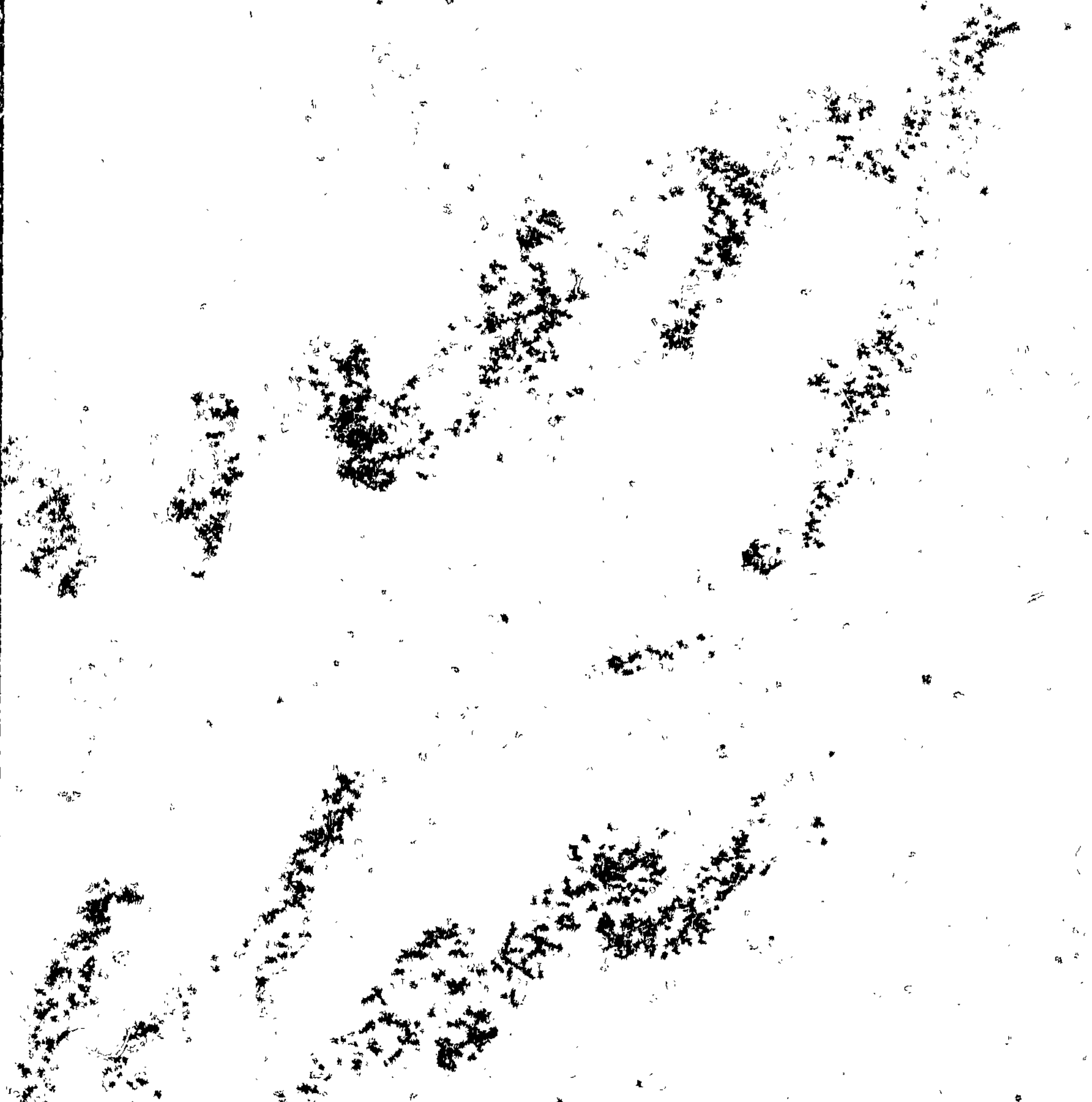
The Hongkong and Shanghai Banking Corporation Limited

G17987

HSBC Holdings plc

Annual Reports and Accounts 1990



HongkongBank

Illustrative Theme

During 1989 paintings from the collection of The Hongkong and Shanghai Banking Corporation Limited were exhibited in Hong Kong, New York, Luxembourg, London and Brussels. The illustrative theme of the 1990 Annual Reports includes some paintings from this collection, together with works owned by other members of the HongkongBank group.

Cover: *Paintings and drawings by George Chinnery (1774–1852) form the core of HongkongBank's collection. The Chinnery signature that appears on the cover of these Reports is from a pencil and water colour [illegible] dated [illegible]*

Financial Highlights

1989		1990	*1990*	*1990*
HK$m	***For the year***	HK$m	*£m*	*US$m*
5,480	Group profit	**3,961**	*265*	*508*
4,774	Profit attributable to the shareholders of the Bank	**3,096**	*207*	*397*
2,440	Dividends	**2,518**	*168*	*323*
	At year-end			
52,669	Shareholders' funds	**53,502**	*3,574*	*6,859*
79,062	Capital resources	**79,847**	*5,334*	*10,237*
925,820	Current, deposit and other accounts	**1,041,964**	*69,604*	*133,584*
1,037,774	Assets	**1,158,256**	*77,372*	*148,494*
HK cents	**Per share**	HK cents	GB *pence*	*US cents*
74.95	Earnings	**48.14**	*3.22*	*6.17*
38.18	Dividends	**39.00**	*2.61*	*5.00*
823.25	Net asset value	**827.65**	*55.28*	*106.11*
5,816,128,170	***Total number of shares*** in issue at year-end	**6,464,278,017**		

Contents

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited was established in Hong Kong in 1865 and opened offices in Shanghai and London in the same year. Together with its subsidiaries and associates, HongkongBank today ranks among the 30 largest banking groups in the world with a staff of more than 54,000 and over 1,300 offices world wide, including some 600 in Asia.

HSBC Holdings plc

In December 1990 HongkongBank announced proposals to reorganise the group under a new holding company, HSBC Holdings plc. The Bank's shareholders approved the proposals at a meeting in Hong Kong in February 1991. Subject to the sanction of the Supreme Court of Hong Kong, the new structure is expected to become effective on 2 April 1991. HSBC Holdings plc is incorporated in England but is not UK resident for tax purposes. Like HongkongBank, it has its headquarters in and is managed and controlled from Hong Kong. HongkongBank will be the principal subsidiary of the new group (to be called the HSBC group).

Shareholders in HongkongBank, who number more than 178,000 in over 80 countries, will become shareholders in HSBC Holdings plc which will be listed on the stock exchanges of Hong Kong and London.

Board of Directors

W Purves, CBE, DSO *Chairman*
Joined the Bank in 1954. An executive Director since 1982 and Chairman since 1986. Chairman of The British Bank of the Middle East and a Director of Marine Midland Banks, Inc. and Midland Bank plc

Li Ka-shing, CBE *Deputy Chairman*
Chairman and Managing Director, Cheung Kong (Holdings) Limited and Chairman, Hutchison Whampoa Limited. A non-executive Director of the Bank since 1980 and Deputy Chairman since 1985

J M Gray *Deputy Chairman*
Joined the Bank in 1952. Executive Director Finance since 1986 and Deputy Chairman since 1990. Chairman of Wardley Holdings Limited and a Director of The British Bank of the Middle East, Hang Seng Bank Limited, James Capel & Co Limited, Marine Midland Banks, Inc. and Swire Pacific Limited

B H Asher
Executive Director Merchant Banking. Executive Chairman of James Capel & Co Limited, Chief Executive of Wardley Holdings Limited and Chairman of Wardley Limited and Equator Bank Limited. Joined the Bank as General Manager Planning in 1980. An executive Director since 1989

J R H Bond
Executive Director Banking. Joined the Bank in 1961. An executive Director since 1988. Chairman of Hongkong Bank of Canada and a Director of The British Bank of the Middle East, Hang Seng Bank Limited and Marine Midland Banks, Inc.

D E Connolly
Chartered Accountant. Director, Kowloon-Canton Railway Corporation. A non-executive Director of the Bank since 1985

Baroness Dunn, DBE
Director, John Swire & Sons (H K) Limited, Cathay Pacific Airways Limited and Swire Pacific Limited. A non-executive Director of the Bank since 1981.

F R Frame
Adviser to the Board. Joined the Bank as Group Legal Adviser in 1977. An executive Director since 1985 and Deputy Chairman from 1986 to 1990

D A Gledhill
Chairman, John Swire & Sons (H K) Limited, Cathay Pacific Airways Limited and Swire Pacific Limited. A Director of Hysan Development Company Limited, Lee Gardens Hotel Company Limited and Mass Transit Railway Corporation. A non-executive Director of the Bank since 1988

N R Knox
Chairman, Marine Midland Banks, Inc. A Director of Hongkong Bank of Canada and Niagara Share Corporation. A non-executive Director of the Bank since 1988

H C Lee
Chairman and Managing Director, Hysan Development Company Limited. A Director of Cathay Pacific Airways Limited, Hang Seng Bank Limited, Hsin Chong International Holdings Limited, Sime Darby Hong Kong Limited and The Hong Kong and China Gas Company Limited. A non-executive Director of the Bank since 1989

D P H Liao, CBE
Architect. Former Chairman of the Hong Kong Housing Authority, Secretary for District Administration and Secretary for Home Affairs. A Director of Kumagai Gumi (H K) Limited, The Morgan Crucible Company plc, Provincial Insurance plc (Hong Kong Branch) and Shun Hing Electronic Trading Co., Limited. Appointed a non-executive Director of the Bank in 1990

C D Mackay
Director, Inchcape plc and Chairman and Chief Executive, Inchcape Pacific Limited. A non-executive Director of the Bank since 1986

Sir Kit McMahon
Chairman, Midland Bank plc. Former Deputy Governor, the Bank of England. A non-executive Director of the Bank since 1987

C W Newton, CBE
Chairman, London Regional Transport and London Underground Limited. A non-executive Director of Sketchley plc and Metropower Limited. Former Chairman of Mass Transit Railway Corporation. A non-executive Director of the Bank since 1986

N M S Rich
Managing Director, Jardine Matheson Holdings Limited, Hongkong Land Holdings Limited, Dairy Farm International Holdings Limited, Mandarin Oriental International Limited and Jardine Strategic Holdings Limited. A non-executive Director of the Bank since 1989

H Sohmen, OBE
Chairman, World Wide Shipping Agency Limited, World-Wide Shipping Group Limited, World Maritime Limited, World Shipping and Investment Company Limited, World Finance International Limited. Deputy Chairman, The Wharf (Holdings) Limited, World International (Holdings) Limited, and a Director of Harbour Centre Development Limited. A non-executive Director of the Bank since 1984

J E Strickland
Executive Director Services. Joined the Bank in 1971 (previous service 1966-69). An executive Director since 1989. Chairman, Wayfoong Property Limited and a Director of Mass Transit Railway Corporation

J J Swaine, CBE, QC
Queen's Counsel. A non-executive Director of the Bank since 1986

J C C Tang, CBE
Chairman and Managing Director, South Sea Textile Manufacturing Co., Limited and Tristate Holdings Limited. A non-executive Director of the Bank since 1984.

G A Thompson
President and Chief Executive Officer, Marine Midland Banks, Inc. A non-executive Director of the Bank since 1987

P J Wrangham
Executive Director Europe. Joined the Bank in 1951. An executive Director since 1987. A Director of The British Bank of the Middle East, James Capel & Co. Limited and Midland Bank plc

Consultant to the Board

Sir Quo-Wei Lee, CBE
Chairman, Hang Seng Bank Limited. Chairman of The Stock Exchange of Hong Kong Limited and a Director of Furama Hotel Enterprises Limited, Hysan Development Company Limited, Miramar Hotel and Investment Company Limited, New World Development Company Limited and Shaw Brothers (Hong Kong) Limited. A non-executive Director of the Bank from 1978 to 1984

London Advisory Committee

P J Wrangham *Chairman*
An executive Director of the Bank since 1987 and a Director of The British Bank of the Middle East James Capel & Co Limited and Midland Bank plc. Appointed Chairman of the Committee in 1988

Sir James Craig, GCMG
A Director of The Saudi British Bank and Hongkong Egyptian Bank SAE. Former British Ambassador to Syria and to Saudi Arabia. Joined the Committee in 1985

F R Frame
Adviser to the Board of the Bank. An executive Director since 1985 and Deputy Chairman from 1986 to 1990. Joined the Committee in 1991

Sir Donald Hawley, KCMG, MBE
Former British Ambassador to Oman and British High Commissioner in Malaysia. Former Chairman of Ewbank Preece Group. Joined the Committee in 1981

H Keswick
Chairman, Jardine Matheson Holdings Limited and Jardine Strategic Holdings Limited and a Director of The Daily Telegraph plc, Dairy Farm International Holdings Limited, Hongkong Land Holdings Limited and Mandarin Oriental International Limited. A Director of the Bank from 1970 to 1975. Joined the Committee in 1975

C W Newton, CBE
Chairman, London Regional Transport and London Underground Limited. A non-executive Director of Sketchley plc and Metropower Limited. Former Chairman of Mass Transit Railway Corporation. A non-executive Director of the Bank since 1986. Joined the Committee in 1989

Sir Michael Sandberg, CBE
Chairman of the Bank from 1977 to 1986. Joined the Committee in 1987

G M Sayer, CBE
Chairman of the Bank from 1972 to 1977. Joined the Committee in 1978

Sir Adrian Swire
Chairman, John Swire & Sons Limited and a Director of Cathay Pacific Airways Limited and Swire Pacific Limited. A Director and former President of the General Council of British Shipping Limited. Joined the Committee in 1990

Sir George Turnbull
Chairman and Chief Executive of Inchcape plc. Also Chairman of the Industrial Society's Council and of the Korea Europe Investment Fund. Joined the Committee in 1985

Viscount Weir
Chairman of The Weir Group PLC, Vice-Chairman of J Rothschild Holdings PLC. Former Director of the Bank of England. Joined the Committee in 1980

General Managers

P W S C Brockman *Planning*

C Carr *Group Legal Adviser*

J H Cleave *President and Chief Executive Officer, Hongkong Bank of Canada*

D G Eldon *Chief Executive Officer, Malaysia*

F J French *International, Americas/Europe*

R E Hale *Chief Executive Officer, Singapore*

T W O'Brien *Chief Executive Officer, United Kingdom*

R M J Orgill *Chief Executive Officer, HongkongBank of Australia Limited*

J C S Rankin *Group Human Resources*

S Robertson *International, Middle East/India*

P E Selway-Swift *Hong Kong*

A K D Townsend *International, Asia-Pacific*

K R Whitson *Executive Director, Marine Midland Bank, N.A.*

Secretary

R G Barber

Registrars

Central Registration Hong Kong Limited
Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong

Shareholders are this year being sent the Annual Reports of The Hongkong and Shanghai Banking Corporation Limited and of HSBC Holdings plc in the same volume. As explained in the document sent to shareholders on 1 February 1991, it is expected that, subject to the outcome of the Court hearing of the petition to sanction the Scheme of Arrangement on 26 March 1991, to Directors being satisfied with listing arrangements, and to other approvals, HSBC Holdings plc will become the group's ultimate holding company and the company in which shareholders will have shares. The Annual General Meeting on 14 May 1991 will therefore be a meeting of HSBC Holdings plc. Throughout 1990, however, HSBC Holdings plc was only a property-holding subsidiary and its accounts reflect that level of business; The Hongkong and Shanghai Banking Corporation Limited was the listed company and it is therefore appropriate for shareholders to receive its Report and Accounts in the usual way.

The group's results for 1990 were very disappointing. Profit attributable to shareholders of the Bank was HK$3,096 million, after providing for taxation and transfers to inner reserves; a reduction of 35 per cent compared with 1989.

As already announced, the timing of the Scheme of Arrangement meant that a second interim dividend of 26 cents per share, in lieu of a final dividend, is being paid for 1990 to shareholders on the register on 8 March 1991, bringing dividends for that year as a whole to 39 cents per share (an increase of 3.2 per cent over 1989 in the total distribution).

Worsening economic conditions during 1990, notably in the United States, the United Kingdom and Australia, had serious consequences for the group's performance. By contrast, the group's operations in most Asian countries had a good year.

In the United States, Marine Midland reported a loss of US$295.0 million, largely as a result of provisions against real estate loans in the context of the depressed economy of the north-eastern United States. The extent of New York State's economic difficulties in particular is shown by the fact that, during the period from September 1990 to January 1991, of the total reduction of 950,000 in employment in the United States nationally, over 250,000 jobs were lost in New York State alone.

A number of steps were taken during 1990 to come to grips with Marine's problems. The management team was reinforced with the secondment of several executives from HongkongBank. Marine has continued its strategy of becoming a regional bank and certain businesses were sold. The reduction in assets, together with a contribution of US$300 million in new equity capital from HongkongBank, resulted in a strong Tier I risk-weighted capital ratio for Marine of 5.84 per cent at the end of 1990.

HongkongBank of Australia had a very difficult year, reporting a loss of A$273.2 million mainly due to the need to make significant provisions in respect of non-performing loans. This figure also included the write-off of deferred tax relief of A$79 million. A new chief executive was appointed and the staff count was reduced by over 20 per cent. Efforts are being directed to improving the loan portfolio and to emphasising those businesses in which we have a competitive advantage.

Significant provisions for corporate loans were required in the United Kingdom and the People's Republic of China. The economies of both countries grew relatively slowly during the year.

In Asia — the historical core of the group's business — earnings continued to grow satisfactorily. The Bank's operations in Hong Kong performed well, despite economic growth that was slow by the standards of the territory's spectacular past achievements. Hang Seng Bank had another good year, continuing its consistently strong performance. The

Bank's domestic operation in Singapore achieved record results, though the offshore unit was badly affected by provisions in respect of loans to Australian clients

Despite the crisis in the Gulf, The British Bank of the Middle East increased its profit, helped by another good performance by The Saudi British Bank.

Hongkong Bank of Canada emerged as the leading foreign-owned bank in that country following the acquisition of Lloyds Bank Canada.

The group's commercial banking operations also benefited from the alliance with Wells Fargo Bank, which is producing a growing and profitable flow of business.

The Wardley Group had a satisfactory year, although profit was lower than in the record year of 1989, due to provisions that were required in its subsidiary Equator Bank. CM&M, the group's primary dealer in New York, reduced overheads and returned to profit.

The James Capel Group, adversely affected by the decline in world equity markets, reported a significant loss. This was exacerbated by the cost of withdrawing from certain businesses which had little prospect of future profitability. In January 1991 a new executive Chairman was appointed. Overheads are being reduced. The fund management activities of James Capel and Wardley in London have been merged.

The six shareholders of I.C.B. Company Ltd (formerly International Commercial Bank, in which HongkongBank's investment is 22 per cent) decided to wind up the company, following its problems with less developed country debt. Almost all assets have now been sold and a members' voluntary liquidation should be completed in 1991.

On 17 December 1990, HongkongBank and Midland announced that they had decided it was not the right time for a closer structural association between the two groups. The difficult economic conditions affecting most major banks, and the uncertain state of financial markets, did not provide a sufficiently stable environment in which to consider a fundamental change in this relationship.

Nevertheless, the working partnership between the two groups continues. An increasing volume of business has been referred between the two organisations, and the two banks' automated teller machines and corporate electronic banking networks have been linked.

On 5 March 1991, Midland announced a disappointing pre-tax profit of £11 million for 1990; after tax (largely due to a write-off of deferred tax relief) the loss for the year attributable to shareholders of Midland was £181 million. The dividend for the year was halved. The dividend on HongkongBank's holding in Midland is accounted for at the time of receipt.

Also on 17 December the Bank announced that it would put before shareholders the Scheme of Arrangement which was approved at the Court Meeting of shareholders on 26 February 1991 by 2,004,510,535 votes to 7,066,421. Subject to the Court hearing of the petition to sanction the Scheme and other approvals, it will take effect on 2 April 1991.

The creation of a holding company provides a structure that is more appropriate to the group's various businesses. HongkongBank, the principal subsidiary company, will remain domiciled in Hong Kong. HSBC Holdings plc, the new holding company, will have its headquarters in Hong Kong and be managed and controlled here; its Board and its shareholders will meet in the territory; it will be supervised by Hong Kong's Commissioner of Banking; and its equity share capital will be in Hong Kong dollars. The restructuring should help to reassure the many depositors, banks, shareholders and regulators outside Hong Kong who deal with the group.

