Bank USA. Alternatively, at the holder's request, risk and expense, HSBC Bank USA will deliver the deposited securities at its New York office.

Dividends and other distributions

HSBC Bank USA will pay the holder the cash dividends or other distributions it or the custodian receives on Shares or other deposited securities, after deducting its fees and expenses (if any). The holder will receive these distributions in proportion to the number of Shares his ADSs represent.

Cash

HSBC Bank USA will convert any cash dividend or other cash distribution HSBC Holdings pays on the Shares, other than any dividend or distribution paid in US dollars, into US dollars. If that is not possible on a reasonable basis, or if any approval from any government is needed and cannot be obtained, the deposit agreement allows HSBC Bank USA to distribute the non-US currency only to those ADS holders to whom it is possible to do so or to hold the non-US currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the non-US currency and it will not be liable for any interest.

Before making a distribution, HSBC Bank USA will deduct any withholding taxes that must be paid under applicable laws. See 'Shareholder Information — Taxation'. It will distribute only whole US dollars and cents and will add any fractional cents to the next distribution.

Shares

HSBC Bank USA will distribute new ADSs representing any Shares HSBC Holdings distributes as a dividend or free distribution, if HSBC Holdings requests it to make this distribution. HSBC Bank USA will only distribute whole ADSs. It may sell Shares which would require it to issue a fractional ADS and distribute the net proceeds in the same way as it does with cash. If HSBC Bank USA does not distribute additional cash or ADSs, each ADS will also represent the new Shares.

Rights to receive additional shares

If HSBC Holdings offers holders of securities any rights to subscribe for additional Shares or any other rights, HSBC Bank USA will take actions necessary to make these rights available to the holder. If HSBC Bank USA determines that it is not legal or not feasible to make these rights available to the holder, HSBC Bank USA may sell the rights and allocate the net proceeds to holders' accounts. HSBC Bank USA may allow rights that are not distributed or sold to lapse.

If HSBC Bank USA makes rights available to the holder, upon instruction from the holder it will exercise the rights and purchase the Shares on his behalf. HSBC Bank USA will then deposit the Shares and issue ADSs to the holder. HSBC Bank USA will only exercise rights if the holder pays it the exercise price and any other charges the rights require the holder to pay.

US securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. In this case, HSBC Bank USA may issue the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the restrictions in place. HSBC Bank USA will not offer the holder rights unless those rights and the securities to which the rights relate are either exempt from registration or have been registered under the US Securities Act of 1933 (the 'Securities Act') with respect to a distribution to the holder. HSBC Holdings w... have no obligation to register under the Securities A... those rights or the securities to which they relate.

Other distributions

HSBC Bank USA will send to the holder anything else HSBC Holdings distributes on deposited securities by any means HSBC Bank USA thinks is legal, fair and practical. If it cannot make the distribution in that way, HSBC Bank USA may decide to sell what HSBC Holdings distributed — for example by public or private sale — and distribute the net proceeds, in the same way as it does with cash.

HSBC Holdings will have no obligation to take any other action to permit the distribution of ADSs, Shares, rights or anything else to ADS holders.

Reclassifications, recapitalisations and mergers

If HSBC Holdings:

- hanges the nominal or par value of any of the HSBC Holdings Shares;
- reclassifies, splits or consolidates any of the HSBC Holdings Shares;
- distributes securities on any of the HSBC Holdings Shares which are not in turn distributed to ADS holders; or
- recapitalises, reorganises, merges, consolidates, sells its assets, or takes any similar action:

:) The cash, shares or other securities received by HSBC Bank USA will become new deposited securities under the deposit agreement. Each ADS will automatically represent its equal share of the new deposited securities.

(2) HSBC Bank USA will, if HSBC Holdings asks it to, issue new ADSs or ask the holder to surrender his outstanding ADSs in exchange for new ADSs identifying the new deposited securities.

Record dates

Each time a dividend is payable or other distribution is made, or a meeting of shareholders is scheduled, HSBC Holdings may set a record date to establish the shareholders eligible to receive the dividend or distribution or to attend the meeting. HSBC Bank USA will co-ordinate with HSBC Holdings to fix any record date relating to the ADSs to the same record date as established by HSBC Holdings.

Voting rights

The ADS holder, on a record date fixed by HSBC Bank USA, may attend and vote on a poll at HSBC Holdings' shareholder meetings of holders of the same class of securities as the deposited securities represented by ADSs.

HSBC Bank USA will enable the holder to attend and vote at a meeting by appointing him its proxy for the Shares or other deposited securities underlying his ADSs. If the holder does not wish to attend a meeting, he may instruct HSBC Bank USA to appoint another person to attend and vote on his behalf.

HSBC Bank USA will notify the holder of the upcoming meeting and arrange to deliver certain materials to him. The materials will (1) describe the meeting time, place and the matters to be voted on and (2) explain how the holder may give instructions for his Shares to be voted. For instructions to be valid, HSBC Bank USA must receive them on or before the date specified in the instructions. HSBC Bank USA will, to the extent practical, subject to applicable law and the provisions of the Articles, vote the Shares or other deposited securities as the holder instructs. HSBC Bank USA will only vote as the holder instructs.

Although HSBC Bank USA will try to send the notice of the meeting reasonably in advance of the meeting, HSBC Holdings will not be able to assure that the holder will receive the voting materials in time to ensure that the holder can give instructions for his Shares to be voted. In addition, HSBC Bank USA and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions.

Disclosure of interests

The obligation of a holder of HSBC Holdings Shares and other persons with an interest in the Shares to disclose information to HSBC Holdings under English law applies to ADS holders and any other persons with an interest in the ADSs. The consequence of failure to comply with these provisions will be the same for an ADS holder and any other persons with an interest in the ADS as for a holder of Shares. See 'Description of Shares — Disclosure of interests in shares'. HSBC Bank USA will co-operate with HSBC Holdings' efforts to comply with the disclosure requirements and ownership limitations.

Amendment and termination of the deposit agreement

HSBC Holdings may agree with HSBC Bank USA to amend, for any reason, the deposit agreement and the HSBC Holdings ADRs without the holder's consent. If the amendment adds or increases fees or charges, except for taxes and other governmental charges, or prejudices an important right of ADS holders, it will only become effective thirty days after HSBC Bank USA notifies the holder of the amendment. At the time an amendment becomes effective, the holder is considered, by continuing to hold his ADS, to agree to the amendment and to be bound by the agreement as amended. However, no amendment will impair the holder's right to receive the deposited securities in exchange for his ADSs.

HSBC Bank USA will terminate the deposit agreement if HSBC Holdings asks it to do so, in which case it must notify the holder at least 90 days before termination. HSBC Bank USA may also terminate the agreement if HSBC Bank USA informs HSBC Holdings that it would like to resign and HSBC Holdings does not appoint a new depositary bank within 90 days.

