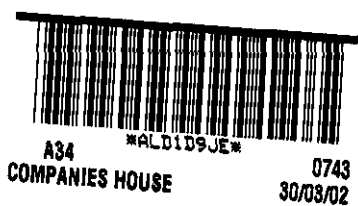


EQUATOR HOLDINGS LIMITED

Directors' Report and Consolidated Financial Statements

For the year ended 31 December 2001

Registered number: 3205201



EQUATOR HOLDINGS LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2001

Principal activities

The Company and its subsidiaries ("the Group") are engaged in financial, commercial, corporate finance, venture capital management and consulting services in Africa. The Group has offices in the United Kingdom, United States, Angola, Bahamas, Cote d'Ivoire, Ghana, Mozambique, South Africa, and Uganda. The Company's principal subsidiary, HSBC Equator Bank plc (the "Bank"), a merchant bank based in London, is authorised to take deposits and undertake investment business under the Financial Services and Markets Act 2000. The Bank is also authorised by the Financial Services Authority to provide investment advice to its customers. During 2002, the Group expects to continue to diversify and grow its loan portfolio.

The share capital of the Company is 60% owned by HSBC Investment Bank plc (an indirect, wholly owned subsidiary of HSBC Holdings plc), and 40% owned by Nedbank Africa Investments Limited, an indirect wholly owned subsidiary of Nedcor Limited.

Results and dividends

The profit for the year attributable to the shareholders of the Company amounted to \$2,417,344 before tax and a profit of \$2,045,363 after tax.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2001.

Directors

The directors who served during the year were as follows:

I C Cotterill	
S K Green	(Chairman)
L M Friedman	
W P Frost	
C P Gill	
R Haider	(resigned 30 July 2001)
A J M Johns	
F H Kennedy	
C J Pearce	
K O Sekyere	
R E Stanley	
T F Wescott	

On 8 February 2002, L M Friedman, F H Kennedy, K O Sekyere, R E Stanley and T F Wescott resigned as directors of the Company. On the same date R T P Adcock, B D Olds, T Thahane and R M Walker were appointed directors of the Company.

Directors' Interests

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

	HSBC Holdings plc	
	Ordinary shares of US\$0.50 each	
	31 December 2001	1 January 2001
		(or appointment date)
I.C. Cotterill	44,912	33,052
L.M. Friedman	1,648	4,740
C.P. Gill*	9,449	8,217
S.K. Green**	296,722	121,562
A.J.M. Johns	5,080	4,883
F.H. Kennedy	42,626	35,715
K.O. Sekyere***	5,724	6,770
R.E. Stanley	6,307	6,000
T.F. Wescott	4,967	4,679

*C.P. Gill has a personal interest in 899 £1, 11.69% HSBC Holdings plc subordinated bonds 2002, which he held throughout the year.

**S.K. Green has a personal interest in £100,000 HSBC Bank plc 9% Subordinated Notes 2005, which he held throughout the year, and has an interest in €75,000 HSBC Holdings plc 5 ½% Subordinated Notes 2009 which he also held throughout the year.

***The Company, through its subsidiary, HSBC Equator Bank plc, has issued a bank guarantee for 3.5 million South African Rand in support of a residence owned by K.O. Sekyere.

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

	Granted	Exercised
C.P. Gill	7,786	1,125
S.K. Green	2,498	111,177
A.J.M. Johns	5,000	-
R.E. Stanley	5,000	-
T.F. Wescott	5,000	-

None of the directors had, during the year or at the end of the year, a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiary undertakings.

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; 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 is available from: The Department of Trade and Industry, No. 1 Victoria Street, London SW1H 0ET.

The amount due to the Company's trade creditors at 31 December 2001 represented ten 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 amounting to \$21,907 (2000 - \$65,838). Of this amount, \$990 (2000 - \$11,016) was given for charitable purposes in the United Kingdom. No political donations were made during the year.

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 5, 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.

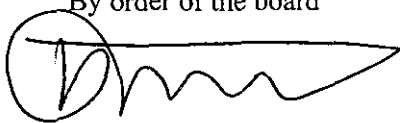
The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and its subsidiary undertakings as at the end of the financial year and of the profit or loss for the financial 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 on pages 6 to 37, 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 at any time 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.

By order of the board

A handwritten signature in dark ink, appearing to be 'I.C. Cotterill', written over a horizontal line.

I.C. Cotterill
Director

Date: 1 March 2002

Registered Office:

10 Lower Thames Street
London
EC3R 6AE

EQUATOR HOLDINGS LIMITED

Report of the independent auditors, KPMG Audit Plc, to the members of Equator Holdings Limited

We have audited the financial statements on pages 6 to 37.

Respective responsibilities of directors and independent auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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 1985. 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.

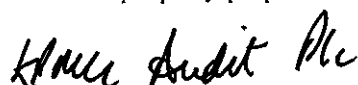
Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board in the United Kingdom. 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 consolidated financial statements.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditors

London

1 March 2002

EQUATOR HOLDINGS LIMITED

Consolidated Profit and Loss Account

For the year ended 31 December 2001

(in thousands of United States dollars)

	<u>Note</u>	<u>2001</u>	<u>2000</u>
Interest receivable		\$ 18,539	21,775
Interest payable	3	(12,324)	(15,533)
Net interest income		6,215	6,242
Fees and commissions receivable		12,373	16,152
Fees and commissions payable		(1,797)	(2,530)
Dealing profits	4	255	394
Other operating income		3,303	4,052
Operating income		20,349	24,310
Administrative expenses	5	(15,801)	(15,673)
Depreciation and amortisation	16	(365)	(380)
Operating profit before provisions		4,183	8,257
Provisions for bad and doubtful debts	14	(1,766)	(9,413)
Profit/(loss) on ordinary activities before tax	6	2,417	(1,156)
Tax (charge)/credit on profit/(loss) on ordinary activities	7	(372)	1,170
Profit on ordinary activities after tax	9	2,045	14
Dividends	8	—	—
Retained profit for the year		<u>\$ 2,045</u>	<u>14</u>

The notes on pages 10 to 37 form part of the financial statements.

Statement of total recognised gains and losses

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

Continuing operations

All of the Company's activities in the year are continuing activities.

Movements in shareholders' funds are shown in note 25.

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.

EQUATOR HOLDINGS LIMITED

Consolidated Balance Sheet

31 December 2001

(in thousands of United States dollars)

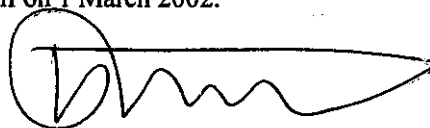
	<u>Note</u>	<u>2001</u>	<u>2000</u>
Assets			
Cash		\$ 13,957	\$ 2,868
Loans and advances to banks	11	202,171	146,283
Loans and advances to customers	12	70,005	152,676
Tangible fixed assets	16	802	644
Other assets	17	3,484	2,870
Prepayments and accrued income		<u>6,862</u>	<u>7,560</u>
Total assets	28	<u>\$ 297,281</u>	<u>\$ 312,901</u>
Liabilities			
Deposits by banks	19	\$ 234,206	\$ 254,583
Customer accounts	20	27,884	23,237
Other liabilities	21	1,826	1,335
Accruals and deferred income		5,725	8,151
Subordinated loan capital - dated	22	5,250	5,250
Called up share capital	23	100	100
Profit and loss account	24	<u>22,290</u>	<u>20,245</u>
Total shareholders' funds - equity	25	<u>22,390</u>	<u>20,345</u>
Total liabilities	28	<u>\$ 297,281</u>	<u>\$ 312,901</u>
Memorandum items			
Contingent liabilities:	27		
- acceptances and endorsements		\$ 588	\$ 402
- guarantees and irrevocable letters of credit		<u>83,663</u>	<u>66,682</u>
		<u>\$ 84,251</u>	<u>\$ 67,084</u>
Commitments:			
- other commitments	27	<u>\$ 90,682</u>	<u>\$ 124,496</u>

The notes on pages 10 to 37 form part of the financial statements.

Approved by the board and signed on its behalf on 1 March 2002.



S. K. Green
Chairman



I. C. Cotterill
Director

EQUATOR HOLDINGS LIMITED

Company Balance Sheet

31 December 2001

(in thousands of United States dollars)

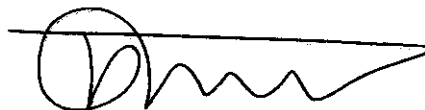
	<u>Note</u>	<u>2001</u>	<u>2000</u>
Fixed Assets			
Investments:			
Shares in group undertakings	18	\$ 13,924	\$ 13,924
Current Assets			
Other debtors		504	546
Cash at banks with group undertakings		497	268
		<u>1,001</u>	<u>814</u>
Creditors: amounts falling due within one year			
Amounts owed to group undertakings		(988)	(1,231)
Accrued liabilities		(650)	(190)
		<u>(1,638)</u>	<u>(1,421)</u>
Net Current Liabilities		<u>(637)</u>	<u>(607)</u>
Total Assets Less Current Liabilities		<u>\$ 13,287</u>	<u>\$ 13,317</u>
Capital and Reserves			
Called up share capital	23	\$ 100	\$ 100
Profit and loss account	24	13,187	13,217
	25	<u>\$ 13,287</u>	<u>\$ 13,317</u>

The notes on pages 10 to 37 form part of the financial statements.

Approved by the board and signed on its behalf on 1 March 2002.



S. K. Green
Chairman



I. C. Cotterill
Director

EQUATOR HOLDINGS LIMITED

Consolidated Cash Flow Statement

For the year ended 31 December 2001

(in thousands of United States dollars)

	<u>Note</u>	<u>2001</u>	<u>2000</u>
Net cash (outflow)/inflow from operating activities	31	\$ (15,498)	\$ 27,192
Taxation paid		(476)	(679)
Capital expenditure and financial investments:			
Purchase and disposal of tangible fixed assets		(523)	(303)
Equity dividends paid		<u>—</u>	<u>—</u>
(Decrease)/increase in cash	32	<u>\$ (16,497)</u>	<u>\$ 26,210</u>

The notes on pages 10 to 37 form part of the financial statements.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(1) Basis of preparation

The consolidated financial statements of Equator Holdings Limited and its subsidiary undertakings (the "Group") have been prepared under the historical cost convention and in accordance with applicable accounting standards, with the British Bankers Association Statements of recommended Accounting Practice and with the special provisions of Part VII Chapter II of the Companies Act 1985 (the "Act") relating to banking companies. Certain of the 2000 comparative figures have been reclassified to conform to the 2001 presentation.

The accounting records are maintained in United States dollars as substantially all the Company's activities are conducted in dollars.

(2) Principal accounting policies

(a) Income recognition

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

(b) Loans and advances and doubtful debts

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 receivable on doubtful debts is not credited to the profit and loss account but is credited to a suspense account which is netted in the balance sheet against the relevant balances. Interest is normally credited to the suspense account when any portion of interest or principal payments are overdue for more than one month.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(c) *Tangible fixed assets*

- (i) Leasehold improvements are stated at cost less accumulated amortisation calculated on the straight line basis to write off the assets over the estimated term of the related lease. Leasehold improvements have remaining terms ranging from one to five years.
- (ii) Equipment, furniture and fixtures are stated at cost less accumulated depreciation calculated on the straight line basis to write off the assets over their estimated useful lives. Equipment, furniture and fixtures have remaining useful lives ranging from one to five years.

(d) *Finance and operating leases*

- (i) Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where the Company is a lessor under finance leases, the amounts due under the leases, after deduction of unearned charges, are included in "Loans and advances to customers". Finance charges receivable are recognised over the periods of the lease in proportion to the funds invested.
- (ii) Rentals payable under operating leases are accounted for on the straight-line basis over the years of the leases and are included in 'Administrative expenses'.

(e) *Deferred taxation*

Deferred taxation is provided on timing differences, using the liability method, between the accounting and taxation treatment of income and expenditure. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallize. Deferred tax assets are recognised when recovery is anticipated in the near future without replacement by equivalent assets.

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

The Company operates a number of defined contribution plans. Annual contributions are made to fund retirement benefits in order to build up reserves for each plan member during the employee's working life and to pay a pension to the employee or dependants after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the rates of exchange ruling at the year end. The resulting exchange gains and losses are reported in the profit and loss account. Revenue and costs included in the profit and loss account are translated into United States dollars at the exchange rate in effect on the date of the transaction. Substantially all of the loans and advances are repayable in United States dollars and, accordingly, are not subject to changes in the value of other currencies, including the currencies of the countries where the borrowers are located and do business.

(h) Off-balance-sheet financial instruments

Off-balance-sheet financial instruments arise from forward foreign exchange, commodity futures and interest rate swap transactions undertaken by the Company in the foreign exchange, commodities, and interest rate markets for trading and non-trading purposes. The transactions are undertaken as part of the Company's risk management strategy which includes the use of forward foreign exchange contracts to manage currency risk, interest rate swaps to manage interest rate risk and commodity futures contracts to hedge physical coffee inventory positions.

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

Trading Transactions

Trading transactions for the Company arise through coffee trading activities in Uganda and are undertaken through the purchase of physical coffee inventory stocks which are held for sale as well as the purchase and sale of coffee futures contracts. The coffee futures contracts are transacted with a broker licensed on the London International Financial Futures and Options Exchange and the New York Board of Trade. The futures contracts are used to mitigate price fluctuation risk inherent in the physical coffee inventory stocks owned by the Company.

Transactions undertaken for trading purposes, including both the futures contracts and physical coffee purchases, are marked to market value and the net gain or loss arising is recognised in the profit and loss account under "Dealing profits". The coffee inventory is included in "Other assets" at market value.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

Non-Trading transactions

Non-trading transactions are those transactions designated as hedges. Derivatives used for hedging include interest rate swaps, and forward foreign exchange contracts. 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. Any profit or loss arising is recognised on the same basis as that arising from the related assets or liabilities. If the underlying asset or liability is disposed of prior to the end of the period being managed, the related hedge instrument is marked to fair value, with any resulting gain or loss recognised in the current period profit and loss account.

(i) Fixed asset investments

The Company's investments in subsidiary undertakings are valued at cost.

(j) Fair value

The carrying value of assets and liabilities approximates the fair value. For financial instruments, market values have been used to estimate fair values.

(k) Segmental reporting

The directors have determined that segmental information is not meaningful.

(3) Interest payable

Interest payable includes \$344,000 (2000 - \$410,000) in respect of payments related to subordinated liabilities.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(4) Dealing profits (000's omitted):

	<u>2001</u>	<u>2000</u>
Foreign exchange	\$ 200	\$ 394
Other trading	<u>55</u>	<u>—</u>
Total dealing profits	<u>\$ 255</u>	<u>\$ 394</u>

During 2001, the Company entered into coffee trading activities in Uganda. Other trading income in the table above represents net gains and losses arising from marking to market the coffee futures contracts and related physical coffee inventory which is held for sale.

(5) Administrative expenses (000's omitted):

(a) General

	<u>2001</u>	<u>2000</u>
Staff costs		
Wages and salaries provisions	\$ 7,784	\$ 6,997
Social security costs	403	408
Other pension costs (note 5b below)	<u>426</u>	<u>279</u>
Total salary and related benefits	8,613	7,684
Premises and equipment (excluding depreciation)	913	1,063
Other administrative expenses	<u>6,275</u>	<u>6,926</u>
Total administrative expenses	<u>\$ 15,801</u>	<u>\$ 15,673</u>

The average number of persons employed by the Group for the year ended 31 December 2001 was 108 (2000 - 120).

(b) Retirement benefits

The Group maintains a number of on-going defined contribution retirement benefit plans, covering full time employees who meet certain age, service and minimum hours per year requirements. Retirement benefits expense for the year ended 31 December 2001 was \$426,000 (2000 - \$279,000). Outstanding contributions at 31 December 2001 were \$80,000 (2000 - \$40,000).

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(c) **Directors' emoluments**

The aggregate emoluments of the directors of the Company, whose services principally related to the Company computed in accordance with Part I of Schedule 6 of the Act were: (000's omitted)

	<u>2001</u>	<u>2000</u>
Fees	\$ -	\$ 3
Salaries and other emoluments	1,358	1,657
Pension contributions	<u>106</u>	<u>165</u>
Total emoluments	<u>\$ 1,464</u>	<u>\$ 1,825</u>

Included in salaries and other emoluments are benefits related to cost of living differential for foreign service.

Remuneration of the highest paid director, whose services principally related to the Company was: (000's omitted)

	<u>2001</u>	<u>2000</u>
Fees	\$ -	\$ -
Salaries and other emoluments	355	279
Pension contributions	<u>26</u>	<u>26</u>
Total emoluments	<u>\$ 381</u>	<u>\$ 305</u>

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest paid director were nil (2000 - nil). The director is a member of a defined contribution scheme.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

During the year, the highest paid director did not exercise share options and did not receive shares under a long-term incentive scheme.

	Number of directors	
	2001	2000
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	—	—
The number of directors who exercised share options over HSBC Holdings plc ordinary shares was	2	2
The number of directors in respect of whose qualifying services shares were received or receivable under long-term incentive schemes was	—	—

(d) Auditors' remuneration is analyