

HSBC REPUBLIC BANK (UK) LIMITED

(formerly Samuel Montagu & Co. Limited)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2000

Registered number: 499482



HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)

**Report of the directors
for the year ended 31 December 2000**

Activities and review

The Company is authorised as a bank under the Banking Act 1987. The principal activity of the Company continues to be private banking.

The profit of the Company amounted to £21,350,000 before tax and £14,410,000 after tax.

The directors have declared an interim dividend of £9,000,000.

The Company changed its name from Samuel Montagu & Co. Limited to HSBC Republic Bank (UK) Limited on 4 October 2000.

Directors

The directors who served during the year were as follows:

C C R Bannister	Chairman
M J Gregson	Chief Executive
M A Bussey	resigned 9 January 2001
I C Cotterill	
C Kirkby	
A J S Ross	

N V Moss resigned 22 May 2000

Subsequent to the end of the year, M A Bussey resigned as a director with effect from 9 January 2001 and the following were appointed as directors with effect from 1 January 2001:

A I Kyriazi
M J Mount
W T Robinson

and 13 February 2001:

P A Smith

Directors' interests

All the directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, and its subsidiaries, required to be disclosed under the Companies Act 1985, are set out below.

	HSBC Holdings plc	
	Ordinary shares of US \$0.50 each	
	<u>Held at 31.12.00</u>	<u>Held at 1.1.00</u>
M A Bussey	2,382	-
M J Gregson	41,355	35,368
C Kirkby	42,144	31,591
A J S Ross	35,640	-

C Kirkby was interested in 1,907 HSBC Holdings plc 11.69% Subordinated Bonds 2002 of £1 throughout the year.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
Report of the directors
for the year ended 31 December 2000 (continued)

Directors' interests (continued)

During the year options over HSBC Holdings plc ordinary shares of US\$0.50 each were granted/exercised as follows:

	Granted Ordinary shares of US\$0.50 each	Exercised Ordinary shares of US\$0.50 each
M A Bussey	-	27,000
M J Gregson	7,000	-
C Kirkby	8,007	14,442
A J S Ross	3,000	9,549

Supplier payment policy

The Company subscribes to the Better Payment Practice Code for all suppliers, the four principles of which are: to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about the code are available from: The Department of Trade and Industry, No. 1 Victoria Street, London SW1 0ET.

The amount due to the Company's trade creditors at 31 December 2000 represented 25 days' average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571.

Donations

During the year, the Company made charitable donations totalling £4,000 for charitable purposes in the United Kingdom.

Statement of directors' responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities set out in their report on page 4, is made with a view to distinguishing for the shareholder the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The directors consider that in preparing the financial statements on pages 5 to 25, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
Report of the directors
for the year ended 31 December 2000 (continued)

Auditors

Pursuant to a shareholder's resolution, the Company is not obliged to reappoint its auditors annually and therefore KPMG Audit Plc will continue in office.

By order of the Board



E A Hobley
Secretary

20 February 2001

Registered Office
10 Lower Thames Street
London
EC3R 6AE

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Report of the auditors, KPMG Audit Plc,
to the members of HSBC Republic Bank (UK) Limited**

We have audited the financial statements on pages 5 to 25.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
*Chartered Accountants
Registered Auditor*

London

20 February 2001

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
Profit and loss account for the year ended 31 December 2000

	Notes	2000 £'000	1999 £'000
Interest receivable			
- interest receivable and similar income arising from debt securities		4,684	4,918
- other interest receivable and similar income	3	92,075	64,837
Interest payable		(67,234)	(46,902)
Net interest income		29,525	22,853
Fees and commissions receivable		5,581	4,236
Fees and commissions payable		(28)	(9)
Dealing profits	4	380	95
Other operating income		-	31
Operating income		35,458	27,206
Administrative expenses	5	(12,920)	(9,774)
Depreciation and amortisation	16	(9)	(16)
Operating profit before provisions		22,529	17,416
Provisions			
- provisions for bad and doubtful debts	13	(1,162)	(1,208)
- provisions for contingent liabilities and commitments	21	(17)	(3,047)
Operating profit		21,350	13,161
Gains on disposal of fixed assets and investments		-	1,323
Profit on ordinary activities before tax	6	21,350	14,484
Tax on profit on ordinary activities	8	(6,940)	(5,365)
Profit on ordinary activities after tax		14,410	9,119
Dividends	9	(9,000)	(6,000)
Retained profit for the year	23	5,410	3,119

Total recognised gains and losses

There were no recognised gains or losses other than the profit for the year.

Historical cost profits and losses

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

Continuing operations

None of the Company's activities were acquired or discontinued during the year.

The notes on pages 8 to 25 form part of these financial statements.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
Balance sheet at 31 December 2000

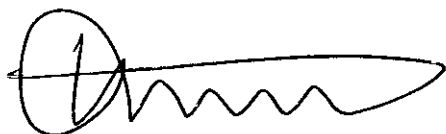
	Notes	2000 £'000	1999 £'000
Assets			
Cash and balances at central banks		2	12
Loans and advances to banks	11	316,302	311,421
Loans and advances to customers	12	1,037,113	804,792
Tangible fixed assets	16	25	34
Other assets	17	1,937	1,459
Prepayments and accrued income		14,988	10,736
Total assets	27	<u>1,370,367</u>	<u>1,128,454</u>
Liabilities			
Deposits by banks	18	324,925	456,665
Customer accounts	19	854,761	495,633
Other liabilities	20	38,477	33,640
Accruals and deferred income		11,300	7,040
Provisions for liabilities and charges	21	3,065	3,047
Called up share capital	22	112,250	112,250
Share premium account		3,277	3,277
Profit and loss account	23	22,312	16,902
Shareholder's funds – equity	24	<u>137,839</u>	<u>132,429</u>
Total liabilities	27	<u>1,370,367</u>	<u>1,128,454</u>

The notes on pages 8 to 25 form part of these financial statements.

HSBC Republic Bank (UK) Limited
 (formerly Samuel Montagu & Co. Limited)
Balance sheet at 31 December 2000 (continued)

	Notes	2000 £'000	1999 £'000
Memorandum items	26		
Contingent liabilities:-			
- guarantees and assets pledged as collateral security		<u>126,162</u>	<u>34,218</u>
Commitments		<u>349,443</u>	<u>152,437</u>

Approved by the Board and signed on its behalf on 20 February 2001



I C Cotterill
 Director

The notes on pages 8 to 25 form part of these financial statements.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000**

1. Basis of preparation

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

These financial statements have been prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 relating to banking companies.

The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by Section 228 of the Companies Act 1985. The results of the Company are included within the consolidated financial statements of HSBC Holdings plc.

These financial statements present information about the undertaking as an individual undertaking and not about its group.

As the cash flow statement included in the consolidated financial statements for the ultimate parent company complies with the conditions of Financial Reporting Standard 1 ("FRS1") (Revised 1996) "Cash Flow Statements" the Company is exempt under FRS1 from the requirement to prepare a separate cash flow statement.

The Company has taken advantage of the exemption under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose details of transactions with HSBC Holdings plc or other Group subsidiaries, as it is a wholly owned subsidiary undertaking of HSBC Investment Bank plc, which is wholly owned by HSBC Holdings plc.

2. Principal accounting policies

a Income recognition

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

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

b Loans and advances and doubtful debts

Specific 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. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

Interest on doubtful debts is credited to a suspense account which is netted in the balance sheet against the relevant balances.

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

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

2. Principal accounting policies (continued)

c Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives at rates ranging from 20% to 33% per annum.

d Deferred taxation

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

e Pension and other post-retirement benefits

The Company operates money purchase and defined benefit pension schemes.

For money purchase schemes, the profit and loss account charge is the contributions payable for the year.

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

The cost of providing post-retirement health care benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives.

f Foreign currencies

i Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

ii All trading transactions are translated into sterling at the exchange rate ruling at the time of the transaction.

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

g Off-balance-sheet financial instruments

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

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

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000 (continued)**

2. Principal accounting policies (continued)

g Off-balance-sheet financial instruments (continued)

Trading Transactions

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

Transactions undertaken for trading purposes are marked to market value and the net present value of any gain or loss arising is recognised in the profit and loss account as "Dealing profits".

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

Non-Trading Transactions

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

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

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

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

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

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

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

3. Other interest receivable and similar income

Included within other interest receivable and similar income are amounts receivable from fellow group undertakings of £25,810,000 (1999: £17,408,000).

