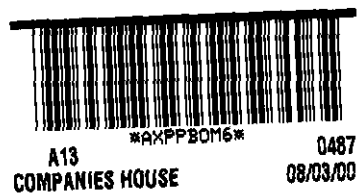


HSBC GENERAL INSURANCE SERVICES (UK) LIMITED
(formerly MIDLAND GENERAL LIMITED)

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 1999



Company Registration Number 1798474

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report and accounts for the year ended 31 December 1999

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HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the Directors

RESULTS

The results for the year ended 31 December 1999 are incorporated within the accompanying profit and loss account.

An interim dividend of £48,000,000 was paid on 31 August 1999 and a further dividend of £46,000,000 is payable on 29 February 2000.

PRINCIPAL ACTIVITIES

Business is conducted in accordance with the ABI Code of Selling Practice, whereby the Company acts as an agent of selected insurers for the purpose of providing general insurance products to the customers of its parent, HSBC Bank plc. The Company has entered into an agreement with the Bank in this regard.

The Company's products, which are sourced from its insurers, include loan and credit protection, household, motor and travel insurance.

CHANGE OF NAME

The name of the Company was changed from Midland General Limited to HSBC General Insurance Services (UK) Limited on 27 September 1999.

BUSINESS REVIEW

The improvement in turnover and pre-tax profit for the year is mainly attributable to higher sales of personal loan protection products, which provide cover for accident, death, sickness and unemployment. The increase in sales was generated by a combination of higher bank lending volumes and case sizes, together with an increase in the percentage of customers choosing to purchase protection. In addition, receipts from associated profit share arrangements showed a significant increase year on year.

During 1999, focus was maintained on expanding and enhancing the Company's product range, including the launch of new healthcare, home and travel propositions.

Looking ahead, further growth in turnover is anticipated as the Company's products are increasingly sold through all the Bank's distribution channels, including Direct, First Direct, Internet and digital TV, as well as the branch network.

DIRECTORS

The Directors who served during the year were as follows:-

	Appointed	Resigned
N V Moss (Chairman)		
P J Sellers (Managing Director)	21/5/99	
A J Ashford		
S A Donohoe		
R G Hampton		
M Shortland (Alternate to A M Tomlinson)	22/10/99	
A M Tomlinson	16/2/99	
J T Walker		28/2/99

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the Directors

DIRECTORS' INTERESTS

The Directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, as required to be disclosed under the Companies Act 1985, are set out below. As a result of a share capital reorganisation implemented on 2 July 1999, each ordinary share of 75p each was replaced with three ordinary shares of US\$0.50 each.

	<u>At 1 January 1999</u>	<u>At 31 December 1999</u>
	Ordinary shares of 75p each	Ordinary shares of US\$0.50 each
A J Ashford	3,400	7,981
S A Donohoe	849	24,558
N V Moss	7,075	35,179

As a consequence of the share capital reorganisation, all awards under the Share Option Schemes, made in ordinary shares of 75p each, were adjusted by multiplying the number of shares by three and dividing the relevant exercise price by three. During the year options over shares were granted/exercised as follows:

	Granted Ordinary shares of 75p each	Exercised Ordinary shares of US\$0.50 each
A J Ashford	7,000	-
S A Donohoe	625	11,559
R G Hampton	4,208	-
N V Moss	625	4,428
A M Tomlinson	2,408	-

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO FINANCIAL STATEMENTS

The following statement, which should be read in conjunction with the Auditor's statement of its responsibilities set out in their report on page 4, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditor 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 the going concern basis.

The Directors consider that in preparing the financial statements, 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 GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the Directors

SUPPLIER PAYMENT POLICY

The Company subscribes to the Better Payment Practice Code, the four principles of which are to agree payment terms at the outset and stick to them; explain payment procedures to suppliers; pay bills in accordance with any contract agreed with the supplier or as required by law; and tell suppliers without delay when an invoice is contested and settle disputes quickly.

There are no outstanding balances due to suppliers reported in the Company's financial statements as all supplier invoices are settled by HSBC Bank plc on this Company's behalf. Information on HSBC Bank plc's supplier payment policy can be found in that company's Annual Report and Accounts.

YEAR 2000

There has been no disruption to the Company's operations, during or since the turn of the millennium, as a result of the Company's systems not being Year 2000 compliant. No disruption is expected and the Directors continue to monitor the position.

The costs of the Year 2000 modifications have been assessed on a group basis and are incorporated within the report of HSBC Bank plc.

Registered Office:
10 Lower Thames Street
London EC3R 6AE

By Order of the Board



N Barker
Secretary

Date: 11 February 2000

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Report of the Auditors, KPMG Audit Plc, to the members of HSBC General Insurance Services (UK) Limited

We have audited the financial statements on pages 5 to 12

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 audit 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 1999 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

8 Salisbury Square
London
EC4Y 8BB

11 February 2000

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Profit and loss account for the year ended 31 December 1999

	Note	1999 £'000	1998 £'000
TURNOVER	1	128,603	115,906
Administrative expenses		(5,047)	(4,520)
OPERATING PROFIT		<u>123,556</u>	<u>111,386</u>
Interest receivable from Group undertakings		5,620	6,261
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	2	129,176	117,647
Tax on profit on ordinary activities	4	(37,514)	(37,983)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		<u>91,662</u>	<u>79,664</u>
Dividends	5	(94,000)	(77,000)
RETAINED (LOSS)/PROFIT FOR THE FINANCIAL YEAR	11	<u>(2,338)</u>	<u>2,664</u>

All Operating profits relate to continuing operations.

Recognised gains and losses

There are no recognised gains or losses other than the profit attributable to shareholders of the Company of £91,662,000 in the year ended 31 December 1999 and of £79,664,000 in the year ended 31 December 1998. A statement of recognised gains and losses has therefore not been presented.

The notes on pages 7 to 12 form an integral part of these financial statements.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Balance sheet at 31 December 1999

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	6	<u>52</u>	<u>80</u>
CURRENT ASSETS			
Debtors	7	32,387	25,453
Cash at bank and in hand		81,256	96,785
		<u>113,643</u>	<u>122,238</u>
CREDITORS – amounts falling due within one year	8	104,438	112,761
NET CURRENT ASSETS		<u>9,205</u>	<u>9,477</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		9,257	9,557
PROVISIONS FOR LIABILITIES AND CHARGES			
	9	7,222	5,184
		<u>2,035</u>	<u>4,373</u>
CAPITAL AND RESERVES			
Called up share capital	10	-	-
Profit and loss account	11	2,035	4,373
		<u>2,035</u>	<u>4,373</u>

The accounts were approved by the board of Directors on 11 February 2000 and were signed on its behalf by:

Director



The notes on pages 7 to 12 form an integral part of these financial statements.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

1. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with the Companies Act 1985 and with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a. Basis of accounting

The accounts are prepared in accordance with the historical cost convention.

In accordance with Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements', no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc which publishes such a statement in its own publicly available accounts.

As the Company is a wholly owned subsidiary of HSBC Bank plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). Note 14 details where the consolidated financial statements of HSBC Bank plc, within which this Company is included, can be obtained.

b. Tangible fixed assets

The cost of tangible fixed assets includes incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The rates used for this purpose are:

Computer equipment	20%
Motor vehicles	20%

c. Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

d. Turnover

Turnover comprises commission earned, net of provision for expected refunds, on general insurance scheme business and amounts earned under profit sharing arrangements with scheme underwriters, and arises in the UK.

e. Provision for liabilities and charges

As a result of the Company's normal business risk, operational losses can arise and these are provided for when identified.

2. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

This is stated after charging/(crediting) :	1999 £'000	1998 £'000
Interest receivable for Group undertakings	(5,620)	(6,261)
Depreciation charge for the year:		
Tangible fixed assets	23	15
Auditor's remuneration - audit services	<u>15</u>	<u>15</u>

The income and expenditure of the Company relates primarily to revenue and expenditure originated by HSBC Bank plc.

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

3. DIRECTORS' REMUNERATION

Of the eight Directors who served during the year, one was remunerated by another Group undertaking which made no specific charge to this Company for their services. The emoluments of the other Directors in respect of their services to the Company are shown below.

	1999 £'000	1998 £'000
Directors' emoluments	<u>190</u>	<u>213</u>

Retirement benefits are accruing to six Directors under defined benefit schemes and to one Director under a money purchase scheme at 31 December 1999 (1998: 5 and 0, respectively).

	1999 £'000	1998 £'000
Highest paid Director:		
Emoluments	53	82
Pension scheme contributions	<u>5</u>	<u>-</u>
	<u>58</u>	<u>82</u>

Details of Directors who exercised share options during the year are given in the Directors' report.

The Company does not have any direct employees. The Directors and staff are all employees of HSBC Bank plc.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge for taxation comprises :	1999 £'000	1998 £'000
UK corporation tax at 30.25% (1998: 31%)	39,107	37,837
Adjustments with respect to prior years	(1,609)	(3)
Deferred taxation	16	149
	<u>37,514</u>	<u>37,983</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

5. DIVIDENDS

	1999 £'000	1998 £'000
First interim paid - £480,000 per share (1998 - £330,000 per share)	48,000	33,000
Second interim payable - £460,000 per share (1998 - £440,000 per share)	46,000	44,000
	<u>94,000</u>	<u>77,000</u>

6. TANGIBLE FIXED ASSETS

	Motor Vehicles £'000	Equipment £'000	Total £'000
COST			
At 1 January 1999	109	16	125
Disposals	(15)	-	(15)
At 31 December 1999	<u>94</u>	<u>16</u>	<u>110</u>
DEPRECIATION			
At 1 January 1999	39	6	45
Disposals	(10)	-	(10)
Charge for year	20	3	23
At 31 December 1999	<u>49</u>	<u>9</u>	<u>58</u>
NET BOOK VALUE			
At 31 December 1999	<u>45</u>	<u>7</u>	<u>52</u>
At 31 December 1998	<u>70</u>	<u>10</u>	<u>80</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

7. DEBTORS

	1999 £'000	1998 £'000
<i>Amounts falling due within one year :</i>		
Amounts owed by Group undertakings	-	300
Other debtors	660	509
Prepayments and accrued income	31,727	24,628
<i>Amounts falling due after one year:</i>		
Deferred tax (note 9)	-	16
	<u>32,387</u>	<u>25,453</u>

8. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 £'000
Trade creditors	20,106	21,646
Amounts owed to Group undertakings	155	151
Dividend payable	46,000	44,000
Corporation tax payable	25,993	37,837
Accruals and deferred income	12,184	9,127
	<u>104,438</u>	<u>112,761</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

9. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Returnable commission £'000	Other provisions £'000	Total £'000
At 1 January 1999	(16)	5,134	50	5,168
Charged to Profit & Loss	16	6,963	-	6,979
Amount utilised	-	(4,925)	-	(4,925)
At 31 December 1999	<u>-</u>	<u>7,172</u>	<u>50</u>	<u>7,222</u>

Returnable commission

Commission receivable in respect of sales of the Company's lending protection and motor products is paid in the form of an up-front single premium. Should the policy be cancelled at any point during its term, a refund of commission will be paid to the customer equivalent to the proportion of risk not yet covered. The provision relates to the total amount of commission already received which is potentially returnable to customers as at the balance sheet date. The provision will be utilised over the unexpired period of the policy term up to a maximum of 1, 7 or 10 years for motor, personal lending protection or business lending protection policies respectively. The main uncertainty over the eventual cost arises from the underlying assumption that historical policy cancellation behaviour will be repeated in the future.

Deferred taxation

Deferred taxation provided in the accounts and the amount unprovided of the total potential liability, are as follows :

	Amount provided		Amount unprovided	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Other timing differences	-	(16)	-	(1,591)
	<u>-</u>	<u>(16)</u>	<u>-</u>	<u>(1,591)</u>

10. SHARE CAPITAL

	1999 £	1998 £
Authorised :		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid :		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Notes to the accounts

11. PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 1999	4,373
Retained loss for the year	(2,338)
At 31 December 1999	<u>2,035</u>

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUND

	£'000
At 1 January 1999	4,373
Profit for the financial year	91,662
Dividends	(94,000)
At 31 December 1999	<u>2,035</u>

13. CONTINGENT LIABILITY

The Company is registered as a member of a group for VAT purposes and, accordingly, is jointly and severally liable on behalf of members of the group in respect of amounts of unpaid VAT.

14. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING OF LARGER GROUP OF WHICH THE COMPANY IS A MEMBER

The Company is a subsidiary undertaking of HSBC Holdings plc which is registered in England. The largest group in which the results of the Company are consolidated is that headed by HSBC Holdings plc. The smallest group in which they are consolidated is that headed by HSBC Bank plc which is registered in England. The consolidated accounts of these groups are available to the public and may be obtained from their registered offices at :

HSBC Bank plc
27/32 Poultry
London EC2P 2BX

HSBC Holdings plc
10 Lower Thames Street
London EC3R 6AE