It must be emphasised that the group is not turning its back on Hong Kong. The Board remains confident about the future of the territory, which is an important and profitable market for us. The group continues to invest and expand in Hong Kong. Notable examples of such investment in 1990 were the creation of the Network Services Centre as part of a large-scale project to separate the Bank's retail and corporate businesses in Hong Kong, and the completion of the fine new 27-storey headquarters building of Hang Seng Bank.

The Bank continues to develop its work for the community of Hong Kong, with an emphasis on education and the environment. In May 1990 the Hongkong Bank Foundation donated HK$20 million to set up the HongkongBank Language Development Fund which, in co-operation with the Institute of Language in Education within the Government's Education Department, is funding language curriculum development projects. The Foundation also increased its support for the Centre of Environmental Technology for Industry in Kowloon, bringing the total committed so far to HK$5 million. The Foundation has also begun a District Community Programme, under which it will make funds available to committees of local community leaders to spend on local small-scale projects in each of the Bank's administrative districts in Hong Kong.

During 1990 the Hongkong Bank Foundation donated HK$35.5 million to a number of causes. *In addition, the group made charitable donations of HK$25.2 million during the year.*

At the end of 1990 the number of people employed by the Bank and its subsidiaries exceeded 54,000. I am grateful to them all for their continuing efforts in a year in which poor results in parts of the group inevitably led to a degree of uncertainty. In particular I wish to record my thanks to our staff in the Middle East, who have shown exemplary dedication during a very testing period.

At the date of the 1990 Annual General Meeting Mr R R Frederick resigned as a non-executive Director; he remains on the Board of Marine Midland. Mr D P H Liao was appointed as a non-executive Director. *Mr F R Frame was succeeded as executive Deputy* Chairman by Mr J M Gray, but remains on the Board as an executive Director and Adviser.

In January this year, Mr J A Brooks retired from the Board, upon his retirement from Midland Bank.

We were delighted by Baroness Dunn's elevation to the peerage in August 1990.

The outlook for 1991 is very uncertain, but there is great relief as a result of the cessation of hostilities in the Middle East. World economic growth is likely to be slower than in 1990, though East Asia will probably grow faster than the rest of the world. Notwithstanding the uncertainties ahead, it is expected that, in the absence of unforeseen circumstances, the Board of HSBC Holdings will recommend dividends for 1991 of at least the total amount of the dividend distribution paid by HongkongBank in respect of 1990, that is HK$1.56 per HSBC Holdings share — equivalent to 39 cents on each share in the current issued capital of HongkongBank.

W Purves, *Chairman*
12 March 1991

Principal Companies
(as at 12 March 1991)

Commercial Banking

The Hongkong and Shanghai Banking Corporation Limited
The British Bank of the Middle East
Hang Seng Bank Ltd (61.48 per cent)
HongkongBank of Australia Ltd
Hongkong Bank of Canada
Marine Midland Banks, Inc.

The Cyprus Popular Bank Ltd (21.62 per cent)
Hongkong Egyptian Bank SAE (40 per cent)
The Saudi British Bank (40 per cent)

Merchant Banking and Capital Markets

Carroll McEntee & McGinley Inc.
DLP James Capel
Equator Bank Ltd (83.3 per cent)
James Capel & Co. Ltd
Van Meer James Capel NV (82.4 per cent)
Wardley Ltd
Wardley-Thomson Ltd

Allied Provincial plc (24 per cent)
BBN James Capel Inc (50 per cent)
Kay Hian James Capel Pte Ltd (37.5 per cent)
Utama Wardley Bhd (30 per cent)

Finance

Concord Leasing (Asia) Pte Ltd
Concord Leasing, Inc.
HongkongBank International Trade Finance Ltd
HSBC Finance (Malaysia) Bhd
MidAval Asia Pte Ltd (60 per cent)
Middle East Finance Co. Ltd (90 per cent)
Mortgage And Finance Bhd
Wardley Thailand Ltd
Wayfoong Credit Ltd
Wayfoong Finance Ltd
Wayfoong Mortgage And Finance (Singapore) Ltd

Financial Services

Wardley Data Services Ltd

Central Registration Hong Kong Ltd (50 per cent)
Hongkong and Shanghai Thomas Cook Ltd (50 per cent)

Insurance

Carlingford Insurance Co. Ltd
Gibbs Hartley Cooper Ltd
Gibbs Insurance Consultants Ltd

Investment Management

Wardley Investment Services Ltd

Arabian Gulf Investments (Far East) Ltd (20 per cent)

Retirement Benefits

Antony Gibbs Benefit Consultants Ltd
Carlingford Swire Assurance Ltd (74.5 per cent)

Trustee and Nominee Companies

Companies are located in the Bahamas, the British Virgin Islands, the Cayman Islands, the Channel Islands, Hong Kong, the Isle of Man, Malaysia, Singapore, and the United Kingdom.

All companies are 100 per cent owned unless otherwise specified, associated companies are shown in italics

The Hongkong and Shanghai Banking Corporation Limited

In 1990 the Bank's profit before dividends from subsidiaries showed a significant improvement over 1989. This was due to an increase in net interest and non-funds income which more than offset additional provisions for doubtful debts in China, Singapore, the United Kingdom and the United States. Including dividends from subsidiaries the Bank recorded a profit of HK$7,486 million, an overall increase of 38 per cent over 1989. The Bank's total assets increased by 19 per cent compared with growth of 17 per cent in 1989. Deposits grew by 21 per cent compared with 12 per cent in 1989. Together with a lowering of the rate of increase in advances, this resulted in a reduction in the advances to deposits ratio. The additional funds raised were mainly employed in prime government securities and in the money market. Shareholders' funds showed only slight growth over 1989, due mainly to the retention of net profit.

Technical Services

HongkongBank's strengths in information technology supported the expansion of numerous group products and services throughout 1990. For example, the Bank's international automated teller machine (ATM) network was expanded to 13 countries and linked both to Midland Bank's ATM network in the United Kingdom and Marine Midland Bank's system in New York State. The group's global ATM network now provides the largest coverage by country of any proprietary bank ATM network in the world, giving access to nearly 40,000 machines. Similarly, the HongkongBank Universal Banking system (HUB), the group's new software for automating and tracking branch banking activities, was installed in Macau, Oman, Sri Lanka, Taiwan and the United States. Major systems enhancements were added in Lebanon, Qatar and Thailand.

In Hong Kong, Technical Services (TSV) was heavily involved in a major restructuring of the Bank's branch network. In Vancouver, TSV opened a Group Systems Development Centre in conjunction with Hongkong Bank of Canada to develop and test new systems and software. During 1990 TSV also expanded the group's proprietary telecommunications network, adding high-volume transmission links to Canada and Australia, and extending the

The Lamma Channel,
Hong Kong *1980*

national networks in the United States and in Canada, where group offices throughout the country are now supported by more than 50 communications processors.

Treasury

The Bank's treasury operations continued to show strong growth in 1990, generating substantial profits from increased corporate activity and a higher volume of transactions in the interbank currency and interest rate markets. The Bank's principal treasury operations remain in Hong Kong, London and New York, but its world-wide treasury capabilities were strengthened in several other key locations. HongKong Bank of Canada's acquisition of Lloyds Bank Canada provided a substantial treasury presence in Toronto to complement the operation in Vancouver. In Tokyo, the Bank upgraded its dealing room, expanded its dealing team and installed TREATS, the group's advanced treasury trading system. In Singapore, several key treasury executives were recruited, thereby increasing the size and scope of the Bank's treasury activities in South East Asia as a whole.

Financial Institutions Group

In its first full year of operation, HongKongBank's Financial Institutions Group (FIG) significantly increased the volume of trade business directed to the Bank's branch network from correspondent banks and produced a substantial increase in the volume handled by the group's expanding Asian securities services. FIG actively markets foreign trade services to other banks in 17 countries. It also markets the group's electronic banking and international cash management products to financial institutions world-wide. To support these efforts, FIG installed a new information system to identify business volume by individual customer in the Bank's largest branch locations.

Augmenting FIG's efforts, the group's US dollar processing business under Marine Midland Bank's Global Products Group was restructured in 1990. With an average of US$88 billion in funds transfer payments daily, the group is now the seventh largest user of CHIPS (the clearing house interbank payments system).

FIG also continued to manage the Bank's successful and developing alliance with Wells Fargo Bank in California.

Global Banking Services

Global Banking Services (GBS) continued to direct consistent marketing, product and business development across the HongkongBank group. In 1990 GBS co-ordinated the expansion of the Bank's international ATM network, repackaged marketing and advertising for Hexagon, HongkongBank's global electronic financial services system, and launched the Expatriate Services Programme, a package of financial services developed in conjunction with Midland Bank for UK citizens working overseas. On behalf of the Bank's area managements, GBS significantly expanded the regional securities business, which now has nine regional centres, maintains some US$30 billion under custody, and provides a growing stream of non-interest income. In addition, GBS played a key role in the expansion of the Bank's world-wide credit card businesses during the year.

Hong Kong

At 2.4 per cent, Hong Kong's real rate of economic growth remained fairly low in 1990; while re-exports rose by 16 per cent, domestic exports remained virtually unchanged. Slower economic growth marginally eased the continuing tightness in the labour market, but inflation averaged 9.8 per cent for the year, down only slightly from the 10.1 per cent recorded in 1989.

The Bank had another good year and profits exceeded those of 1989. In the corporate sector, loan demand remained steady throughout the year, particularly from multinational companies. The Bank continued to lend to all sectors of local industry and a trend towards higher margins was evident. Hexagon continued to enjoy strong demand in Hong Kong with record growth in both number of customers and revenues. In its traditionally important areas of trade finance and related services, the Bank achieved satisfactory increases in business. Shipping finance focused on quality lending rather than volume in what was a difficult year for all sectors of the industry. Trading volumes on the Hong Kong stock-market declined, largely as a result of uncertainties in the Gulf. However, the Bank successfully minimised the effect of this decline on its own securities operation with a sustained marketing drive.

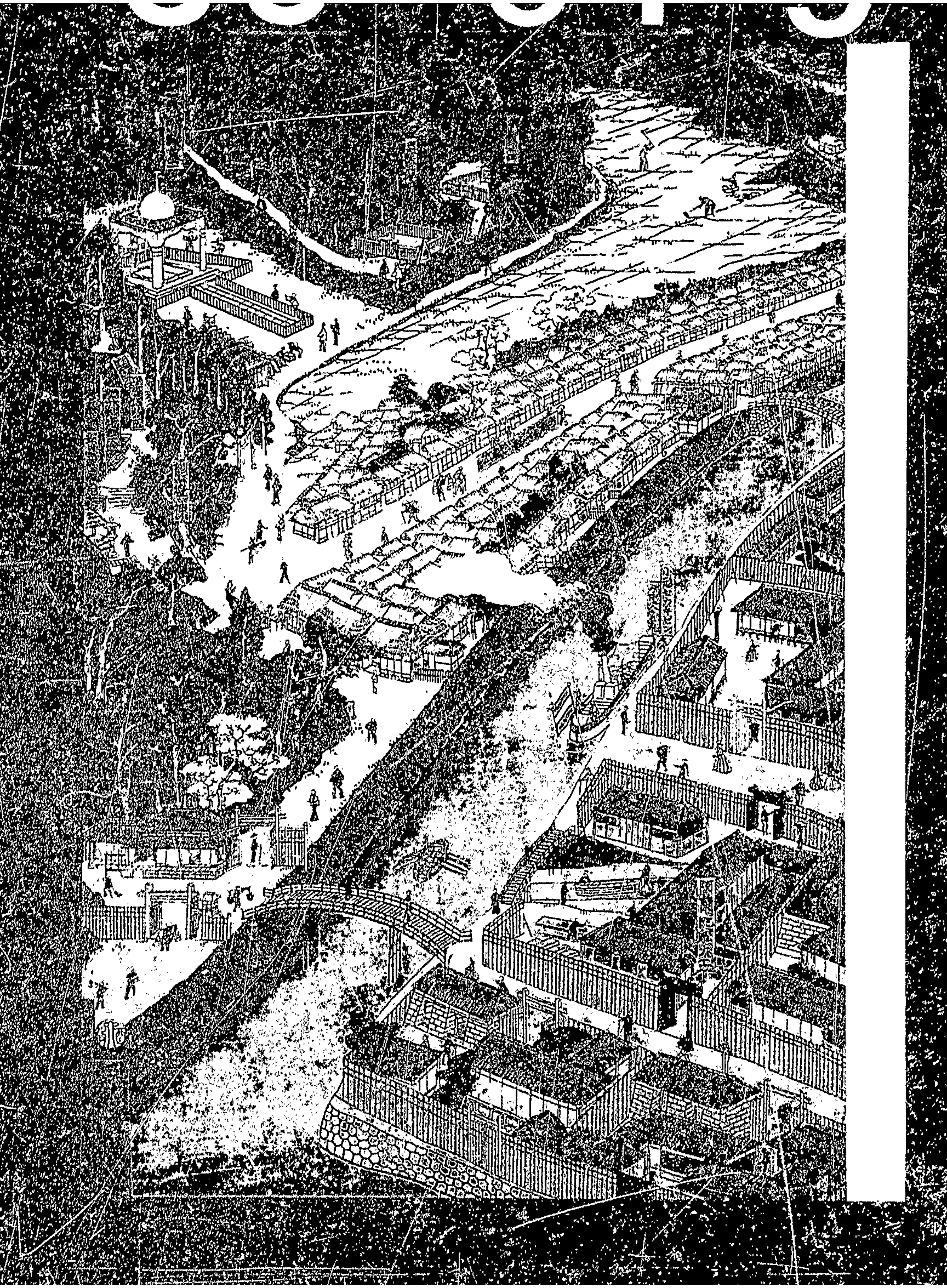
The Bank's treasury operation had a good year with profits from foreign exchange and money market operations comfortably above 1989 levels. Despite greater volatility and reduced liquidity in the interbank foreign exchange markets, the contribution to overall profits from this area rose. The introduction by the Hong Kong Government of Exchange Fund Bills provided a useful new outlet for funds. The Bank's activity in foreign currency money markets increased.

The Bank's retail business performed well, achieving increased growth in both deposits and loans. Credit cards continued to contribute significantly to this business in spite of growing competition. There was strong demand for residential mortgages and the Bank maintained its growth in market share. Two new retail products were launched in 1990, Super Ease and AssetVantage. Both make significant use of technology and command account fees. Super Ease services include international access to accounts by ATM and a unique debit card feature, while AssetVantage provides services in both Hong Kong dollars and a range of foreign currencies, as well as currency swap facilities and an exclusive telephone banking service.

At the end of the year the Bank had 253 branches in Hong Kong and the number of ATMs in the shared network with Hang Seng Bank had increased by 15 per cent to over 770. The Bank thus continued to enjoy an unmatched coverage of its domestic market. The year was marked by a significant step forward in the evolution of the domestic branch network. The Network Services Centre, in which the back office functions of the retail network will be progressively centralised, was officially opened in October. The full benefits of this HK$200 million investment, which also covers the creation of six corporate banking centres, will include greater efficiency and cost savings. Additional investment was made during the year

Port of Yokohama *c. 1868*
五雲亭貞秀 (Sadahide Gountei)
(1807-c. 1878-79)

From the collection of
The Hongkong and Shanghai
Banking Corporation Limited



View of the Praya Grande, Macau, c. 1870

in the development and promotion of self service banking. Over 350 customer operated passbook update terminals (COPUTs) were in operation in branches of both HongkongBank and Hang Seng by year-end, and plans are now well advanced to extend the service to foreign currency savings accounts. Another innovative device designed to improve customer convenience and move routine traffic away from the counters — *the instant balance terminal* — was introduced into selected branches in the final quarter of the year. The new *terminal displays the customer's balances in up to three accounts instantaneously.*

Towards the end of the year, the continued buoyancy in re-exports and the construction sector was accompanied by a modest recovery in domestic exports. Hong Kong's economy is forecast to grow by 3.5 per cent in real terms in 1991. It is expected that the economy will continue to operate at the limits of its capacity and the prospects are encouraging.

Asia Pacific

By most indicators East Asia as a whole continued to enjoy rapid economic growth in 1990, with strong domestic demand helping to support continuing expansion. A driving force in this expansion in recent years has been the flow of direct investment from Japan, Korea, *Hong Kong and Taiwan into the relatively low cost labour economies.* However, Japan's investment in the region began to slow in 1990, and for the year as a whole was more or less static.

In **Japan**, the decline in the stock market and, to a lesser extent, in property values during 1990 reduced the capital base underlying the domestic financial sector. Asset growth slowed as banks were faced both with the need to meet international capital adequacy guidelines and *with greater domestic interest rates, which also affected liquidity.* Nevertheless, the Bank's operating profit was greater than in 1989, primarily as a result of improved interest margins. However, after accounting for tax and making provisions for doubtful debts, the net result was lower. During the year the Bank took new initiatives to develop its business with Japanese corporations by encouraging them to exploit the Group's strong presence in South East Asia.

Korea's economy *slowed down during 1990 and a number of foreign banks curtailed or* closed operations. Despite prudent provisioning, however, the Bank produced a net result only marginally lower than its strong performance in 1989. While the problems of local currency funding persists, particularly for foreign banks, the Bank's introduction of new deposit products resulted in a net interest margin well ahead of expectations.

After the Government of the **People's Republic of China** loosened its tight economic controls around mid-year, output increased significantly and GDP growth rose to 5 per cent. The Bank's performance in traditional trade-related business was satisfactory. However, provisions had to be made in connection with a number of project loans which resulted in a significant loss for the year.

The year saw slower economic growth in **Taiwan**, including slower export growth, and with stock prices also declining the business environment was somewhat fragile. Nevertheless, the Bank's two branches performed very strongly, producing a significantly better result than in 1989, helped by rising fee income from their card product business.

The Bank's branches in **Macau** continued to expand their business while maintaining the improved performance achieved in 1989. Growth was in line with the expansion of the economy.

Lingering political uncertainty and the series of natural disasters that befell the **Philippines** in 1990 took a heavy toll on the country's already weakened economy. Although a shortage of foreign currency was a major impediment to increased business in most sectors of the economy, the Bank's two branches succeeded in producing net results well above those reported in 1989.

Thailand's economy remained buoyant for most of 1990 until concern about increased energy costs and economic overheating caused a downturn in stock and property prices towards the end of the year. Despite increased debt provisions, the Bank's results were still well ahead of those of the previous year.

Record foreign investment and strong domestic demand sustained increased economic growth in **Malaysia** in 1990. As a net exporter of oil, the country was able to offset declining earnings from the export of agricultural and manufactured goods. The Bank achieved excellent results, ending the year with a net profit well ahead of that achieved in 1989.

Despite marginally slower economic growth in **Singapore**, the working profit achieved by the Bank set a new record. However, the need to provide against exposure to doubtful Australian loans, together with the impact of non-performing loans, resulted in lower net profits than in 1989.

In **Indonesia**, strong loan demand was fuelled by a buoyant economy and, for much of the year, a booming stock-market. Deregulation introduced in recent years has continued to attract substantial foreign investment, particularly in the manufacturing sector. For the Bank, which in 1990 increased the capital allocated to its branches, net results showed significant improvement over 1989.

The Bank's branches in **Brunei** followed up their strong performance in 1989 with another good year. Net profits for both the Bank and Mortgage And Finance Bhd were better than in 1989.

In **New Zealand**, domestic consumption remained depressed and difficulties were experienced in the financial services sector, with the Government rescuing one of the country's major banks. Nevertheless, the Bank's two branches in Auckland and Wellington produced a net profit for the year, after reporting a loss in 1989. In the last quarter of the year, the Bank opened a representative office in Christchurch.

Although there were signs in **Guam** of a slow-down in the island's economic boom of recent years, the Bank's office improved upon its performance. However, as a result of heavier taxation, net profit was below that of 1989.

In **Mauritius**, 1990 profits were well ahead of those reported in 1989. The Bank was granted an offshore licence during the year, and a new offshore banking unit is scheduled to begin operating in 1991.

Although **India** experienced a change in government, as well as political unrest, in 1990, the business environment remained favourable throughout much of the year and the Bank reported a net profit well above that of 1989.

Despite continued incidents of civil strife, the economy in **Sri Lanka** proved resilient. Firm tea prices and improved tourism largely offset the effects of higher oil prices and the loss of remittances from Sri Lankan citizens working in the Middle East. The Bank reported a significantly increased profit for 1990, and obtained approval to establish a new branch in Kandy, Sri Lanka's second largest city.

The banking industry in **Pakistan** had a difficult year in 1990. The country suffered a severe shortage of foreign exchange and the Bank's result was disappointing.

Bahrain experienced a strong outflow of funds precipitated by the Gulf crisis and deposits in the Bank's offshore banking unit fell to minimal levels. Nevertheless, profits were only slightly below those of 1989.

Europe

The high interest rate policy adopted by the UK Government to combat inflation bit into the economy gradually throughout 1990 and by year-end the country was in recession with virtually all banks having to make substantial provisions against the record number of company failures. Despite this difficult environment, the Bank's working profits in the **United Kingdom** showed an improvement over 1989. The increase was due mainly to treasury income. However, net results were badly affected by provisions against doubtful loans, which resulted in a loss for the year.

The Bank continued to build on the strength and expertise of its UK treasury team and steady progress was made in increasing corporate turnover in all products, particularly cross-border business in the treasury and financial derivatives market. Some progress has been made in trade finance, but this has been relatively slow due to worsening conditions in the international economy.

The Bank's investment in Midland Bank plc, held through a UK subsidiary, produced dividend income of £27.5 million in 1990.

The Americas

The working profits of the Bank's operations in the **United States** showed an increase over 1989. However, as the economy moved into recession, the need to make additional provisions resulted in a net loss for 1990, although this was smaller than in 1989. In line with the restructuring of its branch operations undertaken in 1989, the Bank maintained its focus on middle-market companies, clients investing in the United States, and the country's fast-growing Asian communities. Among the major technological enhancements made during the year were the installation of HUB in the branch network, and the implementation of TREATS in the group regional treasury centre in New York City.

In **Panama**, the Bank's two branches continued to expand their business, producing a record net profit for the year despite unsettled economic and political conditions.

Buoyed by recoveries of previously non-performing loans, the Bank's operations in the **Bahamas** had a profitable year, although net results were somewhat lower than in 1989.

HongkongBank's business in **Brazil** is handled by Banco HKB SA, an associate group company headquartered in Sao Paulo. A multibanking licence was issued in January 1990, and the company was able to expand the scope of its business, recording a small return for the year.

Following several difficult years, and despite unexpected provisions for non-performing loans, the Bank's branches in Santiago and Valparaiso, **Chile**, returned to profit in 1990.

Hang Seng Bank Limited

The Hong Kong economy grew at a moderate rate in 1990. Re-exports were strong but domestic exports and consumer spending remained sluggish. Against this background, Hang Seng (group interest 61.48 per cent) achieved good results, with a 20.2 per cent increase in post-tax profits.

Deposits and other Accounts

Customers' deposits and other accounts increased by HK$38,188.1 million or 23.6 per cent over 1989 to HK$199,850.9 million at year-end. In line with the territory-wide trend, a large part of the increase was again in non-US dollar foreign currency deposits. Hong Kong dollar and US dollar deposits continued to record steady growth.

Financial highlights	1990	1989
Share capital and reserves	14,143.7	12,644.5
Profit attributable to shareholders	2,187.8	1,820.1
Dividends paid and proposed	1,188.6	990.5
Total assets	*215,382.0*	*175,321.2*

Expressed in Hong Kong dollars millions

Loans and Advances

Having picked up towards the end of 1989, loan demand remained steady throughout 1990. Much of the demand came from domestic activities, particularly home mortgage financing. Loans and advances rose to HK$66,046.9 million by year-end, an increase of HK$10,354.3 million or 18.6 per cent over 1989. The loans to deposits ratio was 33 per cent, and liquidity remained high, with 67 per cent of customers' deposits and other accounts being in the form of cash and deposits with other banks.

Shareholders' Funds

After a one-for-five capitalisation issue in April 1990 and the transfer from the inner reserve to the general reserve, published consolidated shareholders' funds totalled HK$14,143.7 million at year-end, an increase of 11.9 per cent over 1989.

Local Branch Network

During the year, three new branches were added to the local branch network. Together with 43 Mass Transit Railway banking offices and one Kowloon-Canton Railway mini-bank, the number of local branches and offices totalled 122 at year-end. Hang Seng continued a branch refurbishment programme designed to create a more modern and pleasant banking environment.

New Headquarters

Construction of Hang Seng's new, purpose-built, high-technology headquarters building, at 83 Des Voeux Road Central, Hong Kong, proceeded on schedule and was completed in early March 1991. The building has three basement levels, 27 storeys and a total usable floor area of 35,258 square metres (379,376 square feet).

New York and San Francisco Branches

The two New York branches continued to show satisfactory results. The limited service branch in San Francisco, opened in December 1989, recorded satisfactory progress in its first full year of operation. With an established presence on the east and west coasts of the United States, Hang Seng is well placed to serve the expanding Chinese communities in those regions.

Representative Offices in China

Hang Seng's representative offices in the Shenzhen and Xiamen Special Economic Zones (SEZs) continued to provide liaison and enquiry services to customers who have established or intend to establish operations in the SEZs and their vicinities. Hang Seng plans to open a representative office in Shanghai in 1991 in order to strengthen its services and to complement its existing offices.

Subsidiaries

The two wholly owned subsidiaries, Hang Seng Finance Limited and Hang Seng Credit Limited, were redesignated respectively as a restricted licence bank and a deposit-taking company under the revised three-tier structure of authorised institutions in Hong Kong. They continued to make important contributions to the operating results. Associated Bankers Insurance Company Limited, a 68.8 per cent owned subsidiary, continued to make steady

Landscape
溥心畬 *(Pu Ru) (1896-1963)*

From the collection of Hang Seng Bank Limited

progress with increases in both premium income and operating profits. The Wing On Bank Limited, a 50.3 per cent owned subsidiary, streamlined its operations, particularly through automation, and made satisfactory progress for the year.

New Services

In October 1990, Hang Seng introduced its first telephone banking service — the FlexiPhone Account. The response from customers has been encouraging. As a further enhancement of its retail banking services, Hang Seng installed instant balance enquiry terminals at its head office and major branches to supplement its ATM and COPUT systems. Again, customer response was positive. In order to meet the more varied demands of individual customers, personal banking centres were set up during the year at the head office and major branches.

Community Services

Hang Seng continued to support a variety of community services, including the provision of an Education Advisory Service, the compilation of the Hang Seng Share Index and the Hang Seng Consumer Price Index. The widely used telephone hot line for the Hang Seng Share Index was upgraded with a computerised telephone-answering system providing up-to-the-minute information on the Index. The Hang Seng School of Commerce, a non-profit-making coeducational institution which offers two years' full-time post-secondary business education to students free of charge, celebrated its 10th anniversary in November 1990.

The British Bank of the Middle East

Despite the developing political crisis in the Gulf during the second half of 1990 and its adverse effects on trading conditions and business confidence, *The British Bank of the Middle East* (BBME) reported satisfactory profits for 1990.

The year began on a note of cautious optimism and saw satisfactory levels of economic activity in most countries in the Middle East. With the invasion of Kuwait, however, business began to stagnate and there was an outflow of capital from the region. At the same time, the crisis generated increased volumes in BBME's retail banking operations as residents sought a safe haven for their deposits. The entire branch network remained open for business and despite the outflow of capital from the region, BBME as a whole increased its deposit base with a number of branches improving market share.

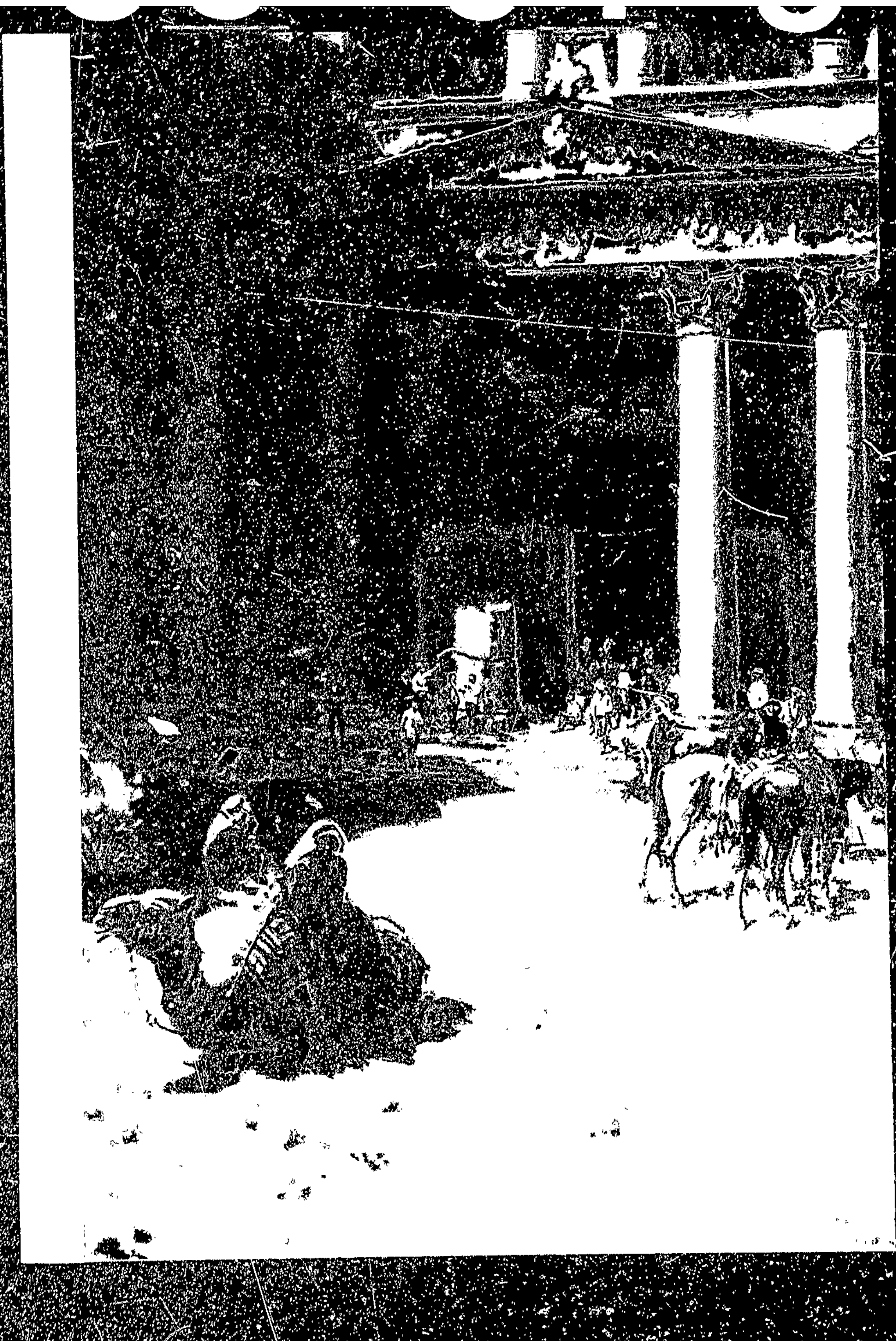
Financial highlights	1990	1989
[illegible]	190,900	[illegible]
[illegible]	31,090	[illegible]
[illegible]	23,000	[illegible]
Total assets	2,146,387	[illegible]

[illegible]

The surge in the price of oil which followed the invasion of Kuwait had no immediate impact on the economies of the region, the resulting increase in revenues being diverted to contingency funds rather than committed to new economic development. The volume of trade declined in the last quarter of the year, however, and is unlikely to improve in the near future.

The economy of the *United Arab Emirates* was buoyant until the events of August, but slowed thereafter as investor confidence became unsettled. Trade volumes later stabilised, albeit at a reduced rate. While BBME's subsidiary, Middle East Finance Company Limited, experienced another difficult year, the Bank's branches in the UAE reported profits ahead of forecast but below those of the previous year.

The Bank's operation in Bahrain achieved an improved result and the quality of the loan book continued to strengthen.



The Treasury at Petra *1990*
[illegible]

[illegible] The Hongkong and Shanghai Banking Corporation Limited

Of all BBME's operations in the region, that in **Jordan** was possibly the most affected by the Gulf crisis. The economy performed well initially, but suffered a sharp reversal in the second half of the year. Aid from other Arab countries ceased, unemployment rose, tourism was seriously curtailed, and the economy suffered significantly from the international trade embargo against Iraq, Jordan's principal trading partner. This was exacerbated by a drop in foreign currency remittances from expatriate workers in the Gulf states. Although the area produced good working profits, higher provisions for tax and non-performing assets, coupled with an adverse exchange rate, produced a final result lower than in 1989.

In contrast, BBME's operation in **Oman** was probably the least affected by the crisis, and produced improved profits. A new five-year plan, envisaging growth of 6.3 per cent per annum, was announced by the Government and 1991 was designated 'The Year of Industry'. Projected increases in oil revenues and the development of the non-agriculture, non-oil sector should be beneficial to BBME's operations.

In **Qatar** the economy became static following the Gulf crisis. However, the major North Field Gas project continues on schedule and the field should become operational during 1991. Increased foreign exchange earnings and non-funds income helped BBME's branches to record another satisfactory performance.

A measure of stability returned to **Lebanon** after 15 years and the community is now faced with the task of rebuilding Beirut. BBME reopened its branch in Dora late in the year and, despite a weakening Lebanese pound and continuing high inflation, its operations returned an improved result.

In **India** the profitability of BBME's branch in Bombay was marginally below forecast but the branch continued to make a good contribution to the group's presence in the country through non-resident deposits.

BBME's branch in **Switzerland** (Geneva) reported increased profits, generated principally by an influx of deposits from the Gulf.

In the **United Kingdom**, the result from the London (Curzon Street) branch, although lower than in 1989, was better than anticipated.

In the course of 1990, BBME further expanded its product base and improved its customer service through the continued development and application of information technology. The international coverage of BBME's ATM network was greatly enhanced by the establishment of links with Midland Bank's network in the United Kingdom, Marine Midland's system in New York State, and the Visa Plus* network. The Expatriate Services Programme, developed in conjunction with Midland Bank, was introduced, and the range of electronic financial services provided through Hexagon was enhanced. BBME's branches in Oman successfully converted to HUB, universal banking terminals were introduced in the United Arab Emirates, and major systems enhancements were added in Lebanon and Qatar.

For the third successive year, The British Bank of the Middle East was named the best retail bank operating in the Gulf Co-operation Council countries by readers of the *Middle East Economic Digest*.

Marine Midland Bank

Marine Midland Bank recorded a net loss of US$295.6 million for the year, compared with net income of US$13.9 million for 1989. At a time when a number of major US banks found it necessary to post substantial reserves against non-performing loans, Marine increased its provisions for loan losses by US$557 million.

The deepening US economic recession, a real estate crisis and uncertainty arising from hostilities in the Gulf all contributed to this poor performance. As the US economy deteriorated, the impact was particularly strong in the north-eastern United States, where commercial real estate vacancy rates ran significantly above the levels of past years, corporate profits fell sharply, and small business failures and consumer credit delinquencies rose.

By year-end Marine had bolstered its Tier I capital ratio to 5.84 per cent, a significant increase from the 3.77 per cent ratio reported at the end of 1989. Concurrently, Marine shrank its assets to US$20.1 billion by the end of 1990, a reduction of US$7 billion from the previous year. Marine also increased its liquidity at both the bank and holding company levels, and cut operating expenses – excluding credit-related expenses – by almost 15 per cent from 1989 levels. Over the course of the year, staffing levels were reduced by 16.2 per cent.

Financial highlights	1990	1989
Share capital and reserves	1,097,468	1,178,505
Profit/(loss) attributable to shareholders	(295,631)	13,886
Total assets	20,106,902	27,066,546

Expressed in US dollars '000s

In order to minimise the potential for future additions to its reserve for less developed country (LDC) loans, Marine continued to reduce its LDC exposure throughout the year. The bank had US$715 million in LDC loans outstanding at the end of 1990, a reduction of more than 37 per cent over the level at year-end 1989. Had Brazil met its scheduled interest payments in 1990, the performance of Marine's LDC loan portfolio would have been substantially better. At year-end, Marine had reserves equal to 39.8 per cent of loans to refinancing LDCs. Marine also had reserves equal to 3.6 per cent of loans to borrowers other than LDCs, a sizeable increase over the previous year.

At the beginning of 1990, Marine announced a restructuring programme to consolidate operations, wherever feasible, at its head office in Buffalo, New York State, and to withdraw from lines of business inconsistent with its core consumer and commercial banking franchise. For example, during the year, Marine transferred its credit card operations to its head office in Buffalo, closed its remaining representative offices in Latin America, and sold its international private banking business and parts of its highly leveraged transactions and education loan portfolios. In the fourth quarter Marine announced the sale to Ford Motor Credit of selected accounts and offices of its national automobile financing business, and during the year completed the sale of its investments in two other banks, Society Corporation and First Pennsylvania.

In another step to reduce asset size, Marine successfully issued an offering underwritten by the First Boston Corporation of securities backed by the bank's credit card receivables.

In line with its regional focus, Marine acquired additional branches and consolidated branches in other locations. With 319 offices serving 283 communities, Marine now has the second largest branch network in New York State. To broaden services to its retail and small and middle-market business customers, the bank introduced two new product packages: Marinextra and BusinessExtra. Each offers a combination of services and fee structures tailored to customer needs. Marine also expanded its state-wide MarinEdge Financial Services programme which provides customers with access to a wide array of investment alternatives, including annuities, mutual funds and insurance.

This emphasis on full-service banking has made Marine the second largest lender to small businesses and the third largest lender to consumers in New York State.

Meanwhile, as a member of the HongkongBank group, Marine continues to offer its customers access to global markets and services, and in turn plays a role in the delivery and processing of group products. To help cross-sell Hexagon to US business customers, Hexagon Services completed the training of selected Marine officers on the use of Hexagon. In addition, a new Global Products Group was established to provide US dollar clearing and processing for payment, trade and securities transactions. Due to be fully integrated in the first quarter of 1991, the unit handles an average of 18,000 funds transfers totalling more than US$55 billion daily.

Untitled *1980*
Paul Jenkins (1923-)

From the collection of Marine Midland Banks, Inc

Hongkong Bank of Canada

Hongkong Bank of Canada had another good year in 1990. Consolidated net income for the year ended 31 October 1990 rose to c$48.7 million, an increase of almost 40 per cent over 1989. Contributing to the growth in profits was the purchase of Lloyds Bank Canada, completed in May at a cost of approximately c$197 million. The acquisition, which included 53 branches and c$4 billion in assets, gave Hongkong Bank of Canada balanced geographical coverage of the Canadian market and reinforced its position as the leading international bank in the country.

Total assets at the end of the reporting year, which included those of Lloyds Bank Canada, stood at c$10.2 billion compared with c$6.1 billion as at 31 October 1989. Also reflecting the acquisition of Lloyds Bank Canada was a sharp increase in deposits and loans. Total customer deposits increased by 60 per cent and commercial and personal loans rose by 80 per cent during the year.

Financial highlights	1990 31 October	1989 31 October
Share capital and reserves	551,344	301,799
Profit attributable to shareholders	48,688	34,818
Total assets	10,231,212	6,138,171

Expressed in Canadian dollars '000s

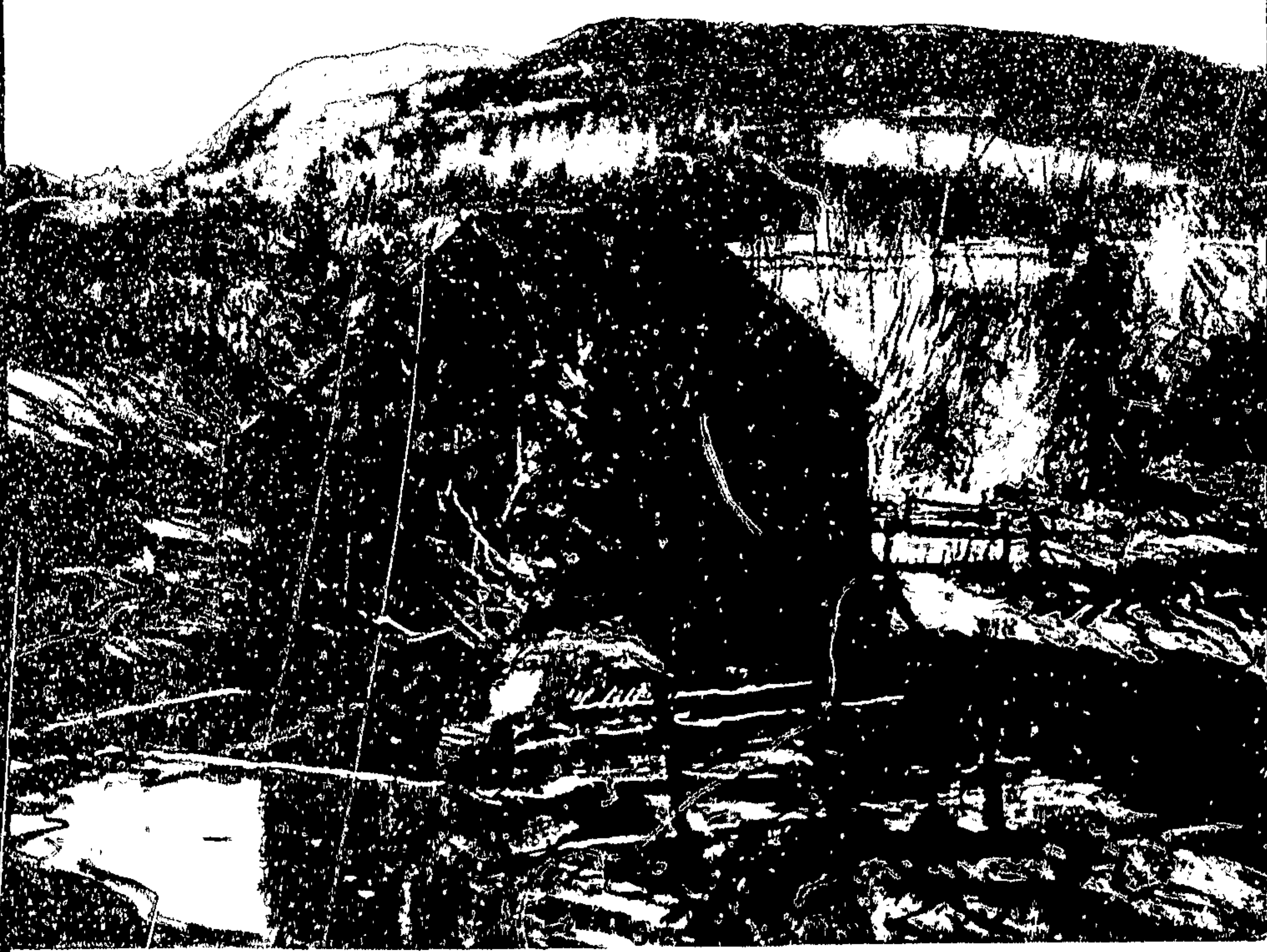
Hongkong Bank of Canada achieved these results in a year marked initially by high interest rates aimed at curbing inflation and, subsequently, by the onset of a recession. As a result of regional differences in the Canadian economy, the impact of the recession was less severe in the west, where Alberta and British Columbia in particular held up reasonably well until year-end. Although interest rates did begin to ease during the third quarter, further rate reductions were constrained by concerns about a possible weakening of the Canadian dollar and the inflationary effect of the national goods and services tax to be introduced at the beginning of 1991.

Against this background, the bank concentrated on maintaining the quality of its well-diversified asset portfolio and on expanding its strong position in the retail market. One of the major reasons for the purchase of Lloyds Bank Canada was Hongkong Bank of Canada's goal of extending its existing branch network — focused largely on western Canada — further eastwards. The acquisition of the Lloyds Bank Canada branch system, located primarily in Ontario and Quebec, helped to achieve that objective. With 118 branches extending from Vancouver in the west to St John's, Newfoundland, in the east, Hongkong Bank of Canada now operates in nine of the country's 10 provinces and provides a full range of banking services in virtually every major market in Canada.

Reflecting its national scope, the bank has also begun issuing all internal and external printed material in French as well as English and, where appropriate, in Chinese. Of the three new branches opened during the year — two in Toronto and one in Vancouver — two cater specifically to Asian customers. Their establishment underlines the bank's commitment to developing this market. Broadly defined, Asian business now accounts for about 12 per cent of Hongkong Bank of Canada's total business.

In response to customer demand for greater banking convenience, Hongkong Bank of Canada extended its ATM network by 11 per cent and expanded its MasterCard* customer base by 40 per cent. As part of a continuing programme to modernise and improve its retail operations, Hongkong Bank of Canada refurbished several branches during the year; others are scheduled for modernisation during 1991. It also stepped up marketing of Hexagon, and continued to make substantial investments in computer systems and other capital equipment to provide faster, improved customer service.

As a member of the HongkongBank group, Hongkong Bank of Canada was involved in overseeing the construction and opening of a systems development centre in Vancouver, British Columbia. Opened on schedule in July, the centre is a significant step in the group's continuing and substantial investment in banking technology. Since its inception the centre has built solid relationships with nearby universities and technical schools to ensure a ready supply of well-trained potential employees.



HongkongBank of Australia

The Australian economy deteriorated further during 1990, particularly in the second half of the year. The corporate sector came under severe pressure, and this affected the banking industry. HongkongBank of Australia recorded a substantial loss for 1990 after making further provisions for non-performing commercial loans and reversing the future tax benefit of A$79 million on prior year losses.

Financial highlights	1990	1989
Share capital and reserves	149,775	172,973
Loss attributable to shareholders	(273,198)	(81,564)
Total assets	2,411,521	2,993,785

Expressed in Australian dollars '000s

The capital base was strengthened during 1990 by an injection of A$250 million in paid-up capital and a further A$20 million of perpetual subordinated debt. In November HongkongBank of Australia's parent, The Hongkong and Shanghai Banking Corporation Limited, entered into a Capital Maintenance Agreement. During the year staffing levels and overall costs were reviewed to reduce overheads.

The financial markets division continued to perform well. New products and improved controls were introduced, concentrating on the top end of the corporate sector.

Wardley James Capel Corporate Finance reported a small loss as a result of reduced mergers and acquisitions activity. Small losses were also recorded by the fund management business of Wardley Investment Services (Australia) and by James Capel Australia.

The Cyprus Popular Bank

The economy of Cyprus remained buoyant in 1990 due to strong domestic consumption and a booming tourism sector. Growth of 5 per cent was achieved despite the Gulf crisis and, although inflation rose to 4.5 per cent, unemployment fell below 2 per cent. The Cyprus Popular Bank (group interest 21.62 per cent) had another very good year, with profits increasing to C£5.5 million. Issued share capital was strengthened by a successful rights issue and a warrant issue exercisable in 1991-93. The branch network was expanded by five to 122 and a new head office in Nicosia is planned. The joint company established with The Bank of Cyprus in 1989 to handle credit card transactions began operations in 1990; further areas of co-operation are being discussed.

Hongkong Egyptian Bank

The Government continued to control credit expansion through a policy of implementing credit ceilings. The level of foreign exchange available to the private sector slowed, reflecting declines in revenue from tourism and expatriate remittances due to the Gulf crisis. Over the year the Egyptian pound depreciated by about 10 per cent in value against the US dollar. At E£11.5 million the net profit of Hongkong Egyptian Bank (group interest 40 per cent) showed a good improvement over the 1989 figure of E£3.8 million. Emphasis was placed on consolidating operational controls and improving the quality of the loan portfolio.

The Saudi British Bank

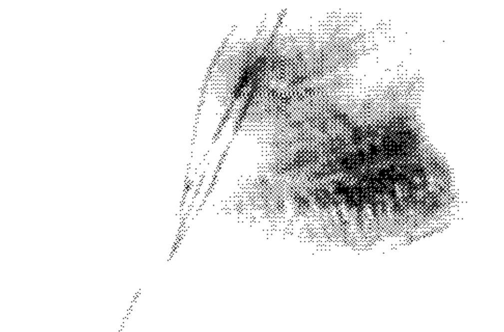
Saudi Arabia's economy performed well throughout the year. While some sectors were adversely affected by the Gulf crisis, others such as key supply industries benefited from the military build-up.

The Saudi British Bank (group interest 40 per cent) had another excellent year, achieving record profits of SR192.1 million with strong growth in its main businesses. An initial outflow of capital in August was short-lived and previous levels of deposits were largely restored or replaced with new business. The branch network was expanded by six to 45 and the product range was enhanced. Treasury and investment services increased their market share, while the quality of loans and income from non-funds activities improved.

Financial highlights	1990	1989
Share capital and reserves	839,177	715,855
Profit attributable to shareholders	192,110	123,064
Dividends paid and proposed	68,788	48,000
Total assets	14,577,936	12,549,539

Expressed in Saudi riyals '000s

The outlook for 1991 is uncertain, but The Saudi British Bank is well positioned for long-term growth.



Wardley Holdings

The Wardley Group had a satisfactory year in 1990 although its reported profits of HK$321 million were significantly less than the record levels of the previous two years. The results were affected by losses incurred by the Equator Group which suffered from unpaid interest and higher provisions on its African sovereign exposure.

Wardley Limited

Wardley Limited is the Group's merchant bank in South-East Asia with headquarters in Hong Kong and offices or affiliates in Taiwan, Thailand, Singapore, Malaysia and Indonesia. The after-tax profit for Wardley Limited and its subsidiaries in 1990 was HK$339 million, some 14 per cent lower than in 1989. However, core business profits improved over 1989, after adjusting for extraordinary write-backs of provisions in 1989.

Treasury and Private Banking

Pre-tax income of Treasury and Private Banking in Hong Kong was sharply higher than for 1989. Lower interest rates provided the impetus for improved profit: increased interest income, more active foreign exchange trading and stable swap income contributed to higher overall income. Client portfolios continued to grow rapidly during the year.

Financial highlights	1990	1989
Share capital and reserves	1,944,714	1,827,001
Profit attributable to shareholders	321,133	521,727
Dividends paid and proposed	210,000	370,000
Total assets	45,441,154	34,953,455

Expressed in Hong Kong dollars '000s

Wardley Bank (Luxembourg) SA grew substantially and results are expected to improve in 1991 with more active marketing, better treasury management, more efficient operations and a larger customer base in Europe.

Debt Origination and Advisory Services

Wardley Capital's leading position in project finance and advisory services, export credits, aviation finance, property finance, capital markets and financial risk management produced satisfactory profits. The company was appointed financial adviser to the Hong Kong Government for Hong Kong's proposed new airport.

Corporate Finance

Wardley Corporate Finance participated throughout 1990 in a wide range of corporate finance activities, including flotations, mergers and acquisitions, privatisations and corporate restructurings. It directly underwrote over 30 per cent of all equity raised by way of initial public offerings on the Hong Kong Stock Exchange during the year.

Broking and Securities Services

Wardley-Thomson continued to grow in the Pacific region and, despite unfavourable market conditions, turned in good profits. The company trades futures and equities on the world's major exchanges and as principal makes a 24-hour market in bullion and precious metals. Wardley-Thomson's equity research service has been well received in the market. The established 'Wardleycard' service providing statistics on Hong Kong-listed companies also made a useful profit contribution.

Wardley's new association in Thailand with Cathay Trust Co Ltd made a good start.

Although turnover was lower on the Hong Kong stock-market, Central Registration (50 per cent owned) again achieved satisfactory profits. An advisory and technical assistance agreement was concluded with a new registrar in Indonesia, PT Blue Chip Mulia.

Wardley Shipping suffered from a fall in turnover in the sale and purchase market and a reduction in freight levels in the chartering market. The Beijing representative office had a good first year.

Investment Management

With US$10 billion under management at year-end, Wardley Investment Services Ltd, the Group's investment management arm, made good progress in attracting institutional funds to South-East Asia despite adverse market conditions. Early in 1990 it launched the world's first umbrella fund for warrants funds and during the year developed other new products to address a changing economic climate. Marketing capabilities in Dubai and Taiwan have been strengthened, while the acquisition, from Marine Midland, of a controlling interest in Marinvest adds a North American investment management capability to existing operations in Europe and Asia. Wardley Direct Investment Management Ltd completed a number of unlisted investments for Pacific Rim Investments Ltd and prospects are encouraging for the launch of a second fund in 1991.

Wardley Investment Services Ltd formed closer links with the Carlingford Swire Assurance Group (74.5 per cent owned) which provides life assurance and retirement benefit services. Carlingford Swire launched a new life assurance distribution arm and a business to manage investments using quantitative techniques.

OTHER OVERSEAS OPERATIONS

Equator Holdings made a heavy loss as a result of sovereign risk provisions and unpaid interest on African loans made in the early 1980s. However, it reported a reasonable profit on its current business and continues to play an important role as a link between aid agencies and African customers.

Wardley's operations in North America — Wardley Inc, New York, and Wardley Canada Inc, a subsidiary of Hongkong Bank of Canada — had disappointing results. Both businesses have been restructured to meet the strong competition in North America.

Wardley Cyprus retained its leading position amongst offshore banks in Cyprus and made a satisfactory profit. The company is working with the local ship management community to provide an enhanced treasury service and is a leading adviser to many of the island's hotel groups.

Wardley's representative office in Tokyo was strengthened by the appointment of a senior Japanese executive. The office played a useful role in identifying Japanese investors and finance for overseas projects.

In Malaysia, Wardley's associate, Utama Wardley Bhd, reported significantly increased profits.

James Capel Group

The James Capel Group had a very disappointing year, suffering substantial losses in Euro-convertible market making and in fixed income trading, as well as from the need to write-down an investment in an associate company and to make heavy redundancy payments in the course of a major cost-reduction programme. Nevertheless, the Group maintained or improved its market share in most major financial centres and broke even in its continuing activities, despite very poor conditions in securities markets around the world.

Financial highlights	1990	1989
Share capital and reserves	71,550	41,108
Profit/(loss) for the year after taxation	(30,350)	358
Dividends paid	11,688	—
Total assets	3,047,411	3,693,488

Expressed in pounds sterling '000s

In the United Kingdom, James Capel's pre-eminent position in research was reaffirmed by institutional investors for the 11th consecutive year and the firm remained London's leading agency broker in terms of client business. On the corporate finance side, James Capel acted as stockbroking adviser to the UK Government on the privatisation of the electricity supply industry in England and Wales and as lead broker for the offers for sale of the regional electricity companies in November 1990 and the generating companies in February 1991. The investment management division also expanded its funds under management, in part by the acquisition of a team from Stock Group (London) Ltd.

Continued losses in fixed income trading forced a reorganisation of this area. The profitable gilts market-making unit was transferred to HongkongBank's London treasury division, where it will complement the Bank's risk management and derivatives businesses. The firm has ceased market making in continental European government securities.

In James Capel's European business both its Paris and Amsterdam operations increased their equity market share and maintained leadership in their respective options markets. In Madrid, James Capel joined with Midland Montagu to set up James Capel-Midland Agencia de Valores, while in London the firm's position as a leading distributor and market maker in continental shares was further strengthened. A number of European cross-border corporate finance deals were completed, drawing on the firm's distribution capability around the world.

In North America, where markets were severely depressed, James Capel Inc had a satisfactory year in securities distribution and corporate finance. Three new specialist funds were launched and the firm acted as financial adviser in a number of cross-border transactions, the most notable being the acquisition of BEA Associates, a leading US fund-management group, by Credit Suisse. Canadian markets were particularly weak, and BBN James Capel only managed to break even, while James Capel Australia also had a difficult year.

James Capel took up its seat on the Tokyo Stock Exchange in November 1990. During the year share prices in Tokyo collapsed and there was a sharp decline in trading activity, but the firm picked up additional domestic market share as Japanese institutional investors reversed their international capital flows; it now ranks among the top 10 foreign brokers in Japan despite having a relatively small operation in comparison with its competitors.

The Hong Kong office had a good year, and the emerging markets of South-East Asia provided strong revenue increases. In Singapore, the joint-venture company Kay Hian James Capel, which went public in October, did well in a difficult market, while in Thailand James Capel signed a research and management agreement with Ekachart Finance and Securities Co Ltd.

CM&M Group

CM&M, the group's primary dealer in US treasury securities, recorded a small profit in 1990 after amortising intangible assets and all other expenses. Despite long-standing competitive pressures in the fixed income industry, the company increased its revenues and, in the second half of the year, improved its trading results. Also contributing to profitability was a continued reduction in overall expenditure, coupled with a conservative risk-trading approach which resulted in less earnings volatility and consistently improved quarterly financial results.

Financial highlights	1990	1989
Share capital and reserves	95,117	94,710
Profit/(loss) attributable to shareholders	407	(4,743)
Total assets	2,335,095	2,893,583

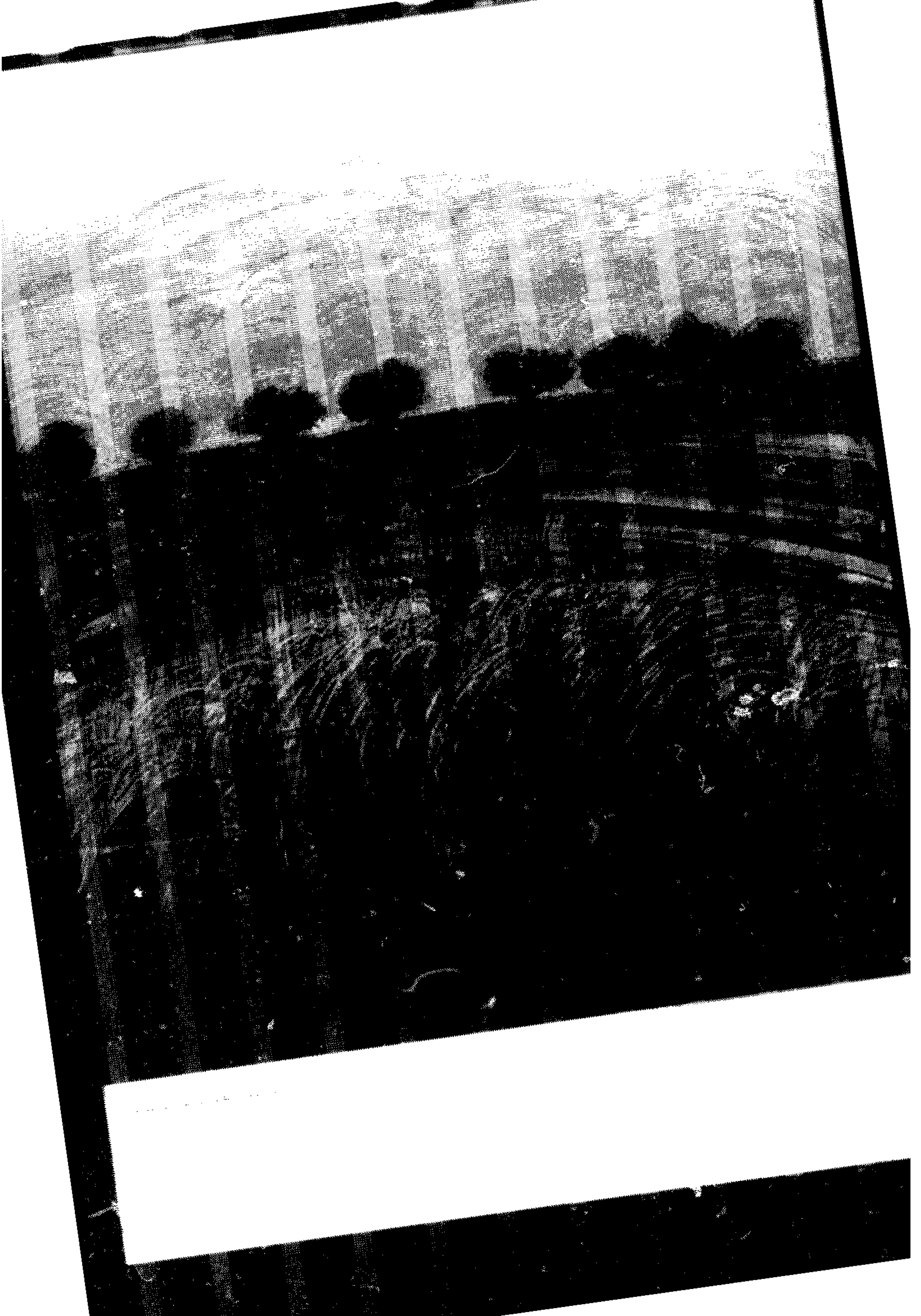
Expressed in US dollars '000s

On the wholesale side of its business, CM&M increased revenues significantly in its operations in New York. London and Tokyo results were also enhanced by the integration of Midland Montagu Securities' US treasury operations into CM&M in August 1990. A new broker-dealer division, completing its first full year of operation, proved profitable in offering corporate and other fixed income securities.

In the retail business, the company's US branch system encountered stronger competition but maintained both its profitability and leading position in small retail transactions. To maintain its position and maximise revenues in its domestic sales operations, the company committed additional resources to this part of its business.

The company's futures business saw volumes increase in Chicago, Singapore and London, although commission rate pressures in the futures industry reduced profitability in the US market. The firm's currency options operation on the Philadelphia Exchange, which had been producing unsatisfactory returns, was closed in 1990. CM&M also realised revenue from Prominnofi-Paris, an inter-dealer broker in French government securities in which it has a shareholding. Prominnofi increased profitability for the third year in a row.

CM&M's principal objective for 1991 is to achieve evenly balanced revenue growth in its four major business groupings: risk trading, wholesale dealer activities, retail transactions and futures operations.



Carlingford and Gibbs Insurance Groups

The Insurance Group had a good year, reporting an increase of 69 per cent in after-tax profits. The insurance businesses themselves produced results which were generally in line with or slightly ahead of forecast. The UK-based retirement benefits and personal financial planning subsidiaries, which now form part of the Insurance Group, also made good progress and recorded profits above forecast. The Group provides a growing range of insurance and related services either through specialist subsidiaries or directly through branches of HongkongBank in selected areas. These services currently include underwriting, broking, agency, premium financing and employee benefits consultancy.

Financial highlights	1990	1989
Share capital and reserves	562,225	465,657
Profit for the year after taxation	119,358	70,543
Dividends paid and proposed	40,000	0
Total assets	2,802,182	2,429,818

Expressed in Hong Kong dollars '000s

The insurance markets in which the Group operates, particularly in the United Kingdom and North America, appeared to be reaching a low point in the economic cycle during 1990, and premiums continued to soften in the developing economies of South-East Asia. Competition intensified in almost all areas. Nevertheless, through strong marketing initiatives and closer co-operation between the various units of the Group, as well as better liaison with HongkongBank branches in a number of territories, the Group was able to offset slimmer margins with more business.

In Hong Kong, the profit of Carlingford Insurance Company Ltd and its subsidiary, Carlingford Medical Insurance Ltd, advanced by 25 per cent. Gibbs Insurance Consultants Ltd was able to report satisfactory profit growth of 20 per cent after a period of slower growth in recent years.

In the United Kingdom, Gibbs Insurance Holdings Ltd further improved its profitability and, assisted by the recovery of Antony Gibbs Benefit Consultants Ltd, recorded a profit growth of 57 per cent.

In Singapore, Carlingford Insurance Brokers Singapore Pte Ltd achieved its forecast despite continuing pressure on overheads.

Gibbs Gulf Insurance Consultants Ltd in the United Arab Emirates traded profitably despite the difficult situation in the Gulf.

HKBG Holdings Limited

Despite the potentially adverse effects of the Gulf crisis on the growth of assets under management and the pressure of rising costs, the Trustee Group companies continued to strengthen their business during 1990. Overall attributable profit for 1990 was 19 per cent higher than that for 1989. Asia continues to be the most important area for the Trustee Group, although the trustee company in Jersey also made a satisfactory contribution in 1990.

The increased awareness by employers of the need to provide improved staff benefits gave rise to favourable business opportunities for the trustee companies in Hong Kong and Malaysia, where the growing interest in retirement benefits scheme business is encouraging.

In November, Midland Bank Trust Corporation (Jersey), a wholly owned subsidiary of Midland Group, acquired the entire issued share capital of Hongkong Bank and Trust Company Limited, a wholly owned subsidiary in Gibraltar of The Hongkong and Shanghai Banking Corporation Limited, as part of the business co-operation between the two groups.

The growth of the Global Asset Protection business led to the relocation of the head office of HongkongBank International Trustee Limited from the Bahamas to the Cayman Islands and to an association with the established Midland Group operation there. The reorganisation will allow the trustee operations greater flexibility in accommodating wider customer requirements around the world.

The implementation of a new computer system continues to support the expansion of the business by allowing the trustee companies to provide more sophisticated products and fast access to global financial information particularly through Hexagon.

HSBC Finance (Malaysia) Bhd

Financial highlights	1990	1989
Share capital and reserves	73,589*	73,531
Profit attributable to shareholders	9,858*	15,864
Dividends paid and proposed	9,800*	15,800
Total assets	763,524*	742,402

Expressed in Malaysian ringgit '000s
**Subject to final approval*

Favourable economic conditions in the Malaysian manufacturing sector allowed HSBC Finance (Malaysia) Bhd to increase its financing of industrial plant and equipment, but stronger competition resulted in finer lending rates to secure quality business. In addition, higher deposit rates, especially in the second half of the year, resulted in an increased cost of funds leading to a reduced profit for the year. Lower timber prices and less demand for logs affected the company's performance in Sabah and Sarawak. Conditions in 1991 are expected to remain highly competitive.

Wayfoong Mortgage And Finance (Singapore) Ltd

Financial highlights	1990	1989
Share capital and reserves	23,872*	21,704'
Profit attributable to shareholders	4,673*	2,956'
Dividends paid and proposed	2,505*	1,801
Total assets	217,741*	209,691'

Expressed in Singapore dollars '000s
**Subject to approval*
'Restated

Control of overheads and the recovery of non-performing loans made a significant contribution to the much higher profit for 1990. However, despite continued growth in Singapore's economy, albeit slower than in 1989, it was a difficult year for finance companies as increased competition from banks resulted in declining margins. In line with the industry, Wayfoong Mortgage And Finance (Singapore) Ltd experienced a higher cost of funds and lower interest income. Early in the year the company took advantage of a buoyant property market and strong demand for car loans, but became less aggressive in property finance following signs that the market was overheating.

Wayfoong Finance Ltd

Financial highlights	1990	1989
Share capital and reserves	512,478	489,149
Profit attributable to shareholders	223,329	220,835
Dividends paid and proposed	200,000	220,000
Total assets	12,587,943	11,481,571

Expressed in Hong Kong dollars '000s

Despite intensely competitive market conditions, Wayfoong Finance Ltd enlarged its deposit base and significantly increased its mortgage and hire purchase businesses in 1990. The return on resources was maintained and an improved working profit was achieved, although a substantial rise in overheads and the need to increase provisions on the portfolio reduced the overall result. To improve the company's capital base, as well as to comply with regulatory requirements, a reduced dividend was paid.

Grenville Transportation Holdings Ltd

Financial highlights	1990	1989
Share capital and reserves	487,318	492,375
Profit attributable to shareholders	1,052,891	370,216
Dividends paid and proposed	1,060,077	301,798
Total assets	1,711,972	1,960,016

Expressed in Hong Kong dollars '000s

In May 1990 Grenville Transportation, through its subsidiary Fort Hall Ltd, sold its remaining shareholdings in World Maritime Ltd and World Shipping and Investment Company Ltd. The exceptional gain on the sale of these investments resulted in a significant increase in the profit for the year and the dividends paid and proposed. Underlying profits benefited from increased dividends on the investment in Cathay Pacific Airways Ltd.

The Directors have pleasure in submitting their Report with the Balance Sheet of the Bank at 31 December 1990 and Group Accounts for the year ended on that date.

Principal Activities

The Bank and its subsidiary and associated companies provide a comprehensive range of domestic and international banking and related financial services through a network of more than 1,300 offices in some 48 countries throughout Asia-Pacific, Australasia, the Middle East, Europe and the Americas. A geographical analysis of group assets is set out on page 36. A further analysis of categories of assets (including advances) is set out on page 37.

Profit

The consolidated profit of the Bank and its subsidiary and associated companies is shown on page 41, together with particulars of the appropriations therefrom which have been made or which are recommended.

Share Capital and Reserves

The following events occurred during the year:

(a) a capitalisation issue of 581,612,817 shares of HK$2.50 each was made by the capitalisation of HK$1,454,032,042.50 from the Reserves of the Bank; and

(b) 40,465,061 shares of HK$2.50 each were issued at par in lieu of the final dividend for 1989 and 26,071,969 shares of HK$2.50 each were issued at par in lieu of the first interim dividend for 1990 to shareholders who had elected to receive new shares instead of cash dividends. The average market price per share used to calculate shareholders' entitlements to new shares in lieu of the cash dividends was HK$6.20 and HK$5.18 respectively.

Scheme of Arrangement

On 26 February 1991 a meeting of shareholders convened by the direction of the Supreme Court of Hong Kong approved a Scheme of Arrangement pursuant to section 166 of the Companies Ordinance of Hong Kong under which it is proposed that HSBC Holdings plc will become the group holding company and the Bank will become a wholly owned subsidiary of HSBC Holdings.

The Scheme remains conditional on it being sanctioned (with or without modification) by the Supreme Court of Hong Kong and an office copy of the Court Order being delivered to the Registrar of Companies in Hong Kong for registration.

Subject to those two conditions being fulfilled and to the Boards of Directors of the Bank and HSBC Holdings being satisfied with regard to the listings of HSBC Holdings shares in Hong Kong and London and obtaining all authorisations, exemptions, licences, orders, grants, recognitions, confirmations, consents, clearances, permissions, and approvals as they deem to be necessary or desirable for or in respect of the Scheme, it is expected that the Scheme will become effective on 2 April 1991.

Directors

The names of the Directors serving at the date of this Report are set out on page 2.

During the year D P H Liao was appointed a Director and D G Jaques and R R Frederick retired. Since the year-end J A Brooks has retired.

Having been appointed since the last Annual General Meeting, D P H Liao will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election. J M Gray, C D Mackay and J J Swaine will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

None of the Directors has a service contract with the Bank which is not determinable within one year without payment of compensation.

Bosmont Enterprises Inc, in which family interests associated with H Sohmen are substantial shareholders, exercised options during the year, under sale and purchase agreements entered into in 1988, to acquire the 20 per cent interests of Fort Hall Limited (a wholly owned subsidiary of the Bank) in World Maritime Limited and World Shipping and Investment Company Limited.

Directors' Interests

At 31 December 1990 Directors and their associates had the following beneficial interests in the shares of the Bank

J R H Bond	61,239	C W Newton	8,091
D E Connolly	641,531	W Purves	114,388
F R Frame	86,137	N M S Rich	14,520
J M Gray	58,380	H Sohmen	1,671,563
N R Knox	30,250	J E Strickland	78,270
H C Lee	66,140	J J Swaine	951
K S Li	2,038,505	J C C Tang	39,930
D P H Liao	61,505	G A Thompson	104,610
Sir Kit McMahon	6,050	P J Wrangham	140,372

H C Lee also had a beneficial interest in 13,500 ordinary shares of Hang Seng Bank Limited.

As Directors of Marine Midland Bank, N.A., J R H Bond, J M Gray, N R Knox, W Purves and G A Thompson each had a beneficial interest in 10 shares of common stock of that Company.

Finance Review Committee

A Finance Review Committee, comprising two non-executive Directors of the Bank and the Executive Director and Adviser to the Board, meets regularly with the group's senior financial, internal audit and compliance management and the joint external auditors to consider the nature and scope of audit reviews and the effectiveness of the systems of internal control and compliance. The current members of the Finance Review Committee are D E Connolly (Chairman), C W Newton and F R Frame.

Donations

Donations made by the Bank and its subsidiary companies during the year amounted to HK$25,232,000.

Substantial Interests in Share Capital

To the best of the knowledge of the Directors, no person has a beneficial interest in more than one per cent of the issued share capital of the Bank.

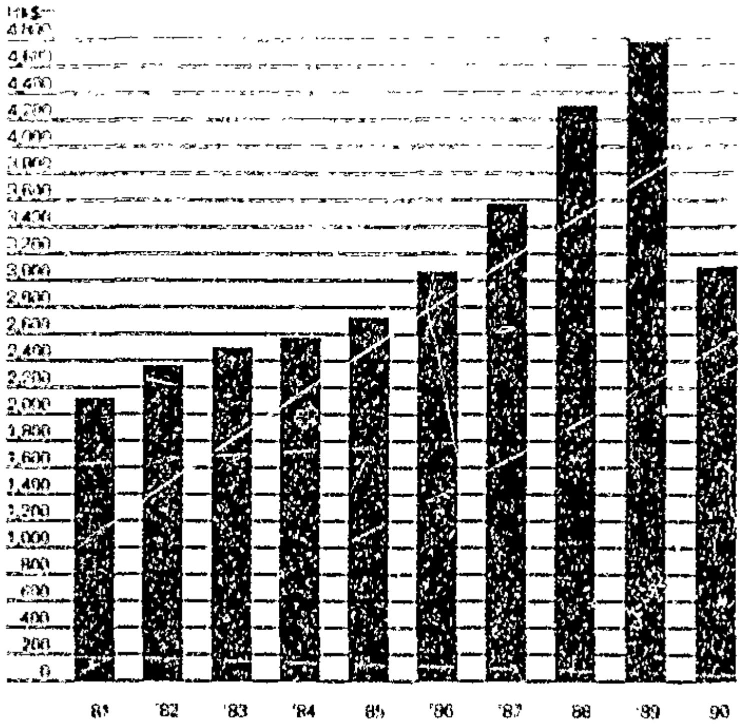
Auditors

The accounts have been audited by KPMG Peat Marwick and Price Waterhouse, who are eligible for reappointment.

On behalf of the Board
W Purves, *Chairman*
Hong Kong, 12 March 1991

Profit

For 1990 profit attributable to shareholders, after taxation and transfers to inner reserves, was HK$3,096 million, a decrease of 35.1% compared to 1989. This compares with an increase of 11.0% for 1989 over 1988. Increases in profit were achieved by HongkongBank, Hang Seng and Grenville Transportation in Hong Kong, by other HongkongBank areas in Asia, by The British Bank of the Middle East, and by Hongkong Bank of Canada. Against these increases losses were incurred by Marine Midland Bank, HongkongBank of Australia, the James Capel Group and by HongkongBank in the United Kingdom.



Fifteen-year comparison (HK$m)

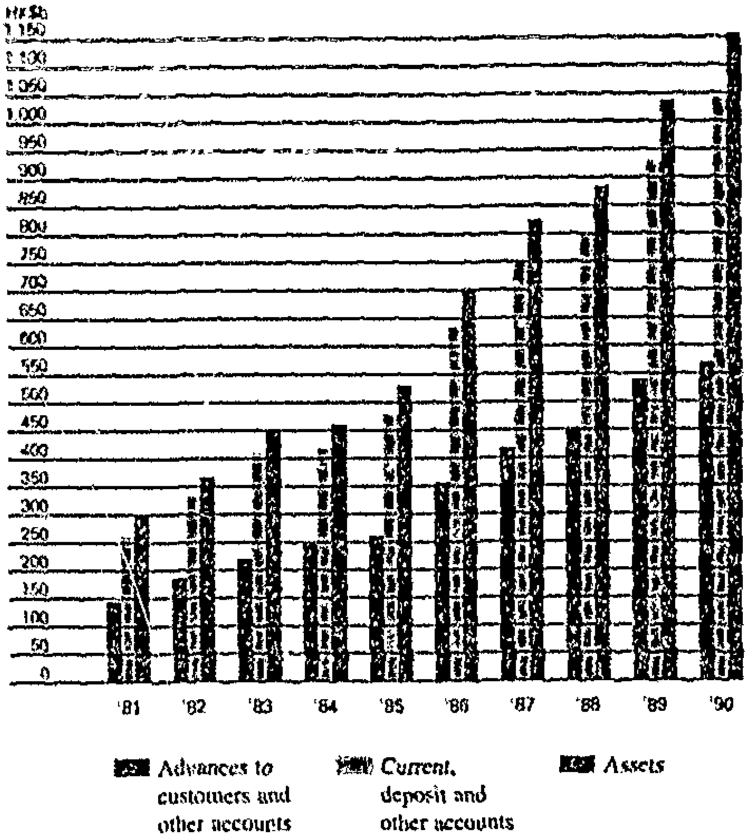
At year-end	1976	1977	1978	1979	1980	1981	19
Share capital	954	1,050	1,155	1,732	2,786	3,899	5,2
Shareholders' funds	2,273	2,486	2,877	3,709	10,326	14,147	15,6
Capital resources	2,469	2,790	3,248	4,178	12,984	19,164	22,7
Assets	55,013	68,319	84,054	108,454	237,787	296,924	369,4
For the year							
Profit attributable to the shareholders of the Bank	514	614	829	1,111	1,531	2,116	2,3
Dividends	229	273	370	513	724	996	1,1
Earnings per share ***(adjusted)*** HK$	0.08	0.10	0.14	0.20	0.28	0.37	0.
Dividends per share ***(adjusted)*** HK$	0.04	0.05	0.07	0.10	0.14	0.18	0.

Assets, deposits and advances

The ratio of advances to deposits at 31 December 1990 was 54.8%, compared with 58.1% at the end of 1989. Advances to customers and other accounts totalled HK$570,549 million *(1989: HK$538,147 million)* and represented 49.3% *(1989: 51.9%)* of total assets.

Total assets increased by 11.6% in 1990, compared to 17.4% in 1989, whilst advances to customers and other accounts increased by 6.0%, compared to 17.8%.

Current, deposit and other accounts increased by 12.5% compared to 16.4% in 1989.



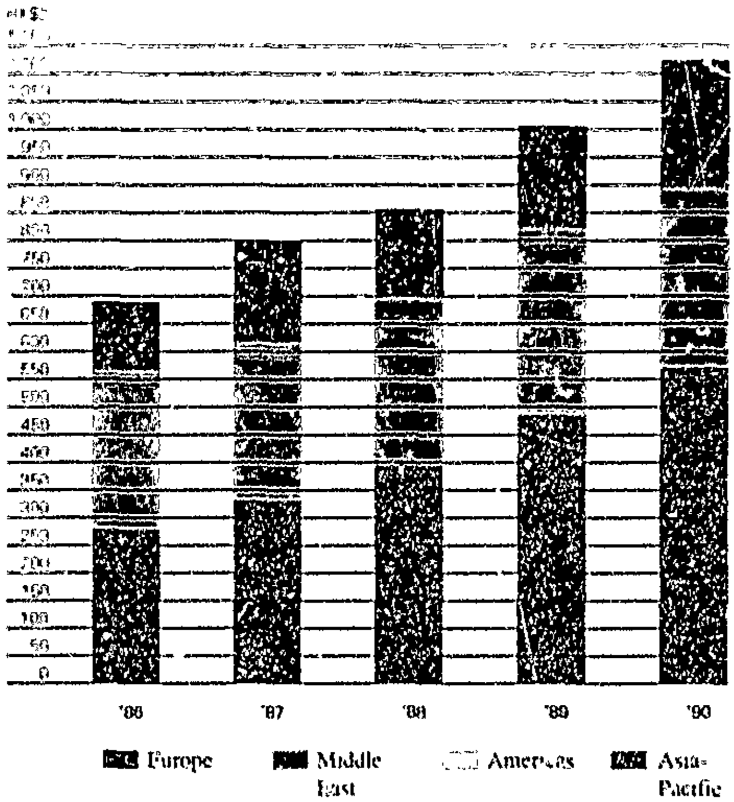
1983	1984	1985	1986	1987	1988	1989	1990	*Compound rate of growth (%)* 1976-90
,720	7,150	7,865	9,438	11,818	13,102	14,540	16,161	22.4
,586	20,863	21,882	26,511	33,299	35,930	52,669	53,502	25.3
,798	31,524	41,218	51,483	54,692	59,927	79,062	79,847	28.2
,384	466,705	537,452	707,103	823,653	883,711	1,037,774	1,158,256	24.3
492	2,591	2,719	3,056	3,593	4,300	4,774	3,096	13.7
258	1,316	1,447	1,548	1,795	2,094	2,440	2,518	18.7
.44	0.46	0.48	0.54	0.60	0.68	0.75	0.48	13.8
22	0.23	0.26	0.27	0.29	0.33	0.38	0.39	16.6

Assets: geographical distribution (excluding Hong Kong Government certificates of indebtedness)

The distribution of assets was as follows:

	1990	1989
Asia-Pacific	50.8%	48.2%
Americas	26.3%	29.9%
Middle East	2.7%	3.8%
Europe	20.2%	18.1%

The proportion of assets in the Asia-Pacific region grew during 1990, primarily due to increases in assets in Hong Kong of 23.8% in HongkongBank and 22.1% in Hang Seng. The proportion of assets in Europe also grew as a result of a 36.9% increase in the assets of HongkongBank in the United Kingdom. Despite a 61.8% increase in the assets of Hongkong Bank of Canada, the proportion of assets in the Americas fell, with the assets of Marine Midland Bank decreasing by 26.1%. The proportion of assets in the Middle East also fell. Advances are classified by the lending branch or subsidiary, which is not necessarily the same as the country of the borrower.