After termination, HSBC Bank USA and its agents will be required to do only the following under the agreement: (1) collect dividends and other distributions on the deposited securities, (2) sell rights offered to holders of deposited securities, and (3) deliver shares and other deposited securities upon cancellation of ADSs. At any time after one year after termination of the deposit agreement, HSBC Bank USA may sell any remaining deposited securities. After that, HSBC Bank USA will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the pro rata benefit of the ADS holders that have not surrendered their ADSs. HSBC Bank USA will not invest the money and will have no liability for interest. HSBC Bank USA's only obligations will be to account for the money and other cash. After termination, HSBC Holdings' only obligations will be with respect to indemnification and to pay specified amounts to HSBC Bank USA.

Charges of depositary

HSBC Holdings will pay certain fees, charges and expenses of HSBC Bank USA as agreed between HSBC Bank USA and HSBC Holdings. Fees for which the holders of ADSs will be responsible include:

For:	ADS holders must pay:
Each issuance of an ADS, including as a result of a distribution of shares (through stock dividend or stock split or rights or other property)	US$5.00 (or less) per 100 ADSs
Each cancellation of an ADS, including if the agreement terminates	US$5.00 (or less) per 100 ADSs
Transfer and registration of shares on HSBC Holdings' share register from the holder's name to the name of HSBC Bank USA or its agent when the holder deposits or withdraws shares	Registration or transfer fees
Conversion of non-US currency to US dollars	Expenses of HSBC Bank USA
Cable, telex and facsimile transmission expenses	Expenses of HSBC Bank USA
As necessary	Certain taxes and other governmental charges HSBC Bank USA or the custodian has to pay on any ADS or Share underlying an ADS, for example, stock transfer taxes, stamp duty reserve tax or withholding taxes.

Liability of holder for taxes

HSBC Bank USA may deduct the amount of any taxes owed from any payments to the holder. It may also restrict the transfer of the holder's ADSs or restrict the withdrawal of the holder's underlying deposited securities until the holder pays any taxes owed on his ADSs or underlying securities. It may also sell deposited securities, by public or private sale, to pay any taxes owed. The holder will remain liable if the proceeds of the sale are not enough to pay the taxes. If HSBC Bank USA sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to the holder any proceeds, or send to the holder any property, remaining after it has paid.

Limitations on obligations and liability to ADS holders

The deposit agreement expressly limits HSBC Holdings' obligations and the obligations of HSBC Bank USA. It also limits HSBC Holdings' liability and the liability of HSBC Bank USA. HSBC Holdings and HSBC Bank USA:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of them is prevented or delayed by law, any provision of the Articles or circumstances beyond their control from performing their obligations under the agreement;
- are not liable if either of them exercises, or fails to exercise, discretion permitted under the agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the agreement on a holder's behalf or on behalf of any other party unless they are indemnified to their satisfaction; and
- may rely upon any advice of or information from any legal counsel, accountants, any person depositing Shares, any ADS holder or any other person whom they believe in good faith is competent to give them that advice or information.

In the deposit agreement, HSBC Holdings and HSBC Bank USA agree to indemnify each other under specified circumstances.

Holder's right to receive the Shares underlying ADSs

The holder has the right to cancel his ADSs and withdraw the underlying shares at any time except: when HSBC Bank USA or HSBC Holdings has closed its transfer books (for example, to permit voting at a shareholders' meeting or when HSBC Holdings is paying a dividend on the Shares); when the holder seeking to withdraw Shares owes money to pay fees, taxes and similar charges; or when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of Shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

HSBC Bank USA will keep books at its transfer office in New York City for the registration and transfer of ADSs which will be open for inspection by the holders of ADSs and HSBC Holdings at all reasonable times. Any reports and communications that HSBC Holdings sends to HSBC Bank USA or the custodian or otherwise makes available to shareholders are available for inspection by the holders of ADSs and HSBC Holdings at HSBC Bank USA's New York City transfer office.

Pre-release of ADSs

HSBC Bank USA may issue ADSs before deposit of the underlying Shares. This is called a pre-release of ADSs. HSBC Bank USA may also deliver Shares prior to the receipt and cancellation of pre-released ADSs even if the ADSs are cancelled before the pre-release transaction has been closed out. A pre-release is closed out as soon as the underlying Shares are delivered to HSBC Bank USA. HSBC Bank USA may receive ADSs instead of Shares to close out a pre-release. HSBC Bank USA may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made must represent to HSBC Bank USA in writing that it or its customer, as the case may be, owns the Shares or ADSs to be remitted; (2) the pre-release must be fully collateralised with cash or other collateral that HSBC Bank USA considers appropriate; (3) HSBC Bank USA must be able to close out the pre-release on not more than three business days' notice. The pre-release will be subject to whatever indemnities and credit regulations that HSBC Bank USA considers appropriate. In addition, HSBC Bank USA will limit the number of ADSs that may be outstanding at any time as a result of pre-release.

Actions by holders

HSBC Bank USA, or its nominee, will take limited actions as the holder may reasonably request in writing, to enable him to exercise the rights to which shareholders of HSBC Holdings will be entitled. These actions will be taken to the extent practicable and subject to any applicable law or regulation and at the holder's expense. HSBC Bank USA, or its nominee, may require the holder to indemnify it with respect to these actions.

Requirements for depositary actions

Before HSBC Bank USA will issue or register the transfer of an ADS, make a distribution on an ADS, or permit withdrawal of Shares, HSBC Holdings or HSBC Bank USA may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any Shares or other deposited securities, as well as the fees of HSBC Bank USA;
- production of satisfactory proof of the identity of the person presenting Shares for deposit or ADSs upon withdrawal, and of the authenticity of any signature or other information they deem necessary; and
- compliance with regulations HSBC Bank USA may establish consistent with the deposit agreement, including presentation of transfer documents.

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Report of the Independent Auditors

To the Members and Board of Directors of HSBC Holdings plc

We have audited the accompanying consolidated balance sheets of HSBC Holdings plc ('HSBC Holdings') and its subsidiaries (together, 'HSBC') as of 31 December 1998 and 1997, and the related consolidated profit and loss accounts, statements of recognised gains and losses, statements of changes in shareholders' funds and cash flows for each of the years in the three year period ended 31 December 1998, set out on pages 112 to 189. These consolidated financial statements are the responsibility of HSBC Holdings' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with United Kingdom auditing standards which are substantially equivalent to United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HSBC as of 31 December 1998 and 1997, and the consolidated results of its operations and cash flows for each of the years in the three year period ended 31 December 1998, in conformity with accounting principles generally accepted in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected the consolidated results of operations for the years ended 31 December 1998 and 1997, and consolidated shareholders' funds as of 31 December 1998 and 1997, to the extent summarised in Note 45 of 'Notes on the Financial Statements'.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London, England
18 June 1999

