

## 18 Interests in associates

<i>Group and Bank</i>	<b>2004</b> <b>US\$000</b>
At 1 January 2004	<b>111,122</b>
Amortisation of negative goodwill	<b>1,907</b>
Retained profits	<b>1,727</b>
Exchange and other movements	<b>10,944</b>
<b>At 31 December 2004</b>	<b><u>125,700</u></b>

The associates of the Bank are:

	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Bank's interest in equity capital</i>	<i>Issued equity capital</i>
British Arab Commercial Bank Limited	England	Banking	46.51%	US\$81 million and £32 million fully paid £5 million nil paid
Rewards Management Middle East Free Zone Limited Liability Company	Dubai, UAE	Multi- participant loyalty programmes	40.00%	AED0.5 million

British Arab Commercial Bank Limited has issued US\$44,477,500 of subordinated unsecured loan stock in which the group has a 34.66% interest.

Negative goodwill arising on the acquisition of British Arab Commercial Bank Limited is being amortised over 5 years.

The associates are unlisted.

British Arab Commercial Bank Limited operates in North Africa and the Eastern Mediterranean.

Rewards Management Middle East Free Zone Limited Liability Company operates in Dubai, UAE and Qatar.

## Notes on the Financial Statements (continued)

## 19 Tangible fixed assets

a Group	Freehold	Short	Equipment,	Total
	land and buildings*	leasehold land and buildings	fixtures and fittings	
	US\$000	US\$000	US\$000	US\$000
Cost or valuation at 1 January 2004	39,721	40,450	67,498	147,669
Additions	262	2,227	7,511	10,000
Disposals	(1,006)	(947)	(5,748)	(7,701)
Transfer of accumulated depreciation arising on revaluation	(521)	—	—	(521)
Surplus on revaluation	1,381	—	—	1,381
Exchange and other movements	121	4	26	151
<b>Cost or valuation at 31 December 2004</b>	<b>39,958</b>	<b>41,734</b>	<b>69,287</b>	<b>150,979</b>
Accumulated depreciation at 1 January 2004	—	(18,624)	(49,562)	(68,186)
Disposals	315	794	4,014	5,123
Transfer of accumulated depreciation arising on revaluation	521	—	—	521
Charge to the profit and loss account	(826)	(2,285)	(7,283)	(10,394)
Exchange and other movements	(10)	(2)	(18)	(30)
<b>Accumulated depreciation at 31 December 2004</b>	<b>—</b>	<b>(20,117)</b>	<b>(52,849)</b>	<b>(72,966)</b>
<b>Net book value at 31 December 2004</b>	<b>39,958</b>	<b>21,617</b>	<b>16,438</b>	<b>78,013</b>
Net book value at 31 December 2003	39,721	21,826	17,936	79,483
b Bank	Freehold	Short	Equipment,	Total
	land and buildings*	leasehold land and buildings	fixtures and fittings	
	US\$000	US\$000	US\$000	US\$000
Cost or valuation at 1 January 2004	39,721	39,532	64,294	143,547
Additions	243	2,221	7,199	9,663
Disposals	(987)	(865)	(4,277)	(6,129)
Transfer of accumulated depreciation arising on revaluation	(521)	—	—	(521)
Surplus on revaluation	1,381	—	—	1,381
Exchange and other movements	121	5	27	153
<b>Cost or valuation at 31 December 2004</b>	<b>39,958</b>	<b>40,893</b>	<b>67,243</b>	<b>148,094</b>
Accumulated depreciation at 1 January 2004	—	(17,754)	(47,745)	(65,499)
Disposals	315	757	2,883	3,955
Transfer of accumulated depreciation arising on revaluation	521	—	—	521
Charge to the profit and loss account	(826)	(2,284)	(6,937)	(10,047)
Exchange and other movements	(10)	(2)	(18)	(30)
<b>Accumulated depreciation at 31 December 2004</b>	<b>—</b>	<b>(19,283)</b>	<b>(51,817)</b>	<b>(71,100)</b>
<b>Net book value at 31 December 2004</b>	<b>39,958</b>	<b>21,610</b>	<b>15,426</b>	<b>76,994</b>
Net book value at 31 December 2003	39,721	21,778	16,549	78,048

\* Including depreciable amounts comprising buildings with a valuation of US\$18,804,000 (2003: US\$20,545,000) in both the group and the Bank.

## 19 Tangible fixed assets (continued)

### c Valuations

<i>Group and Bank</i>	<b>2004</b>	2003
	<b>US\$000</b>	US\$000
On the historical cost basis, freehold land and buildings would have been included as follows:		
Cost	<b>35,776</b>	36,765
Accumulated depreciation	<b>(10,761)</b>	(11,348)
	<b><u>25,015</u></b>	<u>25,417</u>

In September 2004, the group's freehold properties were revalued on an existing use basis or, in the case of a few specialised properties, at depreciated replacement cost. The properties were valued by professional external valuers and updated for any material changes at 31 December 2004.

As a result of the revaluation, the net book value of land and buildings increased by US\$1,381,000. The surplus has been credited to reserves at 31 December 2004.

### d Land and buildings occupied for own activities

All land and buildings are occupied for own activities.

## 20 Other assets

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Assets, including gains, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	<b>75,748</b>	55,604	<b>75,748</b>	55,604
Deferred taxation	<b>24,745</b>	25,107	<b>24,143</b>	24,506
Other accounts	<b>53,923</b>	23,029	<b>51,139</b>	21,633
	<b><u>154,416</u></b>	<u>103,740</u>	<b><u>151,030</u></b>	<u>101,743</u>

## 21 Deposits by banks

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>US\$000</b>	US\$000	<b>US\$000</b>	US\$000
Repayable on demand	<b>658,452</b>	680,228	<b>507,436</b>	488,459
With agreed maturity dates or periods of notice, by remaining maturity:				
— 3 months or less but not repayable on demand	<b>896,679</b>	593,993	<b>896,679</b>	593,993
— 1 year or less but over 3 months	<b>124,423</b>	326,726	<b>124,423</b>	326,726
— 5 years or less but over 1 year	<b>30,227</b>	49,558	<b>30,227</b>	49,558
	<b><u>1,709,781</u></b>	<u>1,650,505</u>	<b><u>1,558,765</u></b>	<u>1,458,736</u>
Amounts include:				
Due to fellow subsidiary undertakings	<b>598,718</b>	665,289	<b>447,702</b>	473,520

**Notes on the Financial Statements** (continued)**22 Customer accounts**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b> US\$000	2003 US\$000	<b>2004</b> US\$000	2003 US\$000
Repayable on demand	<b>4,827,364</b>	3,537,675	<b>4,860,886</b>	3,547,725
With agreed maturity dates or periods of notice, by remaining maturity:				
— 3 months or less but not repayable on demand	<b>3,496,671</b>	3,051,533	<b>3,496,671</b>	3,051,533
— 1 year or less but over 3 months	<b>626,403</b>	784,744	<b>626,403</b>	784,744
— 5 years or less but over 1 year	<b>42,196</b>	82,997	<b>42,196</b>	82,997
— over 5 years	<b>2,338</b>	25,734	<b>2,338</b>	25,734
	<b>8,994,972</b>	7,482,683	<b>9,028,494</b>	7,492,733
Amount include:				
Due to fellow subsidiary undertakings	<b>3,865</b>	12,663	<b>37,387</b>	22,713
Due to associates	<b>2,221</b>	2,119	<b>2,221</b>	2,119

**23 Debt securities in issue**

<i>Group and Bank</i>	<b>2004</b> US\$000	2003 US\$000
Medium-term notes, by remaining maturity		
— between 2 and 5 years	<b>298,364</b>	—

On 11 October 2004, the Bank established a Debt Issuance Programme providing for the issue of up to US\$1,000,000,000 in debt securities in the form of medium-term notes. On 14 December 2004, the Bank issued, under the Programme, a first tranche of US\$300,000,000 floating rate notes due 14 December 2009. The costs of the issue have been amortised over the life of the notes.

**24 Other liabilities**

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b> US\$000	2003 US\$000	<b>2004</b> US\$000	2003 US\$000
Liabilities, including losses, resulting from off-balance-sheet interest rate and exchange rate contracts which are marked to market	<b>67,329</b>	56,047	<b>67,329</b>	56,047
Current taxation	<b>65,398</b>	57,269	<b>64,759</b>	57,269
Dividends payable by the Bank	<b>1,913</b>	20,691	<b>1,913</b>	20,691
Other liabilities	<b>91,762</b>	61,716	<b>86,270</b>	49,789
	<b>226,402</b>	195,723	<b>220,271</b>	183,796

## 25 Provisions for liabilities and charges

<i>Group</i>	<i>Provisions for pensions and other post-retirement obligations</i>	<i>Provisions for contingent liabilities and commitments</i>	<i>HSBC in the Community Middle East Foundation funding provision</i>	<i>Other Provisions</i>	<i>Total</i>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
At 1 January 2004	32,006	2,105	418	1,729	36,258
Additional provisions/ increase in provisions	9,940	141	1,500	4,035	15,616
Provisions utilised	(9,771)	(283)	(459)	(3,797)	(14,310)
Exchange and other movements	(2,529)	242	28	24	(2,235)
<b>At 31 December 2004</b>	<b>29,646</b>	<b>2,205</b>	<b>1,487</b>	<b>1,991</b>	<b>35,329</b>

  

<i>Bank</i>	<i>Provisions for pensions and other post-retirement obligations</i>	<i>Provisions for contingent liabilities and commitments</i>	<i>HSBC in the Community Middle East Foundation funding provision</i>	<i>Other Provisions</i>	<i>Total</i>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
At 1 January 2004	31,926	2,105	418	1,729	36,178
Additional provisions/ increase in provisions	9,940	141	1,500	4,035	15,616
Provisions utilised	(9,715)	(283)	(459)	(3,797)	(14,254)
Exchange and other movements	(2,529)	242	28	24	(2,235)
<b>At 31 December 2004</b>	<b>29,622</b>	<b>2,205</b>	<b>1,487</b>	<b>1,991</b>	<b>35,305</b>

Included within the group 'provisions for pensions and other post-retirement obligations' is an amount of US\$21,486,000 (2003: US\$24,341,000) relating to other post-retirement obligations. The comparable figure for the Bank is US\$21,462,000 (2003: US\$24,260,000).

In 1996, the Bank established a charitable trust, the 'HSBC In The Community Middle East Foundation' (formerly the 'HSBC Bank Middle East Foundation'), whose aim is to provide funding to Middle East nationals, primarily for educational and environmental purposes.

There is no significant deferred taxation liability not provided for, except as noted below.

No provision is made for deferred taxation on revalued premises. The Directors are of the opinion that, having regard to the fact that the premises 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.

**Notes on the Financial Statements** (continued)**26 Called up share capital**

	<b>2004</b> US\$000	2003 US\$000
Authorised US dollar equity share capital: 1,000,000,000 ordinary shares of US\$1 each	<u><b>1,000,000</b></u>	<u>750,000</u>
Authorised US dollar non-equity share capital: 750,000 cumulative redeemable preference shares of US\$1 each	<u><b>750</b></u>	<u>300</u>

On 25 August 2004, the shareholders of the Bank approved:

- (i) an increase in the authorised equity share capital of the Bank of 250,000,000 ordinary shares of US\$1 each.  
(ii) an increase in the authorised non-equity share capital of the Bank of 450,000 cumulative redeemable preference shares of US\$1 each.

<i>Equity</i>	<i>US\$1 Ordinary Shares Number</i>	<b>2004</b> US\$000	2003 US\$000
Allotted, called-up and fully paid: At 1 January and 31 December	<u>331,055,000</u>	<u><b>331,055</b></u>	<u>331,055</u>
	<i>US\$1 perpetual cumulative redeemable preference shares number</i>	<i>US\$1 dated cumulative redeemable preference shares number</i>	
Non-equity		<b>2004</b> US\$000	2003 US\$000
Allotted, called-up and fully paid:			
At 1 January 2004	75,000	225,000	300
Redemption of share capital subscribed	—	—	(175)
New share capital subscribed	—	100,000	225
<b>At 31 December 2004</b>	<u>75,000</u>	<u>325,000</u>	<u>300</u>
Total called up share capital		<u><b>331,455</b></u>	<u>331,355</u>

The issued non-equity share capital of the Bank comprises a first issue on 29 October 1997 of 50,000 perpetual cumulative redeemable preference shares of nominal value US\$1 each at a premium of US\$999 per share, a second issue on 1 April 1998 of 25,000 perpetual cumulative redeemable preference shares of nominal value US\$1 each at a premium of US\$999 per share, a third issue on 17 December 2003 of 225,000 dated cumulative redeemable preference shares of nominal value US\$1 each at a premium of US\$999 per share and a fourth issue on 26 August 2004 of 100,000 dated cumulative redeemable preference shares of nominal value US\$1 each at a premium of US\$999 per share.

Each share carries one vote at meetings of the shareholders of the Bank.

On the first issue, cumulative redeemable preference dividends of 12 month US dollar LIBOR + 0.35% on the issue price of each perpetual share are payable annually.

The first issue perpetual cumulative redeemable preference shares bear no mandatory redemption date but are redeemable at the option of the Bank on any date after 31 October 2002. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.

On the second issue, cumulative redeemable preference dividends of 12 month US dollar LIBOR + 0.70% on the issue price of each perpetual share are payable annually.

## 26 Called up share capital *(continued)*

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The second issue perpetual cumulative redeemable preference shares bear no mandatory redemption date but are redeemable at the option of the Bank on any date after 2 April 2003. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.

On the third issue, cumulative redeemable preference dividends of 12 month US dollar LIBOR + 0.50% on the issue price of each dated share are payable annually.

The redemption of the third issue dated cumulative redeemable preference shares, other than at the option of the Bank as described below, will be subject to the approval of the ordinary shareholders of the Bank. The earliest date for redemption will be 17 December 2013 and if not approved by the shareholders will next fall for review at 10 yearly intervals thereafter. However, the shares may be redeemed at the option of the Bank on any date after 17 December 2008, without the approval of the ordinary shareholders of the Bank. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.

On the fourth issue, cumulative redeemable preference dividends of 12 month US dollar LIBOR + 0.48% on the issue price of each dated share are payable annually.

The redemption of the fourth issue dated cumulative redeemable preference shares, other than at the option of the Bank as described below, will be subject to the approval of the ordinary shareholders of the Bank. The earliest date for redemption will be 26 August 2014 and if not approved by the shareholders will next fall for review at 10 yearly intervals thereafter. However, the shares may be redeemed at the option of the Bank on any date after 26 August 2009, without the approval of the ordinary shareholders of the Bank. On redemption, the holders of the shares shall be entitled to receive an amount equal to any accrued but unpaid dividends plus the issue price of each share.

In the event of a winding up, the US dollar preference shareholders would receive, in priority to the ordinary shareholders of the Bank, repayment of US\$1,000 per share, plus an amount equal to any accrued but unpaid dividends. With the exception of the above, the preference shares do not carry any right to participate in the surplus of assets on a winding up.

**Notes on the Financial Statements** (continued)**27 Reserves**

<i>Equity</i>	<u>Group</u> US\$000	<u>Bank</u> US\$000	<u>Associated</u> <u>Undertakings</u> US\$000
Revaluation reserve			
At 1 January 2004	14,304	48,839	—
Unrealised surplus on revaluation of land and buildings	1,381	1,381	—
Net increase in attributable net assets of subsidiary undertakings	—	1,897	—
Exchange and other movements	(743)	11,926	—
<b>At 31 December 2004</b>	<b>14,942</b>	<b>64,043</b>	<b>—</b>
Profit and loss account			
At 1 January 2004	282,084	247,549	19,928
Retained profit for the year	227,949	224,328	3,633
Exchange and other movements	14,347	3,402	10,950
<b>At 31 December 2004</b>	<b>524,380</b>	<b>475,279</b>	<b>34,511</b>
<i>Non-equity</i>			
Share premium account			
At 1 January 2004	299,700	299,700	—
New share capital subscribed	99,900	99,900	—
<b>At 31 December 2004</b>	<b>399,600</b>	<b>399,600</b>	<b>—</b>
Total reserves	<b>938,922</b>	<b>938,922</b>	<b>34,511</b>

**28 Analysis of total assets and total liabilities***Assets leased to customers*

The cost of assets acquired during 2004 for letting to customers under finance leases by the group amounted to US\$307,366,000 (2003:US\$213,482,000). The comparable figure for the Bank is US\$40,753,000 (2003:US\$27,869,000).

**29 Financial instruments****a Derivatives**

Off-balance-sheet financial instruments, commonly referred to as derivatives, are contracts the characteristics of which are derived from those of the underlying assets, interest and exchange rates, equity indices, commodity prices or credit spreads. They include futures, forwards, swap and options transactions in the foreign exchange, interest rate, equity, credit and commodity markets. Transactions are negotiated directly with customers, with the Bank acting as a counterparty, or can be dealt through exchanges.

**Nature and terms of derivatives**

The following outlines the nature and terms of the most common types of derivatives used by the Bank.

*Exchange rate contracts*

**Forward foreign exchange contracts** are agreements to buy or sell fixed amounts of currency at agreed rates of exchange on a specified future date.

**Cross currency swaps** are agreements that involve the exchange of interest payments in one specified currency for interest payments in another specified currency for a specified period, based on an underlying amount. The agreement may additionally involve the exchange and, on maturity of the swap, re-exchange of the principal amount.

a *Derivatives (continued)*

**Currency futures** are typically exchange-traded agreements to buy or sell standard amounts of a specified currency at an agreed exchange rate on a standard future date.

**Currency options** give the buyer on payment of a premium the right, but not the obligation, to buy or sell specified amounts of currency at agreed rates of exchange on or before a specified future date.

*Interest rate contracts*

**Interest rate swaps** involve the exchange of interest rate obligations with a counterparty for a specified period without exchanging the underlying (or notional) principal. The Bank may enter a swap transaction either as an intermediary or as a direct counterparty.

**Interest rate futures** are typically exchange-traded agreements to buy or sell a standard amount of a specified fixed income security or time deposit at an agreed interest rate on a standard future date.

**Forward rate agreements** give the buyer the ability to determine the underlying rate of interest for a specified period commencing on a specified future date (the 'settlement date'). There is no exchange of principal and settlement is effected on the settlement date. The settlement amount is calculated by reference to the difference between the contract rate and the market rate prevailing on the settlement date.

**Interest rate options** give the buyer on payment of a premium the right, but not the obligation, to fix the rate of interest on a future deposit or loan, for a specified period and commencing on a specified future date.

**Uses of derivatives**

Users of derivatives typically want to convert an unwanted risk generated by their business to a more acceptable risk, or cash. Derivatives provide an effective tool for companies to manage the financial risks associated with their business and, as a consequence, there has been a significant growth in derivatives transactions in recent years.

The Bank takes positions in the market and acts as an intermediary between a broad range of users, structuring deals to produce risk management products to suit individual customer needs. As a result, the Bank can accumulate significant open positions in derivatives portfolios. These positions are managed constantly to ensure that they are within acceptable risk levels, with offsetting deals being undertaken to achieve this where necessary. As well as acting as a dealer, the Bank also uses derivatives (principally interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

**Risks associated with derivatives**

Derivative instruments are subject to both market risk and credit risk.

*Market risk*

The market risk associated with derivatives can be significant since large positions can be accumulated with a substantially smaller initial outlay than required in cash markets. Recognising this, only those locations with sufficient derivative product expertise and appropriate control systems are authorised to trade derivative products. The management of market risk arising from derivatives business is monitored by Traded Markets Development and Risk, an independent unit within the HSBC Corporate Investment Banking and Markets operation, in combination with market risks arising from on-balance-sheet instruments (Note 31).

*Credit risk*

Unlike assets recorded on the balance sheet, where the credit risk is typically the full amount of the principal value, together with any unrealised interest accrued or mark-to-market gain (Note 10), the credit risk relative to a derivative is principally the replacement cost of any contract with a positive mark-to-market gain and an estimate for the potential future change in value, reflecting the volatilities affecting the contract. Credit risk on contracts having a negative mark-to-market value is restricted to the potential future change in value. Credit risk on derivatives is, therefore, small in relation to a comparable balance sheet risk. In addition, credit exposure with individual counterparties can be reduced by the receipt of collateral and close-out netting agreements which allow for positive and negative mark-to-market values on different transactions to be offset and settled by a single payment in the event of default by either party. Such agreements are enforceable in the jurisdictions of the major market makers and the Bank has executed close-out netting agreements with the majority of its counterparties, notwithstanding the fact that the Bank deals only with the most creditworthy counterparties.

**Notes on the Financial Statements** (continued)**29 Financial instruments** (continued)**Derivatives used for trading purposes**

The following tables summarise the contract amount, replacement cost, mark-to-market values and average mark-to-market values of third party and internal trading derivatives by product type. The replacement cost shown is the positive mark-to-market value and represents the accounting loss the Bank would incur if the counterparty to a derivative contract failed to perform according to the terms of the contract and the collateral, if any, for the amount due proved to be of no value.

The notional or contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Because all derivative instruments used for trading purposes are marked to market, carrying values are equal to mark-to-market values. Mark-to-market values are determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows. Mark-to-market assets and liabilities are not netted, except where a legal right of set-off exists.

	2004		2003	
	<i>Contract amount</i>	<i>Replacement cost*</i>	<i>Contract amount</i>	<i>Replacement cost*</i>
	US\$000	US\$000	US\$000	US\$000
Spot and forward foreign exchange	4,296,298	58,282	3,417,832	46,402
Currency swaps, futures and options purchased	680,351	11,899	326,933	2,860
Currency options written	664,996	—	357,352	—
Total exchange rate contracts	<b>5,641,645</b>	<b>70,181</b>	<b>4,102,117</b>	<b>49,262</b>
Interest rate swaps	1,087,192	5,369	605,377	3,619
Interest rate futures, forward rate agreements and options purchased	97,308	209	159,974	529
Interest rate options written	97,308	—	—	—
Total interest rate contracts	<b>1,281,808</b>	<b>5,578</b>	<b>765,351</b>	<b>4,148</b>
Total	<b>6,923,453</b>	<b>75,759</b>	<b>4,867,468</b>	<b>53,410</b>

\* Third party contracts only

	2004		2003	
	<i>Mark-to-market values at year end</i>	<i>Average mark-to-market values for the year</i>	<i>Mark-to-market values at year end</i>	<i>Average mark-to-market values for the year</i>
	US\$000	US\$000	US\$000	US\$000
Exchange rate				
— assets	70,181	41,147	50,561	30,579
— liabilities	(63,711)	(41,927)	(52,129)	(32,425)
Interest rate				
— assets	5,567	5,180	5,043	5,775
— liabilities	(3,618)	(3,458)	(3,918)	(4,950)
Total				
— assets	75,748	46,327	55,604	36,354
— liabilities	(67,329)	(45,385)	(56,047)	(37,375)

## 29 Financial instruments (continued)

### Derivatives used for risk management purposes

The majority of the transactions undertaken for risk management purposes are between business units within HSBC, one of which is a trading desk, which then lays off the resulting position by trading in the external market. Internal positions are integral to the Bank's asset and liability management and are included within the analyses of non-trading positions in the tables below.

The following table summarises the contract amount and replacement cost of derivatives used for risk management purposes by product type. The replacement cost shown represents the accounting loss the Bank would incur if the counterparty to a derivative contract failed to perform according to the terms of the contract and the collateral, if any, for the amount due proved to be of no value.

	2004		2003	
	<i>Contract amount</i>	<i>Replacement cost*</i>	<i>Contract amount</i>	<i>Replacement cost*</i>
	US\$000	US\$000	US\$000	US\$000
Spot and forward foreign exchange	—	—	629,735	—
Currency swaps and options purchased	4,268	—	5,169	—
Total exchange rate contracts	<b>4,268</b>	—	<b>634,904</b>	—
Interest rate swaps	392,047	114	507,373	65
Total interest rate contracts	<b>392,047</b>	<b>114</b>	<b>507,373</b>	<b>65</b>

\* *Third party contracts only*

The table below summarises the carrying value and mark-to-market value of derivative contracts held for risk management purposes. Mark-to-market values for assets and liabilities arising from derivatives held for non-trading purposes are determined in the same way as those set out for trading derivatives above, including internal positions.

	2004		2003	
	<i>Carrying value</i>	<i>Mark-to-market values</i>	<i>Carrying value</i>	<i>Mark-to-market values</i>
	US\$000	US\$000	US\$000	US\$000
Exchange rate				
— assets	—	—	3,617	1,299
— liabilities	—	(1,368)	(420)	(1,172)
Interest rate				
— assets	972	728	410	70
— liabilities	(701)	(2,264)	(1,517)	(11,350)
Total				
— assets	<b>972</b>	<b>728</b>	<b>4,027</b>	<b>1,369</b>
— liabilities	<b>(701)</b>	<b>(3,632)</b>	<b>(1,937)</b>	<b>(12,522)</b>

### Concentrations of credit risk

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same region, or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

## Notes on the Financial Statements (continued)

### 29 Financial instruments (continued)

The following table analyses the replacement cost of all third party exchange rate and interest rate contracts with positive mark-to-market gains by category of counterparty and by maturity, including netting where available at 31 December 2004 and 31 December 2003. The table shows that the replacement cost of derivatives is predominantly with banks less than one year.

	Residual Maturity				2003 Total US\$000
	<i>Less than</i>		<i>Over</i>	<b>2004</b>	
	<i>1 year</i>	<i>1-5 years</i>	<i>5 years</i>	<i>Total</i>	
	US\$000	US\$000	US\$000	US\$000	US\$000
Governments	—	—	256	256	—
Banks	64,892	5,391	—	70,283	48,102
Other sectors	4,960	374	—	5,334	5,373
<b>Total 2004</b>	<b>69,852</b>	<b>5,765</b>	<b>256</b>	<b>75,873</b>	
Total 2003	48,956	4,519	—		53,475

The following table analyses the maturity profile of the notional principal values of third party derivative contracts outstanding as at 31 December 2004.

	Residual Maturity				2003 Total US\$000
	<i>Less than</i>		<i>Over</i>	<b>2004</b>	
	<i>1 year</i>	<i>1-5 years</i>	<i>5 years</i>	<i>Total</i>	
	US\$000	US\$000	US\$000	US\$000	US\$000
Exchange rate and interest rate contracts					
— exchanges*	2,013,455	10,591	—	2,024,046	1,096,423
— other contracts	3,914,155	756,776	415,697	5,086,628	3,316,271
<b>Total 2004</b>	<b>5,927,610</b>	<b>767,367</b>	<b>415,697</b>	<b>7,110,674</b>	
Total 2003	3,876,533	516,162	19,999		4,412,694

\* Exchanges with margining requirements.

#### b Other financial instruments

##### (i) Financial instruments held for trading purposes:

	Mark-to-market value	
	2004 US\$000	2003 US\$000
Assets:		
Debt securities	44,411	39,529
Equity shares	148,200	189,705
	<b>192,611</b>	<b>229,234</b>

The trading assets above are funded by liabilities whose fair value is not materially different from their carrying value.

## 29 Financial instruments (continued)

(ii) *Financial instruments not held for trading purposes and for which a liquid and active market exists:*

	2004		2003	
	<i>Carrying value</i>	<i>Mark-to-market values</i>	<i>Carrying value</i>	<i>Mark-to-market values</i>
	US\$000	US\$000	US\$000	US\$000
Assets:				
Treasury bills and other eligible bills	168,580	168,730	188,914	188,914
Debt securities	990,293	993,762	710,137	719,414
Equity shares	5,681	6,370	1,795	2,004
	<b>1,164,554</b>	<b>1,168,862</b>	<b>900,846</b>	<b>910,332</b>
Liabilities:				
Debt securities in issue	298,364	296,734	—	—
	<b>298,364</b>	<b>296,734</b>	<b>—</b>	<b>—</b>

Where possible, mark-to-market values have been estimated using market prices for these financial instruments. Where market prices are not available, values have been estimated using quoted prices for financial instruments with similar characteristics, or otherwise using a suitable valuation technique where practicable to do so.

The techniques used in the two tables above are:

— *Treasury bills and other eligible bills*

Mark-to-market value approximates to carrying value because these are mainly short-term in maturity with a carrying value not materially different from mark-to-market value.

— *Debt securities and equity shares*

Listed securities are valued at middle-market prices and unlisted securities at management's valuation which takes into consideration future earnings streams, valuations of equivalent quoted securities and other relevant techniques.

— *Debt securities in issue*

Mark-to-market values are estimated using quoted market prices at the balance sheet date.

### c *Gains and losses on hedges*

*Unrecognised gains and losses*

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised gains on instruments used for hedging as at 31 December 2004 were US\$774,000 (2003: US\$599,000) and the unrecognised losses were US\$3,949,000 (2003: US\$13,842,000).

Unrecognised gains of US\$262,000 and unrecognised losses of US\$2,016,000 are expected to be recognised in 2005.

Of the gains and losses included in the profit and loss account in 2004, US\$599,000 gains and US\$9,431,000 losses were unrecognised at 1 January 2004.

**Notes on the Financial Statements** (continued)**29 Financial instruments** (continued)**d Liquidity management**

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

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

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

- projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of debt maturities;
- maintaining debt financing plans;
- monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising any adverse long-term implications for the business.

**30 Memorandum items***Group and Bank*

	2004			2003		
	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk-weighted amount</i>	<i>Contract amount</i>	<i>Credit equivalent amount</i>	<i>Risk-weighted amount</i>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
Contingent liabilities:						
Acceptances and endorsements	532,324	106,465	106,465	381,512	76,302	75,660
Guarantees and assets pledged as collateral security:						
— guarantees and irrevocable letters of credit	2,456,505	1,516,884	1,292,289	1,594,627	1,001,123	847,340
Other contingent liabilities	700	700	700	900	900	900
	<b>2,989,529</b>	<b>1,624,049</b>	<b>1,399,454</b>	<b>1,977,039</b>	<b>1,078,325</b>	<b>923,900</b>

30 Memorandum items (continued)

Commitments:						
Documentary credits and short-term trade-related transactions	845,956	256,265	154,246	765,753	264,126	148,609
Undrawn formal standby facilities, credit lines and other commitments to lend:						
— over 1 year	937,284	468,642	468,642	692,007	346,004	294,251
— 1 year and under	5,335,470	—	—	4,187,407	—	—
	<u>7,118,710</u>	<u>724,907</u>	<u>622,888</u>	<u>5,645,167</u>	<u>610,130</u>	<u>442,860</u>

The table above gives the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for the purposes of deriving the risk-weighted amounts. These are assessed in accordance with the Financial Services Authority's guidelines which implement the 1988 Basel Capital Accord on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

Contingent liabilities and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

Included in the above are the following liabilities on account of other members of the HSBC Group:

<i>Group and Bank</i>	2004 US\$000	2003 US\$000
Guarantees and assets pledged by the Bank as collateral security	162,964	120,274
Documentary credits and short-term trade-related transactions	42,510	48,543
	<u>205,474</u>	<u>168,817</u>
Share of commitments in associates:		
	2004 US\$000	2003 US\$000
Obligations to take back securities lent or sold under repurchase agreements	—	56
Credit lines and other commitments to lend		
— over 1 year	30,134	37,062
— 1 year and under	6,860	2,268
Documentary credits and short-term trade-related transactions	281,094	274,655
Own acceptances	12,352	11,739
	<u>330,440</u>	<u>325,780</u>

**Notes on the Financial Statements** (continued)**31 Market risk management**

The Bank's market risk management process is discussed in the 'Operational and Financial Review' section on pages 5 and 6 from the paragraph under the heading 'Market risk management' to the paragraph ended 'impact of extreme events on the market risk exposures of the Bank'.

**a Trading VAR**

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

Trading VAR for 2004 was:

	At 31 December 2004 <u>US\$000</u>	<i>Minimum during the year</i> <u>US\$000</u>	<i>Maximum during the year</i> <u>US\$000</u>	<i>Average for the year</i> <u>US\$000</u>
Total trading activities	228	44	394	177
Foreign exchange trading positions	80	23	140	55
Interest rate trading positions	<u>226</u>	<u>23</u>	<u>383</u>	<u>164</u>

Trading VAR for 2003 was:

	At 31 December 2003 <u>US\$000</u>	<i>Minimum during the year</i> <u>US\$000</u>	<i>Maximum during the year</i> <u>US\$000</u>	<i>Average for the year</i> <u>US\$000</u>
Total trading activities	253	83	542	256
Foreign exchange trading positions	24	21	142	60
Interest rate trading positions	<u>251</u>	<u>46</u>	<u>540</u>	<u>240</u>

The VAR noted for foreign exchange positions excludes structural foreign currency exposures, since related gains or losses are taken through reserves.

### 31 Market risk management (continued)

#### b Interest rate sensitivity gap table

In accordance with FRS 13 'Derivatives and other financial instruments: disclosures', the table below discloses the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rate on a contractual basis or, if earlier, the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of assets and liabilities. For these reasons, the Bank manages its interest rate risk on a different basis from that presented below, taking into account the behavioural characteristics of the relevant assets and liabilities.

Year ended 31 December 2004	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Banking book total	Trading book total	Total	
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	
<b>Assets</b>									
Treasury bills and other eligible bills	137,752	8,920	21,908	—	—	168,580	—	168,580	
Loans and advances to banks	1,117,728	51,142	49,070	12,000	7,223	835,681	2,072,844	2,072,844	
Loans and advances to customers	6,317,042	494,348	213,749	1,080,940	229,756	121,042	8,456,877	8,456,877	
Debt securities and equity shares	4,969,424	248,803	202,079	36,348	—	11,820	995,974	192,611	1,188,585
Other assets	—	—	—	—	—	689,115	689,115	86,856	775,971
<b>Total assets</b>	<b>8,069,446</b>	<b>803,213</b>	<b>486,806</b>	<b>1,129,288</b>	<b>236,979</b>	<b>1,657,658</b>	<b>12,383,390</b>	<b>279,467</b>	<b>12,662,857</b>
<b>Liabilities</b>									
Deposits by banks	(941,175)	(84,850)	(30,973)	(30,227)	—	(622,556)	(1,709,781)	—	(1,709,781)
Customer accounts	(5,497,674)	(388,235)	(221,980)	(36,179)	—	(2,850,904)	(8,994,972)	—	(8,994,972)
<b>Debt securities in issue</b>	<b>(298,364)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(298,364)</b>	<b>—</b>	<b>(298,364)</b>
Other liabilities	—	—	—	—	—	(313,277)	(313,277)	(71,847)	(385,124)
Minority interests and shareholders' funds	—	—	—	—	—	(1,274,616)	(1,274,616)	—	(1,274,616)
Internal funding of the trading book	207,620	—	—	—	—	—	207,620	(207,620)	—
<b>Total liabilities</b>	<b>(6,529,593)</b>	<b>(473,085)</b>	<b>(252,953)</b>	<b>(66,406)</b>	<b>—</b>	<b>(5,061,353)</b>	<b>(12,383,390)</b>	<b>(279,467)</b>	<b>(12,662,857)</b>
<b>Off-balance- sheet items</b>	<b>(26,642)</b>	<b>85,955</b>	<b>(1,982)</b>	<b>(57,331)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Interest rate sensitivity gap</b>	<b>1,513,211</b>	<b>416,083</b>	<b>231,871</b>	<b>1,005,551</b>	<b>236,979</b>	<b>(3,403,695)</b>	<b>—</b>	<b>—</b>	<b>—</b>
Cumulative interest rate sensitivity gap	1,513,211	1,929,294	2,161,165	3,166,716	3,403,695	—	—	—	—

**Notes on the Financial Statements** (continued)**31 Market risk management** (continued)**b Interest rate sensitivity gap table** (continued)

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within re-pricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. In this case, a negative gap position tends to benefit net interest income in a declining interest rate environment, but again the actual effect will depend on the same factors as for positive interest rate gaps, as described on the previous page.

Year ended 31 December 2003	<i>More than three months Not more than three months</i>	<i>More than six months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>More than five years</i>	<i>Non- interest bearing</i>	<i>Banking book total</i>	<i>Trading book total</i>	<i>Total</i>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Assets</b>									
Treasury bills and other eligible bills	188,914	—	—	—	—	—	188,914	—	188,914
Loans and advances to banks	1,819,893	31,608	31,942	4,979	1,299	591,126	2,480,847	—	2,480,847
Loans and advances to customers	4,670,559	515,429	163,478	854,443	59,538	(45,627)	6,217,810	—	6,217,810
Debt securities and equity shares	375,424	85,547	36,022	192,783	19,999	2,157	711,932	229,234	941,166
Other assets	—	—	—	—	—	477,215	477,215	58,805	536,020
<b>Total assets</b>	<b>7,054,790</b>	<b>632,584</b>	<b>231,442</b>	<b>1,052,205</b>	<b>80,836</b>	<b>1,024,861</b>	<b>10,076,718</b>	<b>288,039</b>	<b>10,364,757</b>
<b>Liabilities</b>									
Deposits by banks	(595,275)	(193,611)	(133,116)	(49,558)	—	(678,945)	(1,650,505)	—	(1,650,505)
Customer accounts	(4,953,894)	(337,544)	(436,722)	(81,620)	—	(1,672,903)	(7,482,683)	—	(7,482,683)
Other liabilities	—	—	—	—	—	(243,198)	(243,198)	(56,391)	(299,589)
Minority interests and shareholders' funds	—	—	—	—	—	(931,980)	(931,980)	—	(931,980)
Internal funding of the trading book	231,648	—	—	—	—	—	231,648	(231,648)	—
<b>Total liabilities</b>	<b>(5,317,521)</b>	<b>(531,155)</b>	<b>(569,838)</b>	<b>(131,178)</b>	<b>—</b>	<b>(3,527,026)</b>	<b>(10,076,718)</b>	<b>(288,039)</b>	<b>(10,364,757)</b>
Off-balance- sheet items	(59,918)	68,309	90,484	(88,876)	(9,999)	—	—	—	—
Interest rate sensitivity gap	1,677,351	169,738	(247,912)	832,151	70,837	(2,502,165)	—	—	—
Cumulative interest rate sensitivity gap	1,677,351	1,847,089	1,599,177	2,431,328	2,502,165	—	—	—	—

### 31 Market risk management (continued)

#### c Assets and liabilities denominated in foreign currency

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b> US\$000	2003 US\$000	<b>2004</b> US\$000	2003 US\$000
Denominated in US dollars	<b>4,482,572</b>	3,907,565	<b>4,429,262</b>	3,880,413
Denominated in currencies other than US dollars	<b>8,180,285</b>	6,457,192	<b>8,099,975</b>	6,277,904
Total assets	<b>12,662,857</b>	10,364,757	<b>12,529,237</b>	10,158,317
Denominated in US dollars	<b>4,812,528</b>	3,754,925	<b>4,808,444</b>	3,748,408
Denominated in currencies other than US dollars	<b>7,850,329</b>	6,609,832	<b>7,720,793</b>	6,409,909
Total liabilities	<b>12,662,857</b>	10,364,757	<b>12,529,237</b>	10,158,317

#### d Structural currency exposures

The Bank's structural foreign currency exposure is represented by the net asset value of its foreign currency equity and subordinated debt investments in subsidiary undertakings, branches and associates. Gains or losses on structural foreign currency exposures are taken to reserves.

The Bank's management of structural foreign currency exposures is discussed in the 'Operational and Financial Review' section on page 7.

### 32 Capital commitments

<i>Group and Bank</i>	<b>2004</b> US\$000	2003 US\$000
Expenditure contracted for	<b>151</b>	538
Expenditure authorised by Directors but not contracted for	<b>10,584</b>	—
	<b>10,735</b>	538

### 33 Lease commitments

At the year-end annual commitments under non-cancellable operating leases were:

	<i>Group</i>		<i>Bank</i>	
	<b>2004</b> US\$000	2003 US\$000	<b>2004</b> US\$000	2003 US\$000
Leasehold land and buildings				
Operating leases which expire:				
— within 1 year	<b>323</b>	232	<b>201</b>	99
— between 1 and 5 years	<b>4,102</b>	3,209	<b>4,102</b>	3,209
— over 5 years	<b>928</b>	1,076	<b>928</b>	1,076
	<b>5,353</b>	4,517	<b>5,231</b>	4,384

## Notes on the Financial Statements (continued)

### 34 Segmental analysis

As the group is not required to disclose turnover, no segmental analysis of turnover is included. Turnover of non-banking businesses is included in other operating income. The allocation of earnings reflects the benefit of shareholders' funds to the extent that these are actually allocated to businesses in the segment by way of intra-group capital and funding structures. Common costs are included in segments on the basis of the actual recharges made.

#### a By geographical region

Geographical information has been classified by the location of the branch, subsidiary or associate undertaking responsible for reporting the results. Due to the nature of the group structure, the analysis of profits and net assets shown below includes intra-group items between geographical regions.

	At 31 December 2004		At 31 December 2003	
	US\$000	%	US\$000	%
<b>Total assets:</b>				
Middle East	12,540,091	99.0%	10,272,958	99.1%
Europe	122,766	1.0%	91,799	0.9%
Total assets	<u>12,662,857</u>	<u>100.0%</u>	<u>10,364,757</u>	<u>100.0%</u>

	At 31 December 2004		At 31 December 2003	
	US\$000	%	US\$000	%
<b>Net assets:</b>				
Middle East	1,141,772	89.9%	838,716	90.4%
Europe	128,605	10.1%	88,727	9.6%
Total net assets	<u>1,270,377</u>	<u>100.0%</u>	<u>927,443</u>	<u>100.0%</u>

#### Profit on ordinary activities before tax:

Year ended 31 December 2004	<i>Middle East</i>	<i>Europe</i>	<i>Total</i>
	US\$000	US\$000	US\$000
Interest receivable	500,645	817	501,462
Interest payable	(112,390)	—	(112,390)
Net interest income	<u>388,255</u>	<u>817</u>	<u>389,072</u>
Dividend income	15	—	15
Fees and commissions receivable	174,241	169	174,410
Fees and commissions payable	(13,145)	(17)	(13,162)
Dealing profits	54,651	555	55,206
Other operating income	18,384	117	18,501
Operating income	<u>622,401</u>	<u>1,641</u>	<u>624,042</u>
Operating profit	293,958	2,430	296,388
Share of operating profit in associates	11,928	—	11,928
Goodwill amortisation	1,907	—	1,907
Gain/(loss) on disposal of investments and tangible fixed assets	2,016	(2,054)	(38)
Profit on ordinary activities before tax	<u>309,809</u>	<u>376</u>	<u>310,185</u>

### 34 Segmental analysis (continued)

Year ended 31 December 2003	<u>Middle East</u> US\$000	<u>Europe</u> US\$000	<u>Total</u> US\$000
Interest receivable	421,404	9,761	431,165
Interest payable	(97,027)	(5,669)	(102,696)
Net interest income	324,377	4,092	328,469
Dividend income	77	1	78
Fees and commissions receivable	139,679	355	140,034
Fees and commissions payable	(11,179)	(30)	(11,209)
Dealing profits	41,321	165	41,486
Other operating income	16,946	414	17,360
Operating income	<u>511,221</u>	<u>4,997</u>	<u>516,218</u>
Operating profit	228,489	4,836	233,325
Share of operating profit in associates	16,466	—	16,466
Goodwill amortisation	1,526	—	1,526
Gain on disposal of investments and tangible fixed assets	227	68	295
Profit on ordinary activities before tax	<u>246,708</u>	<u>4,904</u>	<u>251,612</u>

\* Included in 'Europe' is a profit on ordinary activities before tax of US\$1,459,000 in respect of the Bank's branch operations in London and Azerbaijan, which were discontinued during 2003.

Total interest receivable and total interest payable include intra-group interest of US\$16,568,000 (2003: US\$16,934,000). Other operating income includes intra-group amounts of US\$11,609,000 (2003: US\$11,331,000).

#### b By class of business

The group operates no significant classes of business other than banking.

### 35 Related party transactions

#### a Transactions, arrangements and agreements involving Directors and others

Particulars of transactions, arrangements and agreements entered into by the Bank with Directors and connected persons and companies controlled by them are as follows:

	<u>2004</u>		<u>2003</u>	
	Number	US\$000	Number	US\$000
Directors and connected persons and companies controlled by them:				
Loans	1	48	3	14,720
Credit card transactions	1	5	3	7
Guarantees	—	—	2	17
		<u>53</u>		<u>14,744</u>

**Notes on the Financial Statements** (continued)**35 Related party transactions** (continued)**b Transactions with other related parties of the Bank**  
**Associates**

Information relating to the associates can be found in the 'Notes on the Financial Statements' where the following are disclosed:

- Note 12: amounts due from associates
- Note 18: interests in associates
- Note 22: amounts due to associates
- Note 30: share of commitments in associates

Specific transactions with the associates are as follows:

	<b>2004</b>	2003
	<b>US\$000</b>	US\$000
Interest receivable	<b>953</b>	935
Interest payable	<b>(20)</b>	(4)
Fees and commissions payable	<b>(37)</b>	(18)
Other income	—	1
Other expenses	<b>(3,930)</b>	(3,096)

**36 Ultimate holding company**

The company's ultimate holding company is HSBC Holdings plc, which is registered in England.

The largest and smallest group in which the financial statements of the Bank are consolidated is that headed by HSBC Holdings plc. Copies of the HSBC Holdings plc Annual Review 2004 and/or Annual Report and Accounts 2004 may be obtained by writing to Group Corporate Affairs, HSBC Holdings plc, 8 Canada Square, London E14 5HQ, United Kingdom; or from the HSBC web site, [www.hsbc.com](http://www.hsbc.com)

**37 Approval of financial statements**

These financial statements were approved by the Board of Directors on 21 February 2005.

## HSBC Bank Middle East Limited and Other Group Offices

### HSBC Bank Middle East Limited

#### *Head Office*

HSBC House, Esplanade,  
St Helier, Jersey JE4 8UB,  
Channel Islands  
Tel: (44-1534) 606512  
Fax: (44-1534) 606149

#### **Middle East Management Office:**

P O Box 66,  
Dubai, United Arab Emirates  
Tel: (971-4) 3904722 (390 HSBC)  
Fax: (971-4) 3906607

#### **Bahrain**

Manama *Main Office*  
Adliya  
Muharraq  
Muharraq *Offshore Banking Unit*

#### **Iran**

Tehran *Representative Office*

#### **Jordan**

Western Amman *Main Office*  
Jebel Hussein

#### **Lebanon**

Beirut *Main Office*  
Dora  
Zouk  
Verdun  
Ras Beirut

#### **Oman**

Bait Al Falaj *Main Office*  
Muscat  
Qurum  
Salalah  
Seeb

#### **Palestinian Autonomous Area**

Ramallah *Main Office*

#### **Qatar**

Doha *Main Office*  
Al Sadd  
Rayyan  
West Bay

#### **United Arab Emirates**

**Abu Dhabi**  
Abu Dhabi *Main Office*  
Al Ain

#### **Dubai**

Bur Dubai *Main Office*  
Deira  
Jebel Ali

#### **Fujairah**

Fujairah

#### **Ras Al Khaimah**

Ras Al Khaimah

#### **Sharjah**

Sharjah

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### PRINCIPAL SUBSIDIARY COMPANIES

#### **HSBC Middle East Finance Company**

**Limited**  
Dubai *Main Office*  
Abu Dhabi  
Al Ain  
Ras Al Khaimah

#### **HSBC Financial Services (Middle East)**

**Limited**  
Dubai

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### ASSOCIATED COMPANIES

#### **British Arab Commercial Bank Limited\***

London

#### **Rewards Management Middle East**

**Free Zone Limited Liability Company**  
Dubai

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### SPECIAL HSBC GROUP CONNECTIONS EXIST WITH:

#### **The Hongkong and Shanghai Banking**

**Corporation Limited**  
Muharraq *Offshore Banking Unit*

#### **The Saudi British Bank\***

Riyadh *Head Office*, 61 other  
branches and 12 exclusive ladies  
sections

#### **HSBC Bank Egypt S.A.E.**

Cairo *Head Office*, 16 other  
branches and 6 mini-bank units

#### **Laiki Bank\***

Nicosia *Head Office* and  
over 100 branches and agencies

#### **HSBC Bank International Limited**

**Gibbs Gulf Insurance**  
**Consultants Limited**

#### **HSBC Insurance Brokers Limited**

#### **HSBC Bank plc Cyprus**

**HSBC Investment Company (Egypt)**  
**S.A.E.**

**HSBC Securities (Egypt) S.A.E.**

\* HSBC Group associated company

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