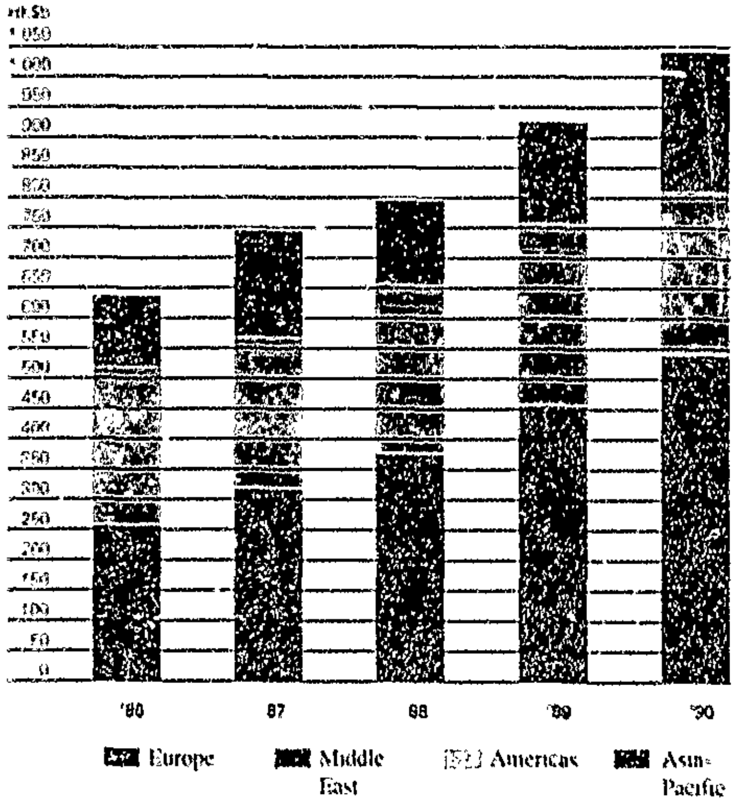
Current, deposit and other accounts: geographical distribution

The geographical distribution of current, deposit and other accounts was as follows:

	1990	1989
Asia-Pacific	51.7%	49.1%
Americas	23.2%	28.4%
Middle East	3.2%	4.7%
Europe	21.9%	17.8%

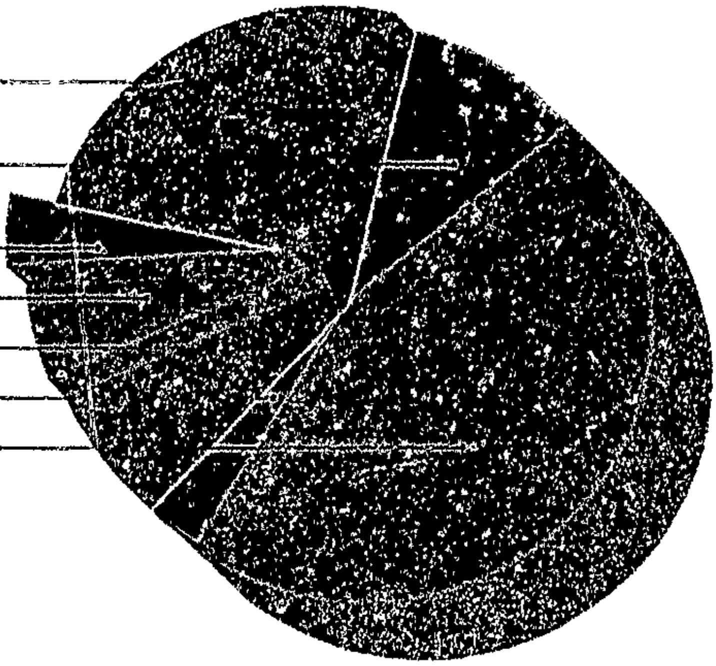
The distribution closely follows that for assets.

Deposits are classified by the branch or subsidiary holding the deposit, which is not necessarily the same as the country of the depositor.



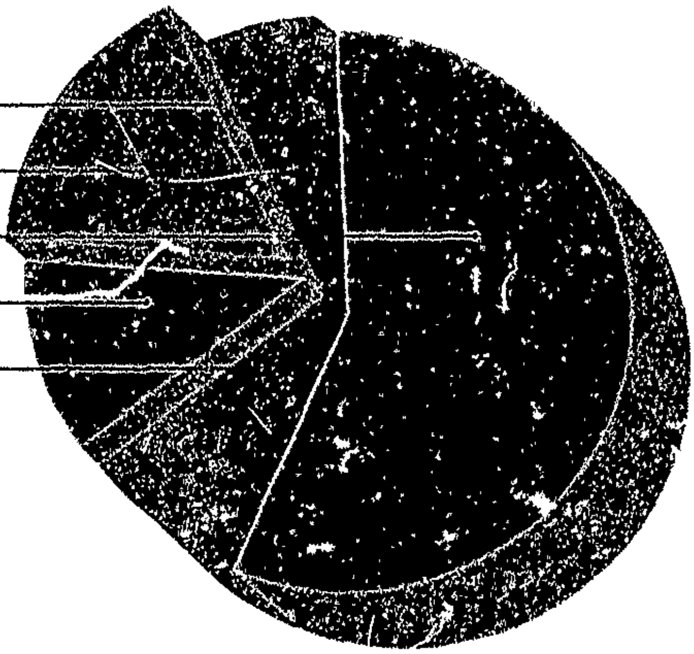
Assets 1990 (excluding Hong Kong Government certificates of indebtedness)

Cash and short term funds	25.8%
Placings with banks maturing between one and twelve months	10.3%
Trade bills and certificates of deposit	3.9%
Investments	5.6%
Other accounts	6.4%
Fixed assets	3.4%
Advances	44.6%
Commercial, industrial and international trade	*14.6%*
Individuals	*6.9%*
Financial institutions	*2.7%*
Property	*13.6%*
Shipping	*0.3%*
Other	*6.5%*



Current, deposit and other accounts 1990 (excluding inner reserves)

Current accounts	6.5%
Savings accounts	16.7%
Deposit accounts	57.3%
Deposits from banks	11.4%
Other accounts	8.1%

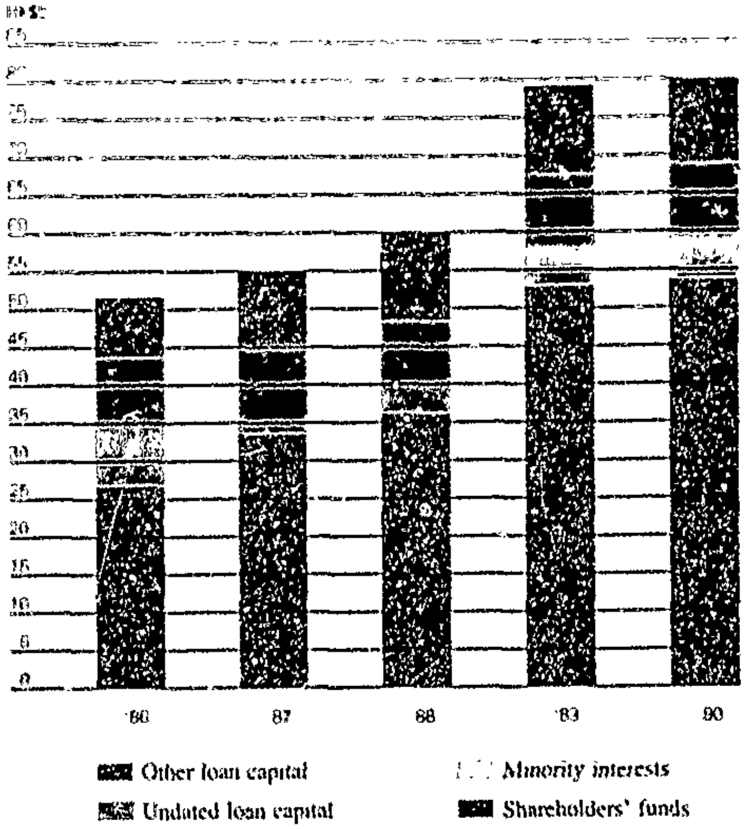


Capital resources

The Group's capital resources increased by HK$785 million in 1990.

Banks incorporated in Hong Kong are required to maintain capital adequacy ratios based on standards agreed in Basle by bank supervisory authorities of the Group of Ten countries. The standards divide capital into core (Tier I) capital and supplementary capital and set minimum percentages (4% for Tier I and 8% for total capital) for the ratio of capital to risk-weighted assets.

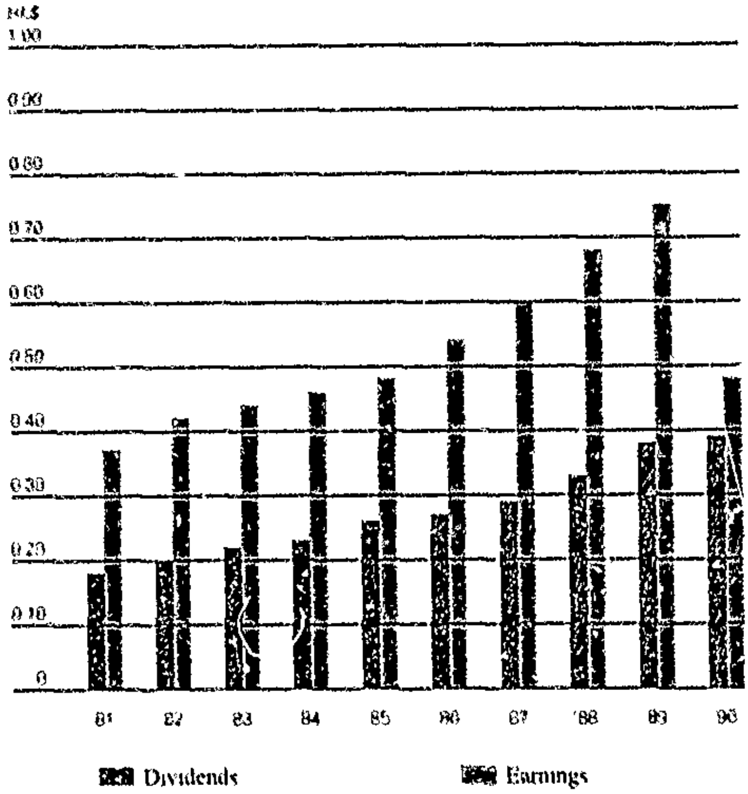
Group risk-weighted assets were HK$719.2 billion at the end of 1990 and the Tier I ratio was 6.47%. The Group's total ratio is not published but it was well in excess of the minimum.



Earnings and dividends per share (adjusted for the capitalisation issue in 1990)

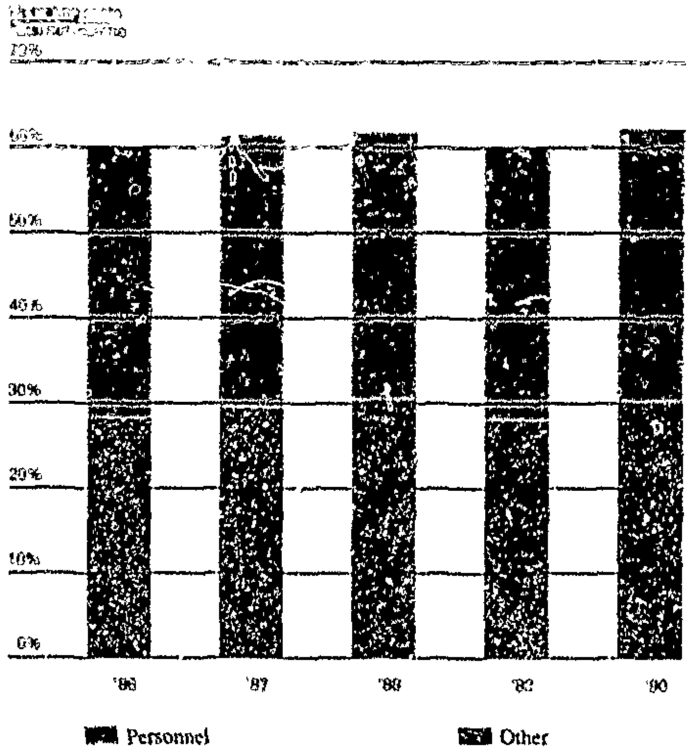
Earnings per share for 1990 amounted to 48.14 cents compared to 74.95 cents for 1989. This is a decrease of 35.8%.

Dividends per share for 1990 amounted to 39.00 cents compared to 38.18 cents for 1989. This is an increase of 2.1%. The dividend for 1990 represented 81.3% of published earnings, compared with 51.1% in 1989.



Group cost : income ratio

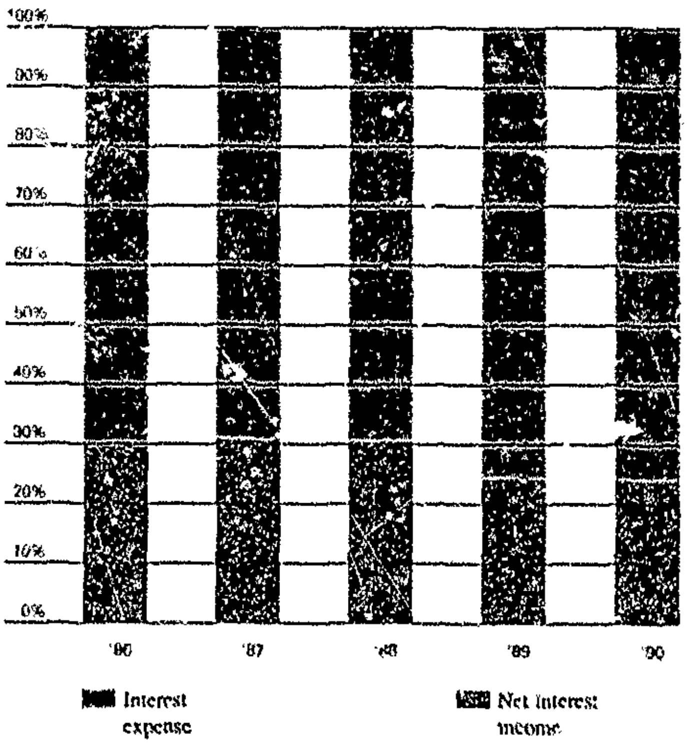
The Group's operating costs, divided into personnel and other costs, are shown as percentages of total net income (comprising net interest income, other operating income and income from investments).



Group net interest income

In 1990 Group net interest income grew by 15.6% compared to 1989 and was 23.6% of gross interest income, a similar percentage to 1989.

Interest expense grew by 17.2% whilst interest income grew by 16.8%, resulting in a stable net interest margin. Interest income includes interest on investments.



Group staff numbers
(as at 31 December)

	1986	1987	1988	1989	1990
The Hongkong and Shanghai Banking Corporation Limited	22,657	23,367	23,343	24,290	25,262
Marine Midland Bank	13,094	13,931	13,892	13,528	11,337
Hang Seng Bank	5,486	5,719	6,011	6,230	6,617
The British Bank of the Middle East	2,420	2,199	2,091	2,081	2,115
Hongkong Bank of Canada	1,512	1,446	1,545	1,755	3,200*
HongkongBank of Australia	400	388	364	624	475
Wardley Group	1,222	1,392	1,516	1,340	1,465
James Capel Group	1,327	1,940	2,303	2,173	2,226
CM&M Group	378	409	446	362	324
Insurance Group	613	646	699	912	1,006
Others	568	513	204	80	381
Total	49,677	51,950	52,414	53,375	54,408

* *This figure reflects the acquisition of Lloyds Bank Canada*

1989 HK\$m		Note	1990 HK\$m	*1990 £m*	*1990 US\$m*
5,057	Profit of the Bank and its subsidiary companies	*3*	3,659	*245*	*469*
423	Share of profits less losses of associated companies		302	*20*	*39*
5,480			3,961	*265*	*508*
(706)	Profit attributable to minority interests		(865)	*(58)*	*(111)*
4,774	Profit attributable to the shareholders of the Bank	*4*	3,096	*207*	*397*
(2,440)	Dividends	*5*	(2,518)	*(168)*	*(323)*
2,334	Retained profit for the year	*17*	578	*39*	*74*

HK cents			HK cents	GB *pence*	US *cents*
74.95	Earnings per share	*6*	48.14	*3.22*	*6.17*
38.18	Dividends per share	*5*	39.00	*2.61*	*5.00*

The Hongkong and Shanghai Banking Corporation Limited

Consolidated Balance Sheet at 31 December 1990

1989 HK$m		Note	1990 HK$m	*1990 £m*	*1990 US$m*
	ASSETS				
264,046	Cash and short-term funds	7	289,868	*19,363*	*37,163*
79,967	Placings with banks maturing between one and twelve months		116,233	*7,765*	*14,902*
35,966	Trade bills and certificates of deposit		43,773	*2,924*	*5,612*
31,204	Hong Kong Government certificates of indebtedness	8	34,704	*2,318*	*4,449*
49,093	Investments	9	62,680	*4,187*	*8,036*
538,147	Advances to customers and other accounts	10	570,549	*38,113*	*73,146*
998,423			1,117,807	*74,670*	*143,308*
2,141	Investments in associated companies	12	2,029	*136*	*260*
37,210	Premises and equipment	13	38,420	*2,566*	*4,926*
1,037,774			1,158,256	*77,372*	*148,494*
	LIABILITIES				
31,264	Hong Kong currency notes in circulation	8	34,764	*2,322*	*4,457*
925,820	Current, deposit and other accounts	14	1,041,964	*69,604*	*133,584*
1,628	Dividend payable	5	1,681	*112*	*216*
958,712			1,078,409	*72,038*	*138,257*
	CAPITAL RESOURCES				
20,690	Loan capital and preference shares	15	20,027	*1,338*	*2,568*
5,703	Minority interests		6,318	*422*	*810*
14,540	Share capital	16	16,161	*1,080*	*2,072*
38,129	Reserves	17	37,341	*2,494*	*4,787*
52,669	Shareholders' funds		53,502	*3,574*	*6,859*
79,062			79,847	*5,334*	*10,237*
1,037,774			1,158,256	*77,372*	*148,494*

Directors
W Purves
D A Gledhill
H Sohmen

Secretary
R G Barber
12 March 1991

Balance Sheet at 31 December 1990

1989 HK$m		Note	1990 HK$m	1990 £m	1990 US$m
	ASSETS				
126,640	Cash and short-term funds	7	132,791	8,870	17,024
43,149	Placings with banks maturing between one and twelve months		65,374	4,367	8,381
20,125	Trade bills and certificates of deposit		26,736	1,786	3,428
31,204	Hong Kong Government certificates of indebtedness	8	34,704	2,318	4,449
7,632	Investments	9	18,384	1,228	2,357
191,229	Advances to customers and other accounts	10	226,518	15,131	29,041
46,330	Amounts due from subsidiary companies		62,404	4,169	8,001
466,309			566,911	37,869	72,681
16,706	Investments in subsidiary companies	11	13,394	895	1,717
238	Investments in associated companies	12	427	29	55
18,841	Premises and equipment	13	19,179	1,281	2,459
502,094			599,911	40,074	76,912
	LIABILITIES				
31,264	Hong Kong currency notes in circulation	8	34,764	2,322	4,457
392,620	Current, deposit and other accounts	14	476,983	31,863	61,152
12,689	Amounts due to subsidiary companies		21,609	1,443	2,770
1,628	Dividend payable	5	1,681	112	216
438,201			535,037	35,740	68,595
	CAPITAL RESOURCES				
11,224	Loan capital	15	11,372	760	1,458
14,540	Share capital	16	16,161	1,080	2,072
38,129	Reserves	17	37,341	2,494	4,787
52,669	Shareholders' funds		53,502	3,574	6,859
63,893			64,874	4,334	8,317
502,094			599,911	40,074	76,912

Directors
W Purves
D A Gledhill
H Sohmen

Secretary
R G Barber
12 March 1991

1 Basis of consolidation

a The consolidated accounts comprise the accounts of The Hongkong and Shanghai Banking Corporation Limited and all its subsidiary companies made up to 31 December, except in the case of Hongkong Bank of Canada, whose accounts are made up to 31 October annually to comply with local regulations, and the stockbroking subsidiary companies in the United Kingdom and the Channel Islands, whose accounts are made up to the last Stock Exchange account day prior to 31 December.

The Group's interest in Wardley Swire Holdings Limited ('WSHL') and its subsidiary companies is stated in the consolidated balance sheet at attributable net asset value since the assets of those companies represent mainly their insurance and retirement funds which relate to liabilities under insurance policies issued by those companies. A summary of the assets and liabilities of the WSHL group is set out in Note 10a.

b Goodwill arising on the acquisition of subsidiary companies, being the excess of the cost over the fair value of the Group's share of separable net assets acquired, is charged against inner reserves in the year of acquisition.

c The Group's profit includes the attributable share of the results of associated companies based on accounts made up to dates not earlier than six months prior to 31 December.

2 Principal accounting policies

a *Inner reserves*
The Group and the Bank maintain inner reserves in addition to published Reserves (Note 17), as permitted by the Companies Ordinance. Transfers to or from inner reserves are made within guidelines set by the Board of Directors. Inner reserves are included in the balance sheets in 'Current, deposit and other accounts'.

b *Doubtful debts*
Provision is made for doubtful debts as and when they are so considered and in addition amounts have been set aside as general provisions for doubtful debts. These provisions are deducted from 'Advances to customers and other accounts'.

c *Foreign currencies*

i Assets and liabilities denominated in foreign currencies and the results of overseas branches, subsidiary and associated companies are translated into Hong Kong dollars at the rates of exchange ruling at the year-end.

ii Exchange differences arising from the retranslation of opening foreign currency net investments and the related cost of hedging are accounted for in Reserves.

d *Premises and equipment*

i Premises 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 is not depreciated.
- Land held on leases with 50 years or less to expiry is depreciated over the unexpired terms of the leases.
- Buildings and improvements thereto are depreciated on cost at the greater of 2% per annum on the straight line basis or over the unexpired terms of the leases.

ii The cost of premises includes interest capitalised during the period of construction.

iii Equipment, comprising furniture, plant and other equipment, is 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.

e *Investments in subsidiary and associated companies*

i The Bank's investments in subsidiary companies are stated at attributable net asset values. Changes in net assets of subsidiary companies are accounted for as movements in Reserves.

ii Associated companies are those companies, not being subsidiary companies, in which the Group owns 20% or more of the equity capital and is in a position to exercise significant influence.

Investments in associated companies are stated at cost less amounts written off plus the Group's or Bank's attributable share of reserves.

2 Principal accounting policies *(continued)*

f *Investments*

i Long-term strategic equity investments are stated at cost less provisions where there has been a permanent diminution in value.

ii Other listed equity investments are stated at the lower of cost and market value.

iii Other unlisted equity investments are stated at cost less provisions where there has been a permanent diminution in value.

iv Dated securities which are intended to be held to maturity are stated at cost adjusted for the amortisation of premiums and discounts on purchase over the periods to redemption.

v Undated securities are stated at the lower of cost and market value.

vi Investments held for trading purposes are stated at market value.

g *Deferred taxation*

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure, except where no liability to taxation is expected to arise in the foreseeable future.

h *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 the Group is a lessor under finance leases the amounts due under the leases are included in 'Advances to customers and other accounts'. Finance charges receivable are recognised over the periods of the leases in proportion to the funds invested.

ii Where the Group is a lessee under finance leases the leased assets are capitalised and included in 'Equipment' and the corresponding liability to the lessor is included in 'Current, deposit and other accounts'. 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. Rentals payable and receivable under operating leases are accounted for on the straight line basis over the periods of the leases.

i *Retirement benefits*

Arrangements for staff retirement benefits vary from country to country and are made in accordance with local regulations and custom. Retirement benefit funds are normally valued at least once every three years. Profits are charged with actuarially determined contributions which are related to projected retirement benefits.

3 Profit

The profit for the year is shown after:

a Transfers to the credit of inner reserves.

b Current and deferred taxation.

c Directors' emoluments. The aggregate emoluments of the Directors of the Bank calculated in accordance with section 161 of the Companies Ordinance amount to HK$43 million *(1989: HK$43 million)*, consisting of fees HK$3 million *(1989: HK$3 million)* and other emoluments HK$40 million *(1989: HK$40 million)*. Two Directors have waived the fees accruing to them for their services in 1990 and for future years.

d Auditors' remuneration amounting to HK$88 million *(1989: HK$72 million)*, of which HK$25 million *(1989: HK$19 million)* relates to the Bank.

4 Profit attributable to the shareholders of the Bank

Of the profit attributable to the shareholders, HK$7,486 million *(1989: HK$5,421 million)* is dealt with in the accounts of the Bank.

5 Dividends

	1990	1989	1990	1989
	HK cents per share		HK$m	HK$m
Interim	13.00	12.73	837	812
Second interim	26.00	—	1,681	—
Proposed final	—	25.45	—	1,628
	39.00	38.18	2,518	2,440

Of the interim dividend for 1990, HK$135 million *(1989: HK$119 million)* was settled by the issue of shares. Of the final dividend for 1989, HK$251 million was settled by the issue of shares in 1990 *(1989: HK$209 million)*.

The dividends per share for 1989 have been adjusted for the capitalisation issue made in 1990.

6 Earnings per share

Earnings per share is calculated by dividing disclosed earnings of HK$3,096 million *(1989: HK$4,774 million)* by the weighted average number of shares in issue in 1990 of 6,431 million *(1989: 6,369 million)*.

The weighted average number of shares in issue in 1989 has been adjusted for the capitalisation issue in 1990.

7 Cash and short-term funds

	Group		*Bank*	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Cash in hand and balances with other banks	35,584	32,267	11,154	10,715
Money at call and short notice	236,169	225,533	111,043	114,244
Treasury bills	18,115	6,246	10,594	1,681
	289,868	264,046	132,791	126,640

Deposits required by overseas government regulations are included in the above figures as follows:

	Group		*Bank*	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Cash in hand and balances with other banks	5,054	6,323	1,055	1,508
Treasury bills	251	114	247	107
	5,305	6,437	1,302	1,615

8 *Hong Kong currency notes in circulation*

	1990	1989
	HK$m	HK$m
Authorised note issue	60	60
Excess note issue	34,704	31,204
	34,764	31,264

The authorised note issue is secured by the deposit of investments having a market value of HK$62 million *(1989: HK$62 million)*. The excess note issue is secured by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

9 Investments

a *Group*

	Book value		*Valuation*	
	1990	1989	1990	1989
Listed	HK$m	HK$m	HK$m	HK$m
— In Hong Kong	2,914	2,689	8,220	8,112
— Outside Hong Kong	49,787	36,344	47,049	37,730
	52,701	39,033	55,269	45,842
Unlisted	9,979	10,060	9,703	9,966
	62,680	49,093	64,972	55,808
Trading	26,641	19,858		
Long-term	36,039	29,235		
	62,680	49,093		

b *Bank*

	Book value		*Valuation*	
	1990	1989	1990	1989
Listed	HK$m	HK$m	HK$m	HK$m
— In Hong Kong	295	61	304	115
— Outside Hong Kong	13,497	3,546	13,411	3,917
	13,792	3,607	13,715	4,032
Unlisted	4,592	4,025	4,427	4,045
	18,384	7,632	18,142	8,077
Trading	13,685	4,516		
Long-term	4,699	3,116		
	18,384	7,632		

10 Advances to customers and other accounts

a Included under this heading in the consolidated balance sheet is the Group's 74.5% interest in Wardley Swire Holdings Limited and its subsidiary companies. A summary of the assets and liabilities of the WSHL group is as follows:

	1990	1989
	HK$m	HK$m
Listed investments	6,564	7,104
Deposits	2,284	1,038
Other assets	897	818
	9,745	8,960
Other net current assets	83	108
	9,828	9,068
Insurance and retirement funds	(9,658)	(8,886)
Net assets	170	182

Listed investments are held for the benefit of the policyholders and are stated at market value. They include *9,663,457 (1989: 8,316,753)* shares in the Bank which represent 0.47% *(1989 0.69%)* of the total insurance and retirement funds.

10 Advances to customers and other accounts *(continued)*

b Included under this heading is equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases:

	Group		Bank	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Finance leases	16,959	26,783	343	25
Hire purchase contracts	5,997	6,039	65	53
	22,956	32,822	408	78

c The cost of assets acquired during 1990 for letting to customers under finance leases and hire purchase contracts by the Group amounted to HK$11,154 million *(1989: HK$18,263 million)* and by the Bank to HK$508 million *(1989: HK$30 million)*.

11 Investments in subsidiary companies

a The principal subsidiary companies of the Bank are:

	Country of incorporation	*Principal activity*	*Issued equity capital*
The British Bank of the Middle East	United Kingdom	Banking	£100m
Carlingford Insurance Company Limited*	Hong Kong	Insurance	HK$25m
Carlingford Swire International Assurance Limited* (74.5%)	Bermuda	Life assurance	HK$25m
Carroll McEntee & McGinley Inc.*	United States	Primary dealer in US Government securities	—
Fort Hall Limited*	Hong Kong	Investment holding	HK$200m
Gibbs Hartley Cooper Limited*	United Kingdom	Insurance broking	£3m
Hang Seng Bank Limited (61.48%)	Hong Kong	Banking	HK$4,953m
HongkongBank London Limited*	United Kingdom	Banking	£40m
HongkongBank of Australia Limited*	Australia	Banking	A$500m
Hongkong Bank of Canada	Canada	Banking	C$291m
HSBC Finance (Malaysia) Berhad	Malaysia	Finance	M$22m
James Capel & Co. Limited*	United Kingdom	Stockbroking	£125m
James Capel (Far East) Limited*	Hong Kong	Stockbroking	HK$5m
Marine Midland Bank, N.A.*	United States	Banking	US$185m
Marine Midland Banks, Inc.*	United States	Bank holding	—
Wardley Limited*	Hong Kong	Merchant banking	HK$770m
Wayfoong Finance Limited	Hong Kong	Finance	HK$300m
Wayfoong Mortgage And Finance (Singapore) Limited	Singapore	Finance	S$8m

**Held indirectly*

Except where indicated otherwise, the above companies are wholly owned subsidiaries. The principal countries of operation are the same as the countries of incorporation except for The British Bank of the Middle East which operates mainly in the Middle East and Carlingford Swire International Assurance Limited which operates in Hong Kong.

11 Investments in subsidiary companies *(continued)*

b The subsidiary companies listed above have no loan capital except for the following:

The British Bank of the Middle East	US$100m
HongkongBank of Australia Limited	A$60m
Hongkong Bank of Canada	C$70m
Marine Midland Bank, N.A.	US$375m
Marine Midland Banks, Inc.	US$684m

Issued loan capital includes both that held by fellow Group subsidiary companies and that held by third parties. All loan capital held by third parties is listed in Note 15.

12 Investments in associated companies

	Group		Bank	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
a Shares listed outside Hong Kong	672	544	214	86
Unlisted shares	726	962	73	72
Share of reserves	631	635	140	80
	2,029	2,141	427	238

b The principal associated companies of the Group are:

	Country of incorporation	Principal activity	Group's interest in equity capital	Issued equity capital
The Cyprus Popular Bank Limited	Cyprus	Banking	21.6%	C£42m
Hongkong Egyptian Bank SAE	Egypt	Banking	40.0%	E£17m
I.C.B. Company Limited*	United Kingdom	Finance	22.0%	£34m
The Saudi British Bank	Saudi Arabia	Banking	40.0%	SR400m
World Finance International Limited	Bermuda	Shipping	37.5%	US$58m

*Formerly International Commercial Bank PLC

The Group's shareholdings in World Maritime Limited and World Shipping and Investment Company Limited were disposed of in 1990.

The principal countries of operation are the same as the countries of incorporation except for World Finance International Limited which operates world-wide.

c The associated companies listed above have no loan capital except for The Cyprus Popular Bank Limited which has issued C£8 million, in which the Group has no interest.

13 Premises and equipment

	Group		Bank	
	Premises	Equipment	Premises	Equipment
	HK$m	HK$m	HK$m	HK$m
Cost or valuation 1 January 1990	36,018	8,840	17,548	4,189
Exchange adjustments	332	125	280	19
Additions	1,905	1,148	434	422
Disposals	(501)	(438)	(82)	(98)
31 December 1990	37,754	9,675	18,180	4,532
Accumulated depreciation	(3,695)	(5,314)	(1,446)	(2,087)
Net book value at 31 December 1990	34,059	4,361	16,734	2,445
Total 31 December 1990	38,420		19,179	
Net book value at 31 December 1989	32,710	4,500	16,370	2,471
Total 31 December 1989	37,210		18,841	

13 Premises and equipment *(continued)*

The net book value of premises comprises:

	Group		*Bank*	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Freeholds	7,310	6,966	5,659	5,260
Leaseholds 50 years and over unexpired	22,902	22,309	10,181	10,312
Leaseholds less than 50 years unexpired	3,847	3,435	894	798
	34,059	32,710	16,734	16,370

In November 1989, the properties of the Group were revalued by independent professionally qualified valuers at open market value for existing use or, in the case of the few specialised properties, at depreciated replacement cost. The surplus of HK$15,802 million, after deduction of minority interests of HK$2,016 million, was credited to Reserves as at 31 December 1989.

14 Current, deposit and other accounts

Included under this heading are inner reserves and provisions for taxation.

Liabilities of the Group amounting to HK$24,816 million *(1989: HK$32,244 million)* and of the Bank amounting to HK$12 million *(1989: HK$434 million)* included under this heading and under guarantees (Note 21) are secured by the deposit of assets.

15 Loan capital and preference shares

Loan capital consists of undated primary capital notes issued by the Bank, and other loan capital and preference shares, having an original term to maturity of five years or more, raised by the Bank and the subsidiary companies listed below, or their subsidiaries, for the development and expansion of the Group's business.

		1990	1989
The Bank:		HK$m	HK$m
US$1,200m	Primary capital subordinated undated floating rate notes	9,360	9,372
¥27,000m	Fixed rate subordinated loans 1998 The proceeds have been swapped into sterling for the full life of the loans. Under the exchange agreements the effective interest cost is based on sterling LIBOR.	1,555	1,469
£30m	Floating rate subordinated loan 1998	457	383
		11,372	11,224
Marine Midland Banks, Inc.:			
US$176m	Floating rate subordinated notes 2000	1,373	1,375
US$128m	Floating rate subordinated notes 2009	998	1,172
US$125m	Fixed rate subordinated capital notes 1997	975	976
US$121m	Floating rate subordinated capital notes 1996	944	953
US$116m	Floating rate subordinated notes 1994	909	922
US$98m	Perpetual preference shares	765	1,547
US$98m	Floating rate subordinated capital notes 1999	764	765
US$79m	Secured floating rate notes 1995	616	617
US$66m	Secured floating rate notes 1998	515	515
US$9m	Medium term notes 1992	72	72
US$0.4m	Loan notes 1991/2000	3	3
Hongkong Bank of Canada:			
C$40m	Floating rate guaranteed notes 2083	268	—
C$39m	Floating rate guaranteed subordinated debentures 1999	266	266
C$15m	Fixed rate subordinated debentures 1994	101	—
C$12m	Guaranteed fixed rate notes 1999	84	—
C$5m	Fixed rate subordinated debentures 1997	—	36
C$4m	Fixed rate subordinated debentures 2004	—	27
C$2m	Fixed rate subordinated debentures 2003	—	13
C$0.3m	Fixed rate subordinated debentures 1991	2	2
Collyer Quay Properties Limited:			
S$50m	Fixed rate guaranteed bonds 1990/92	—	205
		20,027	20,690

16 Share capital

Authorised:
The authorised share capital of the Bank is HK$18,000 million *(1989: HK$18,000 million)* divided into 7,200 million *(1989: 7,200 million)* ordinary shares of HK$2.50 each.

	1990	1989
Issued:	HK$m	HK$m
At 1 January	14,540	13,102
Capitalisation issue	1,454	1,310
Shares issued in lieu of dividends	167	128
At 31 December	16,161	14,540

17 Reserves

	Group HK$m	*Bank* HK$m	*Associated companies* HK$m
At 1 January 1990	38,129	38,129	635
Capitalisation issue	(1,454)	(1,454)	—
Decrease in attributable net assets of subsidiary and associated companies	—	(4,061)	—
Transfers from inner reserves	307	—	—
Retained profit for the year	578	4,968	176
Arising on shares issued in lieu of dividends	219	219	—
Exchange adjustments	(460)	(460)	(1)
Other items	22	—	(179)
At 31 December 1990	37,341	37,341	631

The Reserves of the Group include a reserve arising on the revaluation of premises of HK$13,293 million *(1989: HK$14,323 million)*. The capitalisation issue was debited to this revaluation reserve.

The Reserves of the Bank include a revaluation reserve of HK$9,174 million *(1989: HK$13,307 million)* arising from the attributable net assets of subsidiary and associated companies and a surplus over cost on revaluation of premises of HK$6,379 million *(1989: HK$7,593 million)*. The capitalisation issue was debited to the revaluation of premises reserve.

18 Taxation

a The Bank and its subsidiary companies in Hong Kong provide for Hong Kong profits tax at the rate of 16.5% *(1989: 16.5%)* on the profits for the year assessable in Hong Kong. Overseas branches and subsidiary companies similarly provide for taxation in the countries in which they operate at the appropriate rates of taxation ruling in 1990. Deferred taxation is provided for in accordance with the Group's accounting policy in Note 2g.

b There is no significant deferred taxation liability not provided for.

c The distribution of the reserves of certain subsidiary and associated companies would give rise to additional tax liabilities. No provision is made for deferred taxation as no distribution from these reserves is anticipated.

d No provision is made for deferred taxation on revalued premises. The Directors are of the opinion that, in view of the substantial number of properties involved, and having regard to the fact that they are occupied for the purposes of the Group's business, the likelihood of a material taxation liability arising is remote and no useful purpose would be served by attempting to quantify it.

19 Capital commitments

	Group		Bank	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Expenditure contracted for	952	1,406	42	63
Expenditure authorised by the Directors but not contracted for	142	265	46	61
	1,094	1,671	88	124

20 Lease commitments

Annual commitments under non-cancellable operating leases:

	Group		Bank	
	1990	1989	1990	1989
Premises	HK$m	HK$m	HK$m	HK$m
Operating leases which expire:				
—within one year	243	181	68	130
—between one and five years	988	798	341	297
—after five years	469	532	240	28
	1,700	1,511	649	455

	Group		Bank	
	1990	1989	1990	1989
Equipment	HK$m	HK$m	HK$m	HK$m
Operating leases which expire:				
—within one year	119	127	64	60
—between one and five years	40	62	6	32
—after five years	2	—	2	—
	161	189	72	92

21 Contingent liabilities

	Group		Bank	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
Acceptances	13,843	10,806	8,775	7,325
Guarantees and other obligations	134,530	123,597	119,975	96,549
	148,373	134,403	128,750	103,874

There are also contingent liabilities entered into in the ordinary course of business in respect of forward foreign exchange contracts, financial futures contracts, option contracts and various other off balance sheet instruments. It is not anticipated that any material loss will arise from these contracts.

22 Loans to officers

Particulars of loans to officers of the Bank disclosed pursuant to section 161B of the Companies Ordinance:

	Aggregate amount of relevant loans outstanding at 31 December		*Maximum aggregate amount of relevant loans outstanding during the year*	
	1990	1989	1990	1989
	HK$m	HK$m	HK$m	HK$m
a By the Bank	71	60	90	67
b By subsidiary companies	4	3	4	3
	75	63	94	70

23 Foreign currency amounts

The sterling and United States dollar figures shown in the consolidated profit and loss account and the balance sheets are for information only. They are converted from Hong Kong dollars at the rates of exchange ruling at 31 December 1990, which are as follows:

£1.00 = HK$14.97
US$1.00 = HK$7.80

24 Comparative figures

Certain comparative figures for 1989 have been amended to conform with the current year's presentation.

25 Approval of accounts

These accounts were approved by the Board of Directors on 12 March 1991.

26 Subsequent events

On 26 February 1991 a meeting of shareholders of the Bank convened by direction of the Supreme Court of Hong Kong approved a Scheme of Arrangement pursuant to section 166 of the Companies Ordinance of Hong Kong under which it is proposed that HSBC Holdings plc will become the holding company of the Bank. The Supreme Court of Hong Kong will hear a petition to sanction the Scheme of Arrangement on 26 March 1991. If sanctioned, it is expected that the Scheme will become effective on 2 April 1991.

Report of the Auditors to the Members of The Hongkong and Shanghai Banking Corporation Limited

We have audited the accounts set out on pages 41 to 53 in accordance with approved Auditing Standards.

In our opinion the accounts have been properly prepared in accordance with the provisions of the Companies Ordinance applicable to banking companies and, on that basis, give a true and fair view of the state of affairs of the Bank and of the Group at 31 December 1990 and of the profit of the Group for the year then ended.

KPMG Peat Marwick Price Waterhouse

KPMG Peat Marwick
Price Waterhouse
Certified Public Accountants

Hong Kong, 12 March 1991

Present Directors
W Purves, CBE, DSO *Chairman*
Li Ka-shing, CBE *Deputy Chairman*
J M Gray *Deputy Chairman*
B H Asher
J R H Bond
D E Connolly
Baroness Dunn, DBE
F R Frame
D A Gledhill
N R Knox
H C Lee
D P H Liao, CBE
C D Mackay
Sir Kit McMahon
C W Newton, CBE
N M S Rich
H Sohmen, OBE
J E Strickland
J J Swaine, CBE, QC
J C C Tang, CBE
G A Thompson
P J Wrangham

The Directors have pleasure in submitting their Report together with the Annual Accounts for the year ended 31 December 1990.

Principal Activity
The principal activity of the Company is the leasing of property in Thailand. There has been no significant change in this activity or development in the business of the Company during the year.

Scheme of Arrangement
On 26 February 1991 a meeting of shareholders of The Hongkong and Shanghai Banking Corporation Limited ('HSBC') convened by the direction of the Supreme Court of Hong Kong approved a Scheme of Arrangement pursuant to section 166 of the Companies Ordinance of Hong Kong under which it is proposed that the Company will become the holding company of the HSBC group.

The Scheme remains conditional on it being sanctioned (with or without modification) by the Supreme Court of Hong Kong and an office copy of the Court Order being delivered to the Registrar of Companies in Hong Kong for registration.

Subject to those two conditions being fulfilled and to the Boards of Directors of the Company and HSBC being satisfied with regard to the listings of the Company's shares in Hong Kong and London and obtaining all authorisations, exemptions, licences, orders, grants, recognitions, confirmations, consents, clearances, permissions, and approvals as they deem to be necessary or desirable for or in respect of the Scheme, it is expected that the Scheme will become effective on 2 April 1991.

Upon the Scheme of Arrangement coming into effect one new Ordinary Share of HK$10 of the Company will be issued in exchange for every four shares of HK$2.50 each of HSBC resulting in the issue of 1,625,396,824 new shares.

Results for the Year
The results for the year are set out in the profit and loss account on page 57. The profit on ordinary activities after taxation was £79,311 (*1989: £109,381*). No dividends have been paid or are recommended and the net profit attributable to shareholders has been carried to reserves.

Fixed Assets
Movements in tangible fixed assets during the year are set out in note 6 to the Accounts.

The market value of freehold land and buildings at 31 December 1990 as estimated by the Directors was £6,172,600, compared with the value at which it is included in the Balance Sheet on page 58 of £4,216,528.

Directors
During the year B H Asher, J R H Bond, D E Connolly, Baroness Dunn, F R Frame, D A Gledhill, J M Gray, N R Knox, H C Lee, K S Li, D P H Liao, C D Mackay, Sir Kit McMahon, C W Newton, W Purves, N M S Rich, H Sohmen, J J Swaine, J C C Tang, G A Thompson and P J Wrangham were appointed Directors; R E T Bennett, S G Burrows, C Carr and I W Harris were appointed Directors and resigned; and K J Bryan, C Ch Mout, G J Schuddeboom and D C Thomas resigned.

C D Mackay, J E Strickland and J J Swaine will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

None of the Directors has a service contract with the Company.

At no time during the year was the Company a party to any transaction or arrangement in which a Director of the Company or of its holding company had directly or indirectly a material interest.

Directors' Interests
At 31 December 1990 Directors and members of their immediate families had the following beneficial interests in the shares of The Hongkong and Shanghai Banking Corporation Limited:

J R H Bond	61,235	C W Newton	8,091
D E Connolly	641,531	W Purves	114,388
F R Frame	86,137	N M S Rich	14,520
J M Gray	58,380	H Sohmen	1,671,563
N R Knox	30,250	J E Strickland	78,270
H C Lee	66,140	J J Swaine	951
K S Li	2,038,505	J C C Tang	39,930
D P H Liao	61,505	G A Thompson	104,610
Sir Kit McMahon	6,050	P J Wrangham	140,372

H C Lee also had a beneficial interest in 13,500 ordinary shares of Hang Seng Bank Limited.

As Directors of Marine Midland Bank, N.A., J R H Bond, J M Gray, N R Knox, W Purves and G A Thompson each had a beneficial interest in 10 shares of common stock of that Company.

At 1 January 1990 J E Strickland and members of his immediate family had beneficial interests in 66,681 shares of The Hongkong and Shanghai Banking Corporation Limited. The interests of other Directors who were appointed during the year were the same at 31 December 1990 as at the date of their appointment.

Save as stated above, none of the Directors, or members of their immediate families, had an interest in any shares or debentures of group companies at 1 January 1990, or the date of their appointment as Directors if later, or at 31 December 1990.

Political and Charitable Donations
No political or charitable donations were made during the year.

Insurance of Officers and Auditors
During the financial year the Company has not purchased or maintained any insurance of officers or auditors against liabilities in relation to the Company.

Auditors
The Accounts have been audited by KPMG Peat Marwick who will retire at the Annual General Meeting and, being eligible, offer themselves for reappointment.

On behalf of the Board
W Purves, *Chairman*
Hong Kong, 12 March 1991

1989 £		Note	1990 £
415,100	Turnover		328,329
(201,655)	Administrative expenses		(164,696)
(52,218)	Interest payable		(39,363)
161,233	**Profit on ordinary activities before taxation**	2	124,270
(51,852)	Taxation on profit on ordinary activities	4	(44,959)
109,381	**Profit on ordinary activities after taxation**		79,311
38,268	Retained profit brought forward		179,125
31,476	Exchange (loss)/gain	5	(69,689)
179,125	**Retained profit carried forward**		188,747

HSBC Holdings plc

Balance Sheet
at 31 December 1990

1989 £			Note		1990 £
		FIXED ASSETS			
	787,529	Tangible assets	6		4,235,987
		CURRENT ASSETS			
		Debtors:			
5,122		Taxation recoverable	4	5,186	
9,370		Prepayments and accrued income		7,509	
14,492				12,695	
92,219		Cash at bank with ultimate holding company		208,909	
106,711				221,604	
		CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
42,567		*Amount due to ultimate holding company*		46,519	
14,354		Amounts due to fellow subsidiary undertakings		124	
290,160		Loan due to fellow subsidiary undertaking	7	253,748	
66,534		Accruals and deferred income		69,729	
413,615				370,120	
	(306,904)	**Net current liabilities**			(148,516)
	480,625	**Net assets**			4,087,471
		CAPITAL AND RESERVES			
	301,500	Called up share capital	8		301,500
		Revaluation reserve	6		3,597,224
	179,125	Profit and loss account	9		188,747
	480,625				4,087,471

Chairman
W Purves

12 March 1991

1989 £		Note	1990 £
	Source of funds		
161,233	Profit on ordinary activities before taxation		124,270
	Adjustment for item not involving the movement of funds:		
48,986	Depreciation		30,058
210,219	Funds generated from operations		154,328
	Funds from other sources		
187,210	Proceeds from sale of fixed assets		6,227
(57,202)	Exchange adjustments	5	43,533
340,227			204,088
	Application of funds		
(5,248)	Purchase of fixed assets		–
(34,074)	Tax paid		(45,764)
300,905			158,324
	Increase/(decrease) in working capital		
(3,696)	(Decrease) in prepayments and accrued income		(1,861)
96,545	(Increase)/decrease in amount due to ultimate holding company		(3,952)
(1,101)	Decrease/(increase) in amounts due to fellow subsidiary undertakings		14,230
86,033	Decrease in loan due to fellow subsidiary undertaking		36,412
8,482	(Increase)/decrease in accruals and deferred income		(3,195)
	Movement in net liquid funds:		
114,642	Increase in cash at bank with ultimate holding company		116,690
300,905			158,324

1 Principal accounting policies

a *Basis of preparation*

The accounts are prepared under the historical cost convention except for the revaluation of land and buildings and in accordance with the Companies Act 1985 as amended by the Companies Act 1989, and with Accounting Standards issued by the Accounting Standards Board.

b *Premises and equipment*

Premises and equipment are stated at valuation or cost less depreciation calculated to write off the assets over their estimated useful lives on a straight line basis at the following annual rates:

Freehold land	- Nil
Freehold buildings	- 2%
Fixtures and equipment	- 20%

c *Foreign currency translation*

Assets and liabilities denominated in foreign currencies and the results of the branch in Thailand are translated into sterling at the rates ruling at the balance sheet date. Exchange differences on translation of the opening net assets of the branch in Thailand at the closing rates of exchange are accounted for in retained profit.

d *Assets let under operating leases*

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

e *Turnover*

Turnover represents rental and related income.

2 Profit on ordinary activities before taxation

The profit on ordinary activities before taxation has been arrived at after (crediting)/charging:

	1990	1989
	£	£
Rents receivable from land	(163,837)	(182,760)
Depreciation	30,058	48,986
Auditors' remuneration and expenses	4,234	1,838
Directors' remuneration	—	-
Interest payable to group undertakings	39,363	52,218

The main source of income is rent receivable from the Company's premises in Thailand which are rented to the ultimate holding company.

3 Employees

Excluding Directors the average number of persons employed by the Company was 5 *(1989: 4)*. The aggregate payroll costs of these persons were as follows:

	1990	1989
	£	£
Wages and salaries	16,281	16,063
Social security costs	288	287
	16,569	16,350

4 Taxation

Taxation in the profit and loss account represents overseas tax payable in respect of the profits of the branch in Thailand for the year.

Taxation in the balance sheet represents overseas tax recoverable less overseas tax payable in respect of the profits of the branch in Thailand.

At 31 December 1990 there were outstanding assessments issued by the Thai Revenue Department amounting to £12,817 in respect of purported underpayments of tax in a prior year. No provision has been made for this amount as the assessments are subject to appeal and the Directors consider that no liabilities will arise.

4 Taxation *(continued)*

No provision for deferred taxation has been made as there are no timing differences giving rise to a potential liability.

The Directors are of the opinion that HSBC Holdings plc is not liable to United Kingdom taxation and accordingly no provision for United Kingdom taxation has been made.

5 Exchange adjustments

	1990	1989
	£	£
Fixed assets	(112,481)	86,390
Taxation recoverable	(741)	2,288
Other net current liabilities	43,533	(57,202)
	(69,689)	31,476

6 Fixed assets

Tangible assets:

	Freehold land and buildings	*Fixtures and equipment*	*Total*
	£	£	£
Cost at 1 January 1990	1,095,734	406,006	1,501,740
Exchange adjustment	(158,516)	(57,288)	(215,804)
Disposals	—	(14,295)	(14,295)
Surplus on revaluation	3,597,224	—	3,597,224
At 31 December 1990	4,534,442	334,423	4,868,865
Depreciation at 1 January 1990	352,090	362,121	714,211
Exchange adjustment	(50,936)	(52,387)	(103,323)
Charge for the year	16,760	13,298	30,058
Written back on disposals	—	(8,068)	(8,068)
At 31 December 1990	317,914	314,964	632,878
Net book value:			
At 31 December 1990	4,216,528	19,459	4,235,987
At 31 December 1989	743,644	43,885	787,529

The gross amounts of assets held for use in operating leases amounted to £4,534,442 *(1989: £1,095,734)* and the related accumulated depreciation charges amounted to £317,914 *(1989: £352,090)*.

The freehold land and buildings in Thailand were valued in November 1989 by an independent professionally qualified valuer at an open market value for existing use of £4,233,288 (converted at the exchange rate ruling at 31 December 1990). The surplus on revaluation of £3,597,224 has been credited to revaluation reserve at 31 December 1990. Tax on capital gains in Thailand amounting to £1,259,028 would be payable were the freehold land and buildings to be sold at the above valuation. Included in this category are buildings with a cost of £837,754.

7 Loan due to fellow subsidiary undertaking

The loan is repayable on demand but will not be demanded within the next 12 months unless there are sufficient funds available for payment. The Company has pledged its freehold land and buildings as security for this loan.

8 Share capital

	1990 £	1989 £
Authorised, allotted, called up and fully paid:		
150,000 ordinary shares of 1p each	1,500	1,500
2,400,000 deferred shares of 12.5p each	300,000	300,000
	301,500	301,500

9 Profit and loss account

The remittance of the retained profit of the branch in Thailand would be subject to deduction of overseas withholding tax. No provision has been made for deferred taxation as the Directors do not anticipate the branch in Thailand having to remit its retained profit to the Head Office in Hong Kong.

10 Holding companies

The Company's immediate holding company is WTL Limited, which is incorporated in Hong Kong. The Company's ultimate holding company is The Hongkong and Shanghai Banking Corporation Limited, which is incorporated in Hong Kong.

11 Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

12 Change of name

On 12 December 1990 the name of the Company was changed from Silom Limited to HSBC Holdings Limited.

On 24 December 1990 the Company was re-registered as a public company and its name changed to HSBC Holdings plc.

13 Subsequent events

On 26 February 1991 a meeting of shareholders of The Hongkong and Shanghai Banking Corporation Limited convened by direction of the Supreme Court of Hong Kong approved a Scheme of Arrangement pursuant to section 166 of the Companies Ordinance of Hong Kong under which it is proposed that the Company will become the holding company of The Hongkong and Shanghai Banking Corporation Limited. The Supreme Court of Hong Kong will hear a petition to sanction the Scheme of Arrangement on 26 March 1991. If sanctioned, it is expected that the Scheme will become effective on 2 April 1991.

It is proposed that with effect from the Scheme of Arrangement becoming effective the existing issued ordinary and deferred shares of the Company will be consolidated and converted into 301,500 Non-voting Deferred Shares of £1 each and the authorised share capital will be increased by the creation of 2,000,000,000 Ordinary Shares of HK$10 each. The authorised share capital will then be HK$20,000,000,000 divided into 2,000,000,000 Ordinary Shares of HK$10 each and £301,500 divided into 301,500 Non-voting Deferred Shares of £1 each.

Upon the Scheme of Arrangement becoming effective 1,625,396,824 shares will be issued pursuant to the Scheme and the authorised and issued share capital of the Company will be:

Authorised:	
2,000,000,000 Ordinary Shares of HK$10 each	HK$20,000,000,000
301,500 Non-voting Deferred Shares of £1 each	£301,500
Issued and fully paid:	
1,625,396,824 Ordinary Shares of HK$10 each	HK$16,253,968,240
301,500 Non-voting Deferred Shares of £1 each	£301,500

14 Approval of accounts

These accounts were approved by the Board of Directors on 12 March 1991.

Geographical Distribution of Principal Offices
(as at 12 March 1991)

Australia: *CPB-5*, HKBA-5, JC-4, W-4

Bahamas: BBME-1, E-4, HS-1, HSBC-1

Bahrain: BBME-2, HSBC-1

Brazil: HSBC-1

Brunei Darussalam: HSBC-9

Canada: HKBC-115, JC-2, W-3, W/JC-1.

Cayman Islands: HKHL-3

Channel Islands: HKHL-4, JC-1, W-1.

Chile: CGIS-2, HSBC-2

China, People's Republic of: HS-2, HSBC-8, W-1.

Cyprus: CGIS-1, *CPB-120*, W-1.

Egypt: *HKEB-2*

France: JC-1.

Germany: HSBC-1, JC-1.

Gibraltar: HKHL-2.

Guam: HSBC-1

Hong Kong: CGIS-4, CM&M-1, HKHL-3, HS-122, HSBC-253, JC-1, W-9

India: BBME-1, HSBC-21

Indonesia: HSBC-3, W/JC-1

Japan: CM&M-1, HSBC-4, JC-1, W-2

Jordan: BBME-5

Kenya: E-1.

Korea, Republic of: HSBC-2, JC-1, MAA-1

Lebanon: BBME-3.

Luxembourg: W-2

Macau: CGIS-1, HSBC-4

Malaysia: HKHL-1, HSBC-36, JC-1, W-1

Mauritius: HSBC-10

Netherlands: JC-1

New Zealand: HSBC-3, W-1

Oman. BBME-4.

Pakistan: HSBC-2

Panama: HSBC-2

Philippines: HSBC-2, JC-1

Qatar: BBME-2.

Saudi Arabia: *SABB-45*

Singapore: CGIS-1, CM&M-1, HKHL-2, HSBC-11, JC-1, MAA-1, W-3

Spain: JC-1.

Sri Lanka: HSBC-1

Sweden: HSBC-1.

Switzerland: BBME-1, JC-1

Taiwan: HSBC-2, JC-1, W-1.

Thailand: HSBC-1, JC-1, MAA-1, W-1.

United Arab Emirates: BBME-8, CGIS-1.

United Kingdom: BBME-1, CGIS-1, CM&M-1, *CPB-5*, E-2, HKHL-2, HSBC-3, JC-4, *SABB-1*, W-3.

United States of America: CM&M-10, E-5, HS-3, HSBC-18, JC-1, MMB-319, W-2.

Vanuatu: W-1

Zambia: E-1

The international network of the HongkongBank group comprises more than 1,300 offices world wide

BBME – The British Bank of the Middle East, CGIS – Carlingford and Gibbs Insurance Groups, CM&M – CM&M Group, *CPB – The Cyprus Popular Bank*, E – Equator Holdings, HKBA – HongkongBank of Australia, HKBC – Hongkong Bank of Canada, *HKEB – Hongkong Egyptian Bank*, HKHL – HKBG Holdings Limited, HS – Hang Seng Bank, HSBC – The Hongkong and Shanghai Banking Corporation Limited, JC – James Capel, MAA – MidAval Asia, MMB – Marine Midland Bank, *SABB – The Saudi British Bank*, W – Wardley

Associated companies are shown in italics

Report of the Auditors, KPMG Peat Marwick, to the Members of HSBC Holdings plc

We have audited the accounts set out on pages 57 to 62 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of the Company's affairs at 31 December 1990 and of its profit and source and application of funds for the year ended on that date and have been properly prepared in accordance with the Companies Act 1985.

KPMG Peat Marwick

KPMG Peat Marwick

12 March 1991

The Hongkong and Shanghai Banking Corporation Limited
Registered Office and Head Office
1 Queen's Road Central
Hong Kong

Registrars
Central Registration Hong Kong Limited
Hopewell Centre, 19th Floor
183 Queen's Road East
Hong Kong

HSBC Holdings plc
Registered Office
99 Bishopsgate
London EC2P 2LA
United Kingdom

Head Office
1 Queen's Road Central
Hong Kong

Registrars
Principal Register
National Westminster Bank PLC
Registrar's Department
PO Box 82, Caxton House
Redcliffe Way
Bristol BS99 7NH
United Kingdom

Hong Kong Overseas Branch Register
Central Registration Hong Kong Limited
Hopewell Centre, 19th Floor
183 Queen's Road East
Hong Kong

Acknowledgements

[illegible] Public Affairs Department, Hongkong Bank
[illegible] Hong Kong
[illegible] Hong Kong

A Chinese translation of the [illegible] Annual Report [illegible]
Central Registration Hong Kong Limited
Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong

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