4. Dealing profits

	2000	1999
	£'000	£'000
Foreign exchange	380	248
Interest rate derivatives	-	(153)
	<u>380</u>	<u>95</u>

5. Administrative expenses

	2000	1999
	£'000	£'000
Staff costs		
- wages and salaries	6,237	5,056
- social security costs	632	429
- other pension costs	496	318
	<u>7,365</u>	<u>5,803</u>
Other administrative costs	<u>5,559</u>	<u>3,971</u>
	<u>12,924</u>	<u>9,774</u>

The average number of persons employed by the Company during the year was 96 (1999: 78).

6. Profit on ordinary activities before tax

	2000	1999
	£'000	£'000
Profit on ordinary activities before tax is stated after:-		
i Income:		
- profits less losses on securities dealing	-	(153)
ii Charges:		
Auditors' remuneration		
- audit work	30	29
- non-audit work	12	39

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

7. Remuneration of directors

	2000 £'000	1999 £'000
Directors' emoluments	<u>345</u>	<u>282</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £344,658 (1999: £282,037). The director is a member of a defined benefit scheme, under which the accrued pension at the year end was £45,185 (1999: £41,716) which includes an accrued lump sum of £52,925 (1999: £47,180).

During the year, the highest paid director exercised share options and received shares under long term incentive schemes.

The comparative figures for 1999 have been restated in order to present them on a consistent basis with the current year.

	Number of directors	
	2000	1999
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>1</u>	<u>1</u>
The number of directors who exercised share options was:	<u>3</u>	<u>4</u>
The number of directors in respect of whose qualifying services shares were received/receivable under long term incentive schemes was	<u>1</u>	<u>1</u>

8. Tax on profit on ordinary activities

	2000 £'000	1999 £'000
The charge for taxation comprises:-		
Current year		
United Kingdom corporation tax at 30% (1999: 30.25%)	<u>6,940</u>	<u>5,365</u>

9. Dividends

	2000 £'000	1999 £'000
Interim	<u>9,000</u>	<u>6,000</u>

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

10. Credit and risk management

Credit risk is the risk that a customer or counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. It is managed within limits approved by the board and delegated to individuals as appropriate. Credit & Risk, an independent unit, develops procedures for the control and monitoring of all such risk.

11. Loans and advances to banks

	2000	1999
	£'000	£'000
Remaining maturity:		
- repayable on demand or at short notice	2,632	3,466
- 3 months or less but not repayable on demand or at short notice (including settlement accounts)	234,590	236,038
- 1 year or less but over 3 months	29,080	1,917
- 5 years or less but over 1 year	-	-
- 5 years or more	50,000	70,000
	<u>316,302</u>	<u>311,421</u>
Amounts include:		
Due from parent and fellow subsidiary undertakings		
- subordinated	50,000	70,000
- unsubordinated	265,437	238,783
	<u>315,437</u>	<u>308,783</u>

12. Loans and advances to customers

	2000	1999
	£'000	£'000
Remaining maturity:		
- repayable on demand or at short notice	296,220	158,177
- 3 months or less but not repayable on demand or at short notice	151,320	96,343
- 1 year or less but over 3 months	177,108	147,824
- 5 years or less but over 1 year	212,072	212,138
- over 5 years	209,310	197,662
General and specific bad and doubtful debt provisions (Note 13)	(8,917)	(7,352)
	<u>1,037,113</u>	<u>804,792</u>
Amounts include:		
Due from parent and fellow subsidiary undertakings		
- unsubordinated	874	752

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

13. Provisions for bad and doubtful debts

	Specific £'000	2000 General £'000	Total £'000	Specific £'000	1999 General £'000	Total £'000
At 1 January	2,498	4,854	7,352	11,417	3,289	14,706
Charge to profit and loss account	165	1,400	1,565	458	1,565	2,023
Recoveries of advances written off in previous years	(403)	-	(403)	(815)	-	(815)
Net charge for the year	(238)	1,400	1,162	(357)	1,565	1,208
Amounts written off	403	-	403	(8,562)	-	(8,562)
At 31 December	<u>2,663</u>	<u>6,254</u>	<u>8,917</u>	<u>2,498</u>	<u>4,854</u>	<u>7,352</u>

Included in loans and advances to customers are the following movements in the suspended interest account:-

	2000 £'000	1999 £'000
At 1 January	240	1,812
Interest suspended in the year	100	553
Suspended interest recovered	(132)	(2,093)
Amounts written off	-	(32)
At 31 December	<u>208</u>	<u>240</u>

Total loans and advances to customers, net of suspended interest, on which interest is being suspended at 31 December 2000 amounted to £3,773,000 (1999: £5,816,000) against which there are provisions of £1,023,000 (1999: £2,427,000).