Consolidated Profit and Loss Account for the Year Ended 31 December 1998

	Note	1998 US$m	1997 US$m	1996 US$m
Interest receivable				
— interest receivable and similar income arising from debt securities		3,892	3,378	2,768
— other interest receivable and similar income		29,728	25,293	19,554
Interest payable		(22,073)	(17,727)	(13,230)
Net interest income		11,547	10,944	9,092
Dividend income	3	148	156	165
Fees and commissions receivable		6,970	6,622	4,956
Fees and commissions payable		(1,234)	(1,153)	(660)
Dealing profits		1,149	990	800
Other operating income		1,475	1,050	620
Operating income	5	20,055	18,609	14,973
Administrative expenses	4,5	(10,090)	(9,337)	(7,346)
Depreciation and amortisation				
— tangible fixed assets	21	(904)	(719)	(573)
— goodwill	20	(10)	—	—
Operating profit before provisions		9,051	8,553	7,054
Provisions				
— provisions for bad and doubtful debts	14	(2,637)	(1,014)	(604)
— provisions for contingent liabilities and commitments	28	(144)	(56)	(11)
Amounts written off fixed asset investments		(85)	(49)	(75)
Operating profit		6,185	7,434	6,364
Share of operating profit in associated undertakings		136	112	137
Gains on disposal of				
— investments		222	555	500
— tangible fixed assets		28	29	51
Profit on ordinary activities before tax	5	6,571	8,130	7,052
Tax on profit on ordinary activities	6	(1,789)	(2,058)	(1,672)
Profit on ordinary activities after tax		4,782	6,072	5,380
Minority interests				
— equity		(393)	(512)	(465)
— non-equity		(71)	(73)	(63)
Profit for the financial year attributable to shareholders		4,318	5,487	4,852
Dividends	7	(2,495)	(2,206)	(1,738)
Retained profit for the year		1,823	3,281	3,114
		US$	US$	US$
Basic earnings per ordinary share	8	0.54	0.69	0.61
Diluted earnings per ordinary share	8	0.53	0.68	0.61
Headline earnings per ordinary share	8	0.53	0.68	0.60
Dividends per ordinary share	7	0.31	0.28	0.22

Movements in reserves are set out in Note 32.

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Balance Sheet at 31 December 1998

	Note	1998 US$m	1997 US$m
ASSETS			
Cash and balances at central banks		3,048	2,961
Items in the course of collection from other banks		5,911	5,669
Treasury bills and other eligible bills	*10*	21,980	17,183
Hong Kong SAR Government certificates of indebtedness	*11*	7,408	8,143
Loans and advances to banks	*12*	85,315	86,522
Loans and advances to customers	*13*	235,295	240,421
Debt securities	*16*	69,185	55,764
Equity shares	*17*	4,221	3,228
Interests in associated undertakings	*18*	889	899
Other participating interests	*19*	309	320
Intangible fixed assets	*20*	146	—
Tangible fixed assets	*21*	12,108	13,034
Other assets	*23*	32,352	33,255
Prepayments and accrued income		4,961	4,287
Total assets		483,128	471,686
LIABILITIES			
Hong Kong SAR currency notes in circulation	*11*	7,408	8,143
Deposits by banks	*24*	34,342	38,947
Customer accounts	*25*	308,910	294,189
Items in the course of transmission to other banks		4,206	4,045
Debt securities in issue	*26*	29,190	27,745
Other liabilities	*27*	48,662	49,676
Accruals and deferred income		4,805	4,661
Provisions for liabilities and charges	*28*		
— deferred taxation		1,268	939
— other provisions for liabilities and charges		2,906	2,133
Subordinated liabilities	*29*		
— undated loan capital		3,247	3,245
— dated loan capital		7,597	7,281
Minority interests			
— equity		2,315	2,752
— non-equity	*30*	870	850
Called up share capital	*31*	3,443	3,406
Share premium account	*32*	480	489
Revaluation reserves	*32*	2,120	4,262
Profit and loss account	*32*	21,359	18,923
Shareholders' funds		27,402	27,080
Total liabilities		483,128	471,686
MEMORANDUM ITEMS			
Contingent liabilities	*34*		
— acceptances and endorsements		4,032	4,814
— guarantees and assets pledged as collateral security		23,686	20,563
— other contingent liabilities		64	104
		27,782	25,481
Commitments	*34*	146,652	136,288

The accompanying notes are an integral part of the Consolidated Financial Statements

Statement of Total Consolidated Recognised Gains and Losses for the Year Ended 31 December 1998

	1998 US$m	1997 US$m	1996 US$m
Profit for the financial year attributable to shareholders	**4,318**	5,487	4,852
Impairment of land and buildings	**(38)**	—	—
Unrealised (deficit)/surplus on revaluation of investment properties			
— subsidiaries	**(190)**	(3)	16
— associates	**(56)**	13	20
Unrealised (deficit)/surplus on revaluation of land and buildings (excluding investment properties)	**(1,787)**	(112)	1,087
Exchange and other movements	**(31)**	(1,106)	696
Total recognised gains and losses for the year	**2,216**	4,279	6,671

Reconciliation of Movements in Consolidated Shareholders' Funds for the Year Ended 31 December 1998

	1998 US$m	1997 US$m	1996 US$m
Profit for the financial year attributable to shareholders	**4,318**	5,487	4,852
Dividends	**(2,495)**	(2,206)	(1,738)
	1,823	3,281	3,114
Other recognised gains and losses relating to the year	**(2,102)**	(1,208)	1,819
New share capital subscribed	**17**	17	21
Amounts arising on shares issued in lieu of dividends	**584**	337	300
Goodwill written back on disposal	—	—	14
Goodwill on acquisition of subsidiary and associated undertakings	—	(1,180)	(211)
Net addition to shareholders' funds	**322**	1,247	5,057
Shareholders' funds at 1 January	**27,080**	25,833	20,776
Shareholders' funds at 31 December	**27,402**	27,080	25,833

No note of historical cost profits and losses has been presented as there is no material difference between HSBC's results as disclosed in the consolidated profit and loss account and the results on an unmodified historical cost basis.

The accompanying notes are an integral part of the Consolidated Financial Statements

Consolidated Cash Flow Statement for the Year Ended 31 December 1998

	Note	1998 US$m	1997 US$m	1996 US$m
Net cash inflow from operating activities	36	**9,687**	14,352	13,689
Dividends received from associated undertakings		**82**	65	77
Returns on investments and servicing of finance:				
Interest paid on finance leases and similar hire purchase contracts		**(25)**	(29)	(20)
Interest paid on subordinated loan capital		**(813)**	(724)	(602)
Dividends paid to minority interests				
— equity		**(339)**	(313)	(360)
— non-equity		**(65)**	(65)	(49)
Net cash (outflow) from returns on investments and servicing of finance		**(1,242)**	(1,131)	(1,031)
Taxation paid		**(1,893)**	(1,476)	(1,118)
Capital expenditure and financial investments:				
Purchase of investment securities		**(59,814)**	(31,626)	(20,996)
Proceeds from sale of investment securities		**50,568**	29,779	16,612
Purchase of tangible fixed assets		**(2,537)**	(1,355)	(1,029)
Proceeds from sale of tangible fixed assets		**266**	339	262
Net cash (outflow) from capital expenditure and financial investments		**(11,517)**	(2,863)	(5,151)
Acquisitions and disposals:				
Net cash (outflow) from acquisition of and increase in stake in subsidiary undertakings		**(176)**	(990)	(45)
Net cash inflow from disposal of subsidiary undertakings		**—**	32	51
Purchase of interest in associated undertakings and other participating interests		**(55)**	(120)	(82)
Proceeds from disposal of associated undertakings and other participating interests		**18**	23	133
Net cash (outflow)/inflow from acquisitions and disposals		**(213)**	(1,055)	57
Equity dividends paid		**(1,744)**	(1,670)	(1,293)
Net cash (outflow)/inflow before financing		**(6,840)**	6,222	5,230
Financing:				
Issue of ordinary share capital		**17**	17	21
Issue of preference share capital		**—**	50	200
Redemption of preference share capital		**—**	(98)	—
Subordinated loan capital issued		**443**	740	1,552
Subordinated loan capital repaid		**(215)**	(318)	(141)
Net cash inflow from financing	37	**245**	391	1,632
(Decrease)/increase in cash	38	**(6,595)**	6,613	6,862

The accompanying notes are an integral part of the Consolidated Financial Statements.

1 Basis of preparation

(a) The preparation of financial information requires the use of estimates and assumptions about future conditions. This is particularly so in the development of provisions for bad and doubtful debts. Making reliable estimates of customers' and other counterparties' abilities to repay is often difficult even in periods of economic stability and becomes more difficult in periods of economic volatility such as exists in several of the company's markets. Therefore, while management believes it has employed all available information to estimate adequate allowances for all identifiable risks in the current portfolios, there can be no assurance that the provisions for bad and doubtful debts or other provisions will prove adequate for all losses ultimately realised.

(b) The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and land and buildings and in accordance with applicable accounting standards.

The consolidated financial statements are prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 ('the Act') relating to banking groups. The consolidated financial statements comply with Schedule 9 to the Act.

HSBC has adopted the provisions of Financial Reporting Standards ('FRSs'): FRS 9, 'Associates and joint ventures', FRS 10, 'Goodwill and intangible assets', FRS 11, 'Impairment of fixed assets and goodwill', and FRS 14, 'Earnings per share', together with the British Bankers' Association's revised Statement of Recommended Practice ('SORP'), 'Advances'. HSBC has applied the transitional arrangements of FRS 10 and goodwill previously eliminated against reserves has not been reinstated.

Since the US dollar and currencies closely linked to it form the main currency bloc in which HSBC's business is transacted, HSBC changed its reporting currency from sterling to US dollars with effect from 1 January 1998.

For comparative purposes, the 1997 and 1996 sterling reported profit and loss accounts have been translated into US dollars at the quarterly average exchange rates. The 1997 sterling reported balance sheets have been translated into US dollars at the closing rate.

(c) The consolidated financial statements of HSBC comprise the financial statements of HSBC Holdings and its subsidiary undertakings. Financial statements of subsidiary undertakings are made up to 31 December, including those of HSBC Bank Canada, which in previous years has had a 31 October year-end. For HSBC Bank Canada, financial statements for a period of 14 months have been used in the 1998 consolidated financial statements. In the case of the principal banking and insurance subsidiaries of HSBC Roberts, whose financial statements are made up to 30 June annually to comply with local regulations, HSBC uses audited interim financial statements, drawn up to 31 December annually. The consolidated financial statements include the attributable share of the results and reserves of associated undertakings, based on financial statements made up to dates not earlier than six months prior to 31 December.

All significant intra-HSBC transactions have been eliminated on consolidation.

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

(d) These financial statements do not comprise 'statutory accounts' within the meaning of section 240 of the Act. Statutory accounts for the year ended 31 December 1998, 1997 and 1996, have been delivered to the Registrar of Companies for England and Wales. The auditors have reported on those accounts; their reports were unqualified and did not contain any statements under Section 237(2) or (3) of the Act.

2 Principal accounting policies

(a) *Income recognition*

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (Note 2 (b)).

Fee income is accounted for in the period when receivable, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised on an appropriate basis over the relevant period.

(b) *Loans and advances and doubtful debts*

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

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

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

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

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

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.

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.

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 being suspended

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

Non-accrual loans

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

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

(c) *Debt securities and equity shares*

Debt securities and equity shares intended to be held on a continuing basis are disclosed as investment securities and are included in the balance sheet at cost less provision for any permanent diminution in value.

Where dated investment securities have been purchased at a premium or discount, these premiums and discounts are amortised through the profit and loss account over the period from the date of purchase to the date of maturity so as to give a constant rate of return. If the maturity is at the borrowers' option within a specified range of years, the maturity date which gives the more conservative result is adopted. These securities are included in the balance sheet at cost adjusted for the amortisation of premiums and discounts arising on acquisition. The amortisation of premiums and discounts is included in 'Interest receivable'. Any profit or loss on realisation of these securities is recognised in the profit and loss account as it arises and included in 'Gains on disposal of investments'.

Debt securities held for the purpose of hedging are valued on the same basis as the liabilities which are being hedged.

Other debt securities and equity shares are included in the balance sheet at market value. Changes in the market value of such assets are recognised in the profit and loss account as 'Dealing profits' as they arise.

Where securities are sold subject to a commitment to repurchase them at a predetermined price, they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under analogous commitments to resell are not recognised on the balance sheet and the consideration paid is recorded in 'Loans and advances to banks' or 'Loans and advances to customers'.

(d) *Subsidiary and associated undertakings and other participating interests*

(i) HSBC Holdings' investments in subsidiary undertakings are stated at attributable net asset values. Changes in net assets of subsidiary undertakings are accounted for as movements in the revaluation reserve.

(ii) Interests in associated undertakings are stated at HSBC's attributable share of their net assets.

(iii) Other participating interests are investments in the shares of undertakings which are held on a long-term basis for the purpose of securing a contribution to HSBC's business, other than subsidiary or associated undertakings. Other participating interests are stated at cost less any permanent diminution in value.

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

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

(e) *Tangible fixed assets*

(i) Land and buildings are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives as follows:

— freehold land and land held on leases with more than 50 years to expiry are not depreciated;

— land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases; and

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

(ii) Equipment, fixtures and fittings are stated at cost less depreciation calculated on the straight line basis to write off the assets over their estimated useful lives, which are generally between 5 years and 20 years.

(iii) HSBC holds certain properties as investments. No depreciation is provided in respect of such properties other than leaseholds with 20 years or less to expiry. Investment properties are included in the balance sheet at their open market value and the aggregate surplus or deficit, where material, is transferred to the investment property revaluation reserve.

(f) *Finance and operating leases*

(i) Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where HSBC is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Loans and advances to banks' or 'Loans and advances to customers'. Finance charges receivable are recognised over the periods of the leases in proportion to the funds invested.

(ii) Where HSBC is a lessee under finance leases the leased assets are capitalised and included in 'Equipment, fixtures and fittings' and the corresponding liability to the lessor is included in 'Other liabilities'. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases.

(iii) All other leases are classified as operating leases and, where HSBC is the lessor, are included in 'Tangible fixed assets'. Rentals payable and receivable under operating leases are accounted for on the straight line basis over the periods of the leases and are included in 'Administrative expenses' and 'Other operating income' respectively.

(g) *Deferred taxation*

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

(h) *Pension and other post-retirement benefits*

HSBC operates a number of pension and other post-retirement benefit schemes throughout the world and the majority of staff are members of defined benefit schemes.

For UK defined benefit schemes annual contributions are made, on the advice of qualified actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life and used to pay a pension to the employee or dependant after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis.

Arrangements for staff retirement benefits in overseas locations vary from country to country and are made in accordance with local regulations and custom. The pension cost of the major overseas schemes is assessed in accordance with the advice of qualified actuaries so as to recognise the cost of pensions on a systematic basis over employees' service lives.

The cost of providing post-retirement health-care benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives. At 1 January 1993, there was an accumulated obligation in respect of these benefits relating to current and retired employees. This is being charged in the profit and loss account in equal instalments over 20 years.

(i) *Foreign currencies*

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

(ii) Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging and exchange differences arising from retranslation of the result for the year from the average rate to the exchange rate ruling at the year-end are accounted for in reserves.

(iii) Other exchange differences are recognised in the profit and loss account.

(j) *Off-balance-sheet financial instruments*

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

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

Trading transactions

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

Transactions undertaken for trading purposes are marked to market value and the net present value of any gain or loss arising is recognised in the profit and loss account as 'Dealing profits', after appropriate deferrals for unearned credit margin and future servicing costs.

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

Non-trading transactions

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

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

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

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

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

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

3 Dividend income

	1998 US$m	1997 US$m	1996 US$m
Income from equity shares	**138**	148	157
Income from participating interests other than associated undertakings	**10**	8	8
	148	156	165

4 Administrative expenses

(a)

	1998 US$m	1997 US$m	1996 US$m
Staff costs			
— wages and salaries	**5,440**	5,139	4,162
— social security costs	**398**	368	216
— other pension costs (Note 4(b) below)	**483**	491	419
	6,321	5,998	4,797
Premises and equipment (excluding depreciation)	**1,454**	1,245	1,018
Other administrative expenses	**2,315**	2,094	1,531
	10,090	9,337	7,346

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

	1998 Number	1997 Number	1996 Number
Commercial banking	**137,501**	126,554	103,542
Investment banking	**7,020**	6,415	5,756
	144,521	132,969	109,298

(b) *Retirement benefits*

HSBC operates some 125 pension schemes throughout the world, covering 87% of HSBC's employees, with a total pension cost of US$483 million (1997: US$491 million; 1996: US$419 million), of which US$223 million (1997: US$223 million; 1996: US$226 million) relates to overseas schemes. Of the overseas schemes, US$23 million (1997: US$34 million; 1996: US$27 million) has been determined in accordance with best practice and regulations in the United States and Canada.

The majority of the schemes are funded defined benefit schemes, which cover 71% of HSBC's employees, with assets, in the case of the larger schemes, held in trust or similar funds separate from HSBC. The pension cost relating to these schemes was US$401 million (1997: US$416 million; 1996: US$394 million) which is assessed in accordance with the advice of qualified actuaries; the schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of HSBC's pension schemes vary according to the economic conditions of the countries in which they are situated.

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

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

In consultation with the actuaries, it has been decided to maintain contributions at 16.1% of pensionable salaries until the next actuarial valuation. The next actuarial valuation is due as at 31 December 1999.

For The Hongkong and Shanghai Banking Corporation Limited Local Staff Retirement Benefits Scheme, the latest valuation was made at 31 December 1998 and was performed by E Chiu, Fellow of the Society of Actuaries of the United States of America, of HSBC Life (International) Limited, a subsidiary of HSBC Holdings. At that date, the market value of the scheme's assets was US$635 million. On an ongoing basis, the actuarial value of the scheme's assets represented 101% of the benefits accrued to members, after allowing for expected future increases in salaries, and the resulting surplus amounted to US$3 million. On a wind-up basis, the actuarial value of the scheme's assets represents 108% of the members' vested benefits, based on current salaries, and the resulting surplus amounted to US$46 million. The actuarial method used is the projected unit credit method and the main assumptions used in this valuation were a long-term investment return of 9% per annum and salary increases of 8% per annum.

In Brazil, the Banco HSBC Bamerindus S.A. Lump Sum Retirement Benefit Scheme provides retirement benefits under an unfunded defined benefit scheme. The latest valuation was made at 31 December 1998 and was performed by Carl de Montigny, Fellow of the Society of Actuaries, of William M. Mercer. At that date, the present value of the accumulated benefit obligation amounted to US$74 million. US$76 million has been provided in these financial statements (Note 28(b)) and the surplus evidenced by the latest valuation will be spread forward over the expected remaining service lives of the current employees. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 5.0% over the rate of inflation per annum, salary increase of 2.0% over the rate of inflation per annum and post-retirement pension increases at the rate of inflation per annum.

The Midland Bank Pension Scheme, The Hongkong and Shanghai Banking Corporation Limited Local Staff Retirement Benefits Scheme and the Banco HSBC Bamerindus S.A. Lump Sum Retirement Benefit Scheme cover 55% (1997: 54%; 1996: 48%) of HSBC's employees.

The pension cost for defined contribution schemes, which cover 16% (1997: 12%; 1996: 9%) of HSBC's employees, was US$52 million (1997: US$36 million; 1996: US$25 million).

HSBC also provides post-retirement health-care benefits under schemes, mainly in the United Kingdom and also in the United States, Canada and Brazil. The charge relating to these schemes, which are unfunded, is US$30 million for the year (1997: US$39 million; 1996: US$36 million). The latest actuarial review estimated the present value of the accumulated post-retirement benefit obligation at US$357 million (1997: US$280 million; 1996: US$320 million), of which US$240 million (1997: US$150 million; 1996: US$129 million) has been provided. The actuarial assumptions used to estimate this obligation vary according to the claims experience and economic conditions of the countries in which the schemes are situated. For the UK schemes, the main financial assumptions used at 31 December 1997 are price inflation at 3% per annum, health-care claims cost escalation of 8.5% per annum and a discount rate of 7% per annum.

(c) *Directors' emoluments*

The aggregate emoluments of the Directors of HSBC Holdings, computed in accordance with Part I of Schedule 6 of the Act were:

	1998 US$'000	1997 US$'000	1996 US$'000
Fees	1,063	775	706
Salaries and other emoluments	5,275	5,091	5,029
Discretionary bonuses	965	1,041	914
	7,303	6,907	6,649
Gains on the exercise of share options	—	185	156

In addition, there were annual commitments under retirement benefit agreements with former Directors of US$303,000 (1997: US$170,000; 1996: US$243,000). The provision as at 31 December 1998 in respect of unfunded pension obligations to former Directors amounted to US$5,856,000 (1997: US$2,728,000; 1996: US$2,545,000).

During the year, aggregate contributions to pension schemes in respect of Directors were US$214,000 (1997: US$292,000; 1996: US$292,000).

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

Five Directors waived the right to receive emoluments totalling US$171,000 (1997: four Directors US$156,000; 1996: five Directors US$130,000).

Details of individual Directors' remuneration, share options and conditional awards under the Restricted Share Plan are disclosed in 'Management' on pages 93 to 100.

(d) *Auditors' remuneration*

Auditors' remuneration amounted to US$17.3 million (1997: US$18.0 million; 1996: US$15.3 million). In addition, US$8.3 million (1997: US$20.3 million; 1996: US$6.5 million) was paid by HSBC companies to the auditors and their associates for non-audit work analysed as follows:

	1998 US$m	1997 US$m	1996 US$m
Regulatory work	**3.5**	3.4	2.6
Tax services	**1.4**	2.1	1.0
Consultancy and recruitment	**1.5**	2.4	1.3
US registration	**0.4**	—	—
Acquisition services	—	10.9	—
Other	**1.5**	1.5	1.6
	8.3	20.3	6.5

In 1997, the auditors provided extensive support in the due diligence and integration of Banco HSBC Bamerindus S.A. The cost of this support constituted substantially all of the amount disclosed above under 'Acquisition services'.

5 Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after:

	1998 US$m	1997 US$m	1996 US$m
(i) Income			
Aggregate rentals receivable, including capital repayments, under			
— finance leases and hire purchase contracts	**3,458**	3,779	3,178
— operating leases	**501**	415	208
Income from listed investments	**1,987**	1,965	2,202
Profits less losses on debt securities and equities dealing	**190**	(88)	189
Gains on disposal of investment securities	**210**	543	382
(ii) Charges			
Charges incurred with respect to subordinated liabilities	**814**	753	666
Finance charges in respect of finance leases and similar hire purchase contracts	**26**	26	15
Hire of plant and machinery	**92**	75	92
Rentals payable on premises held under operating leases	**429**	436	392

Gains on the disposal of investments and tangible fixed assets attracted a tax charge of US$45 million (1997: US$93 million; 1996: US$67 million). Of the after-tax amount, US$3 million (1997: US$31 million; 1996: US$23 million) is attributable to minority interests.

6 Tax on profit on ordinary activities

The charge for taxation comprises:

	1998 US$m	1997 US$m	1996 US$m
United Kingdom corporation tax charge	**745**	960	796
Relief for overseas taxation	**(13)**	(149)	(167)
	732	811	629
Overseas taxation	**1,118**	1,109	933
Deferred taxation (Note 28(a))	**(71)**	129	93
	1,779	2,049	1,655
Associated undertakings	**10**	9	17
	1,789	2,058	1,672

HSBC Holdings and its subsidiary undertakings in the United Kingdom provide for UK corporation tax at 31.0% (1997: 31.5%; 1996: 33%). Overseas tax includes Hong Kong profits tax of US$293 million (1997: US$436 million; 1996: US$389 million). Subsidiary undertakings in Hong Kong provide for Hong Kong profits tax at the rate of 16.0% (1997: 16.5%; 1996: 16.5%) on the profits for the year assessable in Hong Kong. Other overseas subsidiary undertakings and overseas branches provide for taxation at the appropriate rates in the countries in which they operate.

Analysis of overall tax charge:

	1998 US$m	1997 US$m	1996 US$m
Taxation at UK corporation tax rate of 31% (1997: 31.5%; 1996: 33%)	**2,037**	2,561	2,327
Impact of differently taxed overseas profits in principal locations	**(339)**	(466)	(539)
Net recognised tax benefits	**71**	(61)	(153)
Tax-free gains	**—**	(47)	(26)
Other items	**20**	71	63
Overall tax charge	**1,789**	2,058	1,672

7 Dividends

	1998		1997		1996	
	US$ per share	US$m	US$ per share	US$m	US$ per share	US$m
First interim	**0.12**	**996**	0.11	874	0.08	605
Second interim	**0.19**	**1,499**	0.17	1,332	0.14	1,133
	0.31	**2,495**	0.28	2,206	0.22	1,738

The above table has been restated to reflect the share capital reorganisation as discussed on page 4.

Of the first interim dividend for 1998, US$107 million (1997: US$125 million; 1996: US$146 million) was settled by the issue of shares. Of the second interim dividend for 1997, US$477 million (1996: US$212 million; 1995 final dividend: US$154 million) was settled by the issue of shares in 1998.

8 Earnings per ordinary share

Basic earnings per ordinary share is calculated by dividing the earnings of US$4,318 million (1997: US$5,487 million; 1996: US$4,852 million) by the weighted average number of ordinary shares outstanding in 1998 of 8,067 million (1997: 8,007 million; 1996: 7,938 million).

Diluted earnings per share is 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 in 1998 of 8,124 million (1997: 8,070 million; 1996: 7,986 million).

Earnings per share information has been restated to reflect the share capital reorganisation (see Note 46 'Subsequent events').

The effect of dilutive share options on the weighted average number of ordinary shares in issue is as follows:

	Number of shares (millions)		
	1998	1997	1996
Average number of shares in issue	**8,067**	8,007	7,938
Savings-Related Share Option Scheme	**48**	51	30
Executive Share Option Scheme	**6**	6	3
Midland Bank Savings-Related and Executive Share Option Schemes	**3**	6	15
Average number of shares in issue assuming dilution	**8,124**	8,070	7,986

Of the total number of employee share options existing at year-end, the following were not included in the dilution calculation above because they were antidilutive:

Number of shares (millions)		
1998	1997	1996
27	30	54

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

	1998 US$	1997 US$	1996 US$
Basic earnings per ordinary share	**0.54**	0.69	0.61
Adjustments:			
Gains on disposal of tangible fixed assets	**(0.01)**	(0.01)	—
Gains on disposal of subsidiary undertaking	—	—	(0.01)
Gains on disposal of interest in associated undertaking	—	—	(0.01)
Provision for permanent diminution in value of other participating interests	—	—	0.01
Headline earnings per ordinary share	**0.53**	0.68	0.60

9 **Parent Company Disclosures**

(a) *HSBC Holdings' Profit and Loss Account*

	1998 US$m	1997 US$m	1996 US$m
Profit on ordinary activities before tax	**1,055**	1,522	1,333
Tax on profit on ordinary activities	**17**	(2)	(59)
Profit for the financial year attributable to shareholders	**1,072**	1,520	1,274

Profit on ordinary activities before tax includes dividend income from subsidiary undertakings for the years ended 31 December as follows:

	1998 US$m	1997 US$m	1996 US$m
Bank	**1,079**	985	801
Non-bank	**72**	582	413

(b) *HSBC Holdings' Balance Sheet*

	1998 US$m	1997 US$m
FIXED ASSETS		
Tangible assets	8	5
Investments	29,100	26,906
	29,108	26,911
CURRENT ASSETS		
Debtors	2,537	4,805
Cash at bank and in hand	850	415
	3,387	5,220
CREDITORS: amounts falling due within one year	(2,859)	(3,136)
NET CURRENT ASSETS	528	2,084
TOTAL ASSETS LESS CURRENT LIABILITIES	29,636	28,995
CREDITORS: amounts falling due after more than one year	(1,913)	(1,903)
PROVISIONS FOR LIABILITIES AND CHARGES	(321)	(12)
NET ASSETS	27,402	27,080
CAPITAL AND RESERVES	27,402	27,080

HSBC Holdings' investment in and indebtedness of and to subsidiary undertakings at 31 December is as follows:

	1998			1997		
	Bank US$m	*Non-bank* US$m	*Total* US$m	*Bank* US$m	*Non-bank* US$m	*Total* US$m
Investments in subsidiary undertakings*	23,641	3,294	26,935	24,377	1,399	25,776
Amounts owed by HSBC undertakings	2,067	2,383	4,450	4,124	1,819	5,943
Subordinated liabilities to HSBC undertakings	—	349	349	—	348	348
Other amounts owed to HSBC undertakings	2	1,160	1,162	96	1,208	1,304

* Investments in subsidiary undertakings have been analysed on the basis of the business of the principal operating sub-group, i.e. banking sub-groups which include insurance companies have been categorised as banks.

10 Treasury bills and other eligible bills

	1998 US$m	1997 US$m
Treasury bills and similar securities	19,553	13,840
Other eligible bills	2,427	3,343
	21,980	17,183

None of the treasury and other eligible bills has been accounted for as an investment security.

11 Hong Kong SAR currency notes in circulation

	1998 US$m	1997 US$m
Excess note issue (HK$57,384 million)	7,408	8,143

The note issue was secured by the deposit of funds in respect of which the Government of the Hong Kong Special Administrative Region certificates of indebtedness are held.

12 Loans and advances to banks

	1998 US$m	1997 US$m
Remaining maturity		
— repayable on demand	11,155	17,795
— 3 months or less but not repayable on demand	63,986	63,382
— 1 year or less but over 3 months	6,794	3,801
— 5 years or less but over 1 year	2,265	703
— over 5 years	1,146	887
Specific bad and doubtful debt provisions (Note 14)	(31)	(46)
	85,315	86,522
Amounts include:		
Due from associated undertakings		
— unsubordinated	82	31

13 Loans and advances to customers

	1998 US$m	1997 US$m
Remaining maturity		
— repayable on demand or at short notice	33,832	36,400
— 3 months or less but not repayable on demand or at short notice	39,204	48,342
— 1 year or less but over 3 months	30,251	30,497
— 5 years or less but over 1 year	67,659	67,889
— over 5 years	70,976	62,425
General and specific bad and doubtful debt provisions (Note 14)	(6,627)	(5,132)
	235,295	240,421
Amounts include:		
Subordinated	119	132
Securitised advances not qualifying for linked presentation under FRS 5 ('Reporting the substance of transactions')	1,143	152
Due from associated undertakings		
— unsubordinated	319	347

14 Provisions for bad and doubtful debts

	Provisions against advances			
	Specific	General	Total	Suspended interest
	US$m	US$m	US$m	US$m
At 1 January 1998	3,157	2,021	5,178	702
Amounts written off	(1,398)	—	(1,398)	(458)
Recoveries of advances written off in previous years	172	—	172	—
Charge to profit and loss account	2,627	10	2,637	—
Interest suspended during the year	—	—	—	647
Suspended interest recovered	—	—	—	(117)
Exchange and other movements	81	(12)	69	(6)
At 31 December 1998	4,639	2,019	6,658	768
Included in:				
Loans and advances to banks (Note 12)			31	
Loans and advances to customers (Note 13)			6,627	
			6,658	

	Provisions against advances			
	Specific	General	Total	Suspended interest
	US$m	US$m	US$m	US$m
At 1 January 1997	3,186	1,572	4,758	670
Amounts written off	(752)	—	(752)	(75)
Recoveries of advances written off in previous years	173	—	173	—
Charge to profit and loss account	533	481	1,014	—
Interest suspended during the year	—	—	—	253
Suspended interest recovered	—	—	—	(100)
Exchange and other movements	17	(32)	(15)	(46)
At 31 December 1997	3,157	2,021	5,178	702
Included in:				
Loans and advances to banks (Note 12)			46	
Loans and advances to customers (Note 13)			5,132	
			5,178	

	Provisions against advances			Suspended interest
	Specific	General	Total	
	US$m	US$m	US$m	US$m
At 1 January 1996	3,386	1,387	4,773	703
Amounts written off	(948)	—	(948)	(55)
Recoveries of advances written off in previous years	176	—	176	—
Charge to profit and loss account	484	120	604	—
Interest suspended during the year	—	—	—	225
Suspended interest recovered	—	—	—	(217)
Exchange and other movements	88	65	153	14
At 31 December 1996	3,186	1,572	4,758	670
Included in:				
Loans and advances to banks			53	
Loans and advances to customers			4,705	
			4,758	

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

	1998	1997	1996
	US$m	US$m	US$m
Gross	6,435	3,240	3,387
Net of specific provisions	3,148	1,206	1,322

15 Concentrations of exposure

HSBC has the following concentrations of gross loans and advances to customers:

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

	Europe	*Hong Kong*	*Rest of Asia-Pacific*	*North America*	*Latin America*	*Total*
	US$m	US$m	US$m	US$m	US$m	US$m
Total gross advances to customers:						
Residential mortgages	19,133	24,364	2,233	13,858	414	60,002
Hong Kong SAR Government Home Ownership Scheme	—	4,631	—	—	—	4,631
Other personal	10,236	4,367	3,187	5,597	788	24,175
Commercial, industrial and international trade	28,277	11,947	14,464	5,601	2,267	62,556
Commercial real estate	6,092	10,424	3,660	4,955	14	25,145
Other property related	2,023	2,569	1,757	1,585	148	8,082
Government	3,530	120	277	576	11	4,514
Non-bank financial institutions	5,569	5,283	1,632	8,230	649	21,363
Settlement accounts	1,248	182	211	2,644	54	4,339
Other commercial*	13,943	7,649	5,171	3,811	786	31,360
At 31 December 1997	90,051	71,536	32,592	46,857	5,131	246,167

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

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

16 Debt securities

	1998		1997	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	US$m	US$m	US$m
Issued by public bodies				
Investment securities				
— government securities and US Government agencies	21,475	21,722	17,122	17,306
— other public sector securities	1,520	1,566	760	776
	22,995	23,288	17,882	18,082
Other securities				
— government securities and US Government agencies	13,532		8,208	
— other public sector securities	336		743	
	36,863		26,833	
Issued by other bodies				
Investment securities				
— bank and building society certificates of deposit	4,963	4,957	3,806	3,871
— other debt securities	9,536	9,671	5,929	5,883
	14,499	14,628	9,735	9,754
Other securities				
— bank and building society certificates of deposit	10,159		10,583	
— other debt securities	7,664		8,613	
	32,322		28,931	
	69,185		55,764	
Due within 1 year	38,202		25,409	
Due 1 year and over	30,983		30,355	
	69,185		55,764	
Amounts include:				
Subordinated debt securities	124		127	
Unamortised net premiums/(discounts) on investment securities	85		(28)	

	1998		1997	
	Book value	*Market valuation*	*Book value*	*Market valuation*
	US$m	US$m	US$m	US$m
Investment securities				
— listed on a recognised UK exchange	5,675	5,722	6,036	6,064
— listed in Hong Kong	783	821	481	466
— listed elsewhere	12,670	12,903	8,635	8,829
— unlisted	18,366	18,470	12,465	12,477
	37,494	37,916	27,617	27,836
Other securities				
— listed on a recognised UK exchange	5,721		3,062	
— listed in Hong Kong	1,004		642	
— listed elsewhere	11,462		10,454	
— unlisted	13,504		13,989	
	69,185		55,764	

Where securities are carried at market value, and the market value is higher than cost, the difference between cost and market value is not disclosed as it cannot be determined without unreasonable expense. All profits and losses on other securities are deemed realised.

The above market valuations do not take account of transactions entered into to hedge the value of HSBC's investment securities. If these transactions were included, the market valuation of investment securities would be US$37,792 million (1997: US$27,760 million).

Investment securities:

	Cost	*Provisions*	*Book value*
	US$m	US$m	US$m
At 1 January 1998	27,660	(43)	27,617
Additions	59,591	—	59,591
Disposals and amounts repaid	(50,279)	—	(50,279)
Provisions made	—	(19)	(19)
Amortisation of discounts and premiums	53	—	53
Exchange and other movements	535	(4)	531
At 31 December 1998	37,560	(66)	37,494

The book value of investment securities, analysed by type of borrower, is as follows:

	1998	1997	1996
	US$m	US$m	US$m
US Treasury and Government agencies	8,267	6,527	3,368
UK Government	5,426	5,784	6,370
Hong Kong Government	654	502	692
Other governments	7,128	4,309	4,202
Asset-backed securities	2,435	422	2,683
Corporate debt and other securities	13,584	10,073	8,695
	37,494	27,617	26,010

The following table provides an analysis of gross unrealised gains and losses for investment securities by instrument type as at 31 December for the past two years:

	Carrying value	*Gross unrealised gains*	*Gross unrealised losses*	*Market valuation*
	US$m	**US$m**	**US$m**	**US$m**
31 December 1998				
US Treasury and Government agencies	**8,267**	**96**	**(18)**	**8,345**
UK Government	**5,426**	**47**	**(2)**	**5,471**
Hong Kong Government	**654**	**39**	**—**	**693**
Other governments	**7,128**	**128**	**(42)**	**7,214**
Asset-backed securities	**2,435**	**36**	**(4)**	**2,467**
Corporate debt and other securities	**13,584**	**237**	**(95)**	**13,726**
	37,494	**583**	**(161)**	**37,916**
31 December 1997				
US Treasury and Government agencies	6,527	52	(8)	6,571
UK Government	5,784	27	(1)	5,810
Hong Kong Government	502	—	(16)	486
Other governments	4,309	151	(21)	4,439
Asset-backed securities	422	8	(2)	428
Corporate debt and other securities	10,073	130	(101)	10,102
	27,617	368	(149)	27,836

The maturities of investment securities at 31 December 1998 are analysed as follows:

	Book value	*Market valuation*
	US$m	**US$m**
1 year or less	**19,593**	**19,595**
5 years or less but over 1 year	**14,250**	**14,524**
10 years or less but over 5 years	**2,062**	**2,132**
Over 10 years	**1,572**	**1,594**
No fixed maturity	**17**	**71**
	37,494	**37,916**

The following table provides an analysis of contractual maturities and weighted average yields of investment debt securities as at 31 December 1998.

	Within one year		*After one but within five years*		*After five but within ten years*		*After ten years*		*No fixed maturity*	
	Amount	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*	*Amount*	*Yield*
	US$m	%	US$m	%	US$m	%	US$m	%	US$m	%
US Treasury and Government agencies	3,856	5.4	2,898	6.3	254	5.8	1,259	6.5	—	—
UK Government	3,430	8.4	1,996	7.7	—	—	—	—	—	—
Hong Kong Government	224	6.9	271	7.0	159	9.6	—	—	—	—
Other governments	4,113	3.9	2,762	6.8	251	6.9	2	12.0	—	—
Asset-backed securities	119	5.7	1,457	5.9	691	4.9	168	3.4	—	—
Corporate debt and other securities	7,851	5.7	4,866	7.1	707	6.6	143	7.5	17	3.8
	19,593		14,250		2,062		1,572		17	

The maturity distributions of asset-backed securities are presented in the above table based upon expected maturity dates. The weighted average yield for each range of maturities in the above table is calculated by dividing the annualised interest income for the year ended 31 December 1998 by the book amount of available for sale debt securities at that date. The yields do not include the effect of related derivatives.

At 31 December 1998, HSBC held the following investment securities which exceeded 10 per cent of shareholders' funds:

	Amortised cost	*Market valuation*
	US$m	US$m
Issued by US Treasury and Government agencies	8,267	8,345
Issued by UK Government	5,426	5,471
	13,693	13,816

Proceeds from the sales of investment securities were US$50,351 million (1997: US$28,960 million). Gross realised gains of US$76 million (1997: US$65 million) and gross realised losses of US$4 million (1997: US$7 million) were recorded on those sales. Realised gains and losses are computed using the weighted average cost method. There were no gains recorded on securities transferred from the investment book to the trading book.

The cost of investment securities purchased during the year ended 31 December 1998 was US$59,591 million (1997: US$31,511 million).