14. Concentrations of exposure

Loans and advances to customers are concentrated in the personal loans sector in the United Kingdom.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

15. Shares in group undertakings

Details of the Company's subsidiary undertakings at 31 December 2000 are as follows:

	Principal activity	Proportion held %	Class of shares held
Montagu Pension Trustees Limited	Pension trustee	100	Ordinary
W. Greenwell & Co. Limited	Pension trustee	100	Ordinary

Both the Company's subsidiary undertakings are incorporated in England.

16. Tangible fixed assets

	Furniture, fittings and equipment £'000
Cost at 1 January 2000 and 31 December 2000	<u>147</u>
Accumulated depreciation at 1 January 2000	113
Charge for year	<u>9</u>
Accumulated depreciation at 31 December 2000	<u>122</u>
Net book value at 31 December 2000	<u>25</u>
Net book value at 31 December 1999	<u>34</u>

17. Other assets

	2000 £'000	1999 £'000
Other accounts	<u>1,937</u>	<u>1,459</u>

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

18. Deposits by banks

	2000 £'000	1999 £'000
Repayable on demand	218,467	404,013
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	82,440	36,081
- 1 year or less but over 3 months	18,364	16,037
- 5 years or less but over 1 year	5,494	534
- over 5 years	160	-
	<u>324,925</u>	<u>456,665</u>
Amounts include:		
Due to fellow subsidiary undertakings	<u>324,910</u>	<u>456,650</u>

19. Customer accounts

	2000 £'000	1999 £'000
Repayable on demand	534,382	251,799
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	290,744	232,121
- 1 year or less but over 3 months	29,635	11,713
	<u>854,761</u>	<u>495,633</u>
Amounts include:		
Due to fellow subsidiary and group undertakings	<u>-</u>	<u>-</u>

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

20. Other liabilities

	2000 £'000	1999 £'000
Interim dividend	9,000	6,000
Current taxation	8,674	11,961
Other liabilities	<u>20,803</u>	<u>15,679</u>
	<u><u>38,477</u></u>	<u><u>33,640</u></u>

21. Provisions for liabilities and charges

a Deferred tax

Deferred taxation is provided in accordance with the accounting policy in Note 2d.

At 31 December 2000, there were potential future tax benefits of approximately £2,455,000 (1999: £589,000) in respect of allowable expenditure charged to the profit and loss account but not yet allowed for tax which have not been recognised because recoverability of the potential benefits is not considered certain.

b Other provisions for liabilities and charges

	£'000
At 1 January 2000	3,047
Exchange and other movements	1
Profit and loss account charge	<u>17</u>
At 31 December 2000	<u><u>3,065</u></u>

Other provisions for liabilities and charges comprise provisions raised in respect of a guarantee given on behalf of a customer.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

22. Called up share capital

	2000 £'000	1999 £'000
Authorised 12,500,000 ordinary shares of £10 each	<u>125,000</u>	<u>125,000</u>
Issued, allotted and fully paid up 11,225,016 ordinary shares of £10 each	<u>112,250</u>	<u>112,250</u>

23. Profit and loss account

	£'000
At 1 January 2000	16,902
Retained profit for the financial year	<u>5,410</u>
At 31 December 2000	<u>22,312</u>

24. Reconciliation of movements in shareholder's funds

	2000 £'000	1999 £'000
Profit for the financial year attributable to the shareholder	14,410	9,119
Interim dividend	<u>(9,000)</u>	<u>(6,000)</u>
Retained profit for the financial year	5,410	3,119
Opening shareholder's funds	<u>132,429</u>	<u>129,310</u>
Closing shareholder's funds	<u>137,839</u>	<u>132,429</u>

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

25. 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 underlying assets, interest and exchange rates or indices. They include forwards, swap and option transactions in the foreign exchange and interest rate markets. Transactions are negotiated directly with customers, with the Company acting as a counterparty.

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.

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

The market risk associated with derivatives can be significant since large positions can be accumulated with a substantially smaller initial outlay than is required in cash markets. The Company does not actively trade in derivative contracts. Derivative contracts are entered into for risk management purposes only.

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, 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.

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 Company 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.

	2000		1999	
	Contract amount £'000	Replacement cost £'000	Contract amount £'000	Replacement cost £'000
Spot and forward foreign exchange contracts	111,078	160	60,540	113
Interest rate swaps	274,991	539	148,738	4,109
Interest rate futures, forward rate agreements and options purchased	11,990	74	7,290	29
Interest rate options written	11,990	-	7,290	-
Total interest rate contracts	298,971	613	163,318	4,138

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

25. Financial instruments (continued)

a Derivatives (continued)

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 asset and liabilities arising from derivatives held for non-trading purposes 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.

	2000		1999	
	Carrying Value	Mark-to- Market Values	Carrying Value	Mark-to- Market Values
	£'000	£'000	£'000	£'000
Exchange rate - assets	-	160	-	113
- liabilities	-	(101)	-	(28)
Interest rate - assets	7	613	1,621	4,138
- liabilities	(6,523)	(9,308)	(5,018)	(899)

b 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 2000 were £766,000 (1999: £6,749,000) and the unrecognised losses were £2,886,000 (1999: £28,000).

Unrecognised gains of £2,000 and no unrecognised losses are expected to be recognised in 2001.

Of the gains and losses included in the profit and loss account in 2000, £799,000 gains and £150,000 losses were unrecognised at 1 January 2000.

The comparative figures for 1999 have been restated in order to present them on a consistent basis with the current year.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

26. Memorandum items

The following table gives the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance sheet transactions. The risk-weighted amounts 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. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

Contingent liabilities and commitments are credit-related instruments, which include acceptances, 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.

	2000			1999		
	Contract Amount £'000	Credit equivalent amount £'000	Risk Weighted Amount £'000	Contract Amount £'000	Credit equivalent amount £'000	Risk weighted amount £'000
Contingent liabilities:-						
Guarantees and assets pledged as collateral security	<u>126,162</u>	<u>126,162</u>	<u>27,227</u>	<u>34,218</u>	<u>34,218</u>	<u>18,123</u>
Commitments:-						
Undrawn formal standby facilities, credit lines and other commitments to lend:-						
- 1 year and under	332,596	-	-	137,652	-	-
- over 1 year	<u>16,847</u>	<u>8,423</u>	<u>8,423</u>	<u>14,785</u>	<u>7,393</u>	<u>6,608</u>
	<u>349,443</u>	<u>8,423</u>	<u>8,423</u>	<u>152,437</u>	<u>7,393</u>	<u>6,608</u>

27. Market risk management

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

The Company manages market risk through risk limits approved by the Group Executive Committee. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

27. Market risk management (continued)

a Interest rate sensitivity gap table

In accordance with FRS 13, 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 Company manages its interest rate risk on a different basis from that presented below.

	Not more than three Months	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	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans & advances to Banks	286,474	11,711	16,706	-	-	1,411	316,302
Loans & advances to customers	820,545	21,363	2,711	17,224	178,240	(2,970)	1,037,113
Other assets	-	-	-	-	-	16,952	16,952
Total assets	<u>1,107,019</u>	<u>33,074</u>	<u>19,417</u>	<u>17,224</u>	<u>178,240</u>	<u>15,393</u>	<u>1,370,367</u>
Liabilities							
Deposits by banks	291,080	5,693	12,875	5,467	160	9,650	324,925
Customer accounts	825,126	19,073	10,562	-	-	-	854,761
Other liabilities	-	-	-	-	-	52,842	52,842
Minority interests & Shareholders' funds	-	-	-	-	-	137,839	137,839
Total liabilities	<u>1,116,206</u>	<u>24,766</u>	<u>23,437</u>	<u>5,467</u>	<u>160</u>	<u>200,331</u>	<u>1,370,367</u>
Off balance sheet Items	<u>261,684</u>	<u>-</u>	<u>12,637</u>	<u>(7,610)</u>	<u>(266,711)</u>	<u>-</u>	<u>-</u>
Interest rate sensitivity gap	<u>252,497</u>	<u>8,308</u>	<u>8,617</u>	<u>4,147</u>	<u>(88,631)</u>	<u>(184,938)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>252,497</u>	<u>260,805</u>	<u>269,422</u>	<u>273,569</u>	<u>184,938</u>	<u>-</u>	<u>-</u>

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

27. Market risk management (continued)

a 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 above.

b Assets and liabilities denominated in foreign currency

	2000 £'000	1999 £'000
Denominated in sterling	1,195,412	1,027,350
Denominated in currencies other than sterling	<u>174,955</u>	<u>101,104</u>
Total assets	<u><u>1,370,367</u></u>	<u><u>1,128,454</u></u>
Denominated in sterling	1,143,166	1,000,883
Denominated in currencies other than sterling	<u>227,201</u>	<u>127,571</u>
Total liabilities	<u><u>1,370,367</u></u>	<u><u>1,128,454</u></u>

28. Capital commitments

There are no capital commitments at 31 December 2000 (1999: nil).

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000 (continued)**

29. Related party transactions

Particulars of transactions, arrangements and agreements entered into by the Company with directors and connected persons and companies controlled by them and with officers of the Company disclosed pursuant to section 232 of the Companies Act 1985 are as follows:-

	2000		1999	
	Number	£'000	Number	£'000
Loans (including housing loans) to, and guarantees on behalf of:-				
Directors and connected persons and companies controlled by them:-	<u>6</u>	<u>207</u>	<u>3</u>	<u>596</u>
Officers:-	<u>9</u>	<u>1,197</u>	<u>4</u>	<u>318</u>

Particulars of directors' transactions are recorded in a register held at the registered office of the Company.

Transactions or balances with entities, which form part of the HSBC Group, are not disclosed in accordance with the exemption contained in FRS 8 "Related Party Disclosures" described in Note 1.

30. Retirement benefits

Until 17 January 2000, the Company participated in the Samuel Montagu Pension Scheme. On this date, the Samuel Montagu Pension Scheme was merged with the HSBC Bank (UK) Pension Scheme.

In the UK, the HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc and certain other employees of HSBC Holdings plc, the Company's ultimate parent undertaking. This scheme comprises a funded defined benefit scheme ('the Principal Scheme') and a defined contribution scheme which was established on 1 July 1996 for new employees. The latest valuation of the Principal Scheme was made at 31 December 1999 by C G Singer, Fellow of the Institute of Actuaries, of Watson Wyatt Partners. At that date, the market value of the Principal Scheme's assets was £7,298 million. The actuarial value of the assets represented 104% of the benefits accrued to members, after allowing for expected future increases in earnings, and the resulting surplus amounted to £232 million. The method adopted for this valuation was the projected unit method and the main assumptions used were a long-term investment return of 6.85% per annum, salary increases of 4.0% per annum, equity dividend increases and rental growth of 3.5% per annum, and post-retirement pension increases of 2.5% per annum.

In consultation with the actuary, the surplus has been used to reduce the employers' long-term contribution rate of 19.9% to 16.9% of pensionable salaries (1999:16.1%). This is based on spreading the surplus over the expected future working lifetimes of current members. The next actuarial valuation is due at 31 December 2002.

Money purchase scheme

As at 31 December 2000 there were no outstanding or prepaid contributions (1999: nil).

HSBC Republic Bank (UK) Limited
(formerly Samuel Montagu & Co. Limited)
**Notes to the financial statements for the year ended
31 December 2000** (continued)

31. Segmental analysis

The Company has one activity, private banking, which is carried out solely in the United Kingdom.

32. Ultimate and immediate parent company

The Company's immediate parent company is HSBC Investment Bank plc. The Company's ultimate parent company is HSBC Holdings plc.

The Company's ultimate controlling party as defined under Financial Reporting Standard 8 "Related Party Disclosures" ("FRS 8") is HSBC Holdings plc. The Company is controlled, as defined in FRS 8, by its immediate parent company HSBC Investment Bank plc.

The largest and smallest group in which the financial statements of the Company are consolidated is that headed by HSBC Holdings plc. The consolidated financial statements of HSBC Holdings plc are available to the public and may be obtained from HSBC Holdings plc, Group Corporate Affairs, 10 Lower Thames Street, London EC3R 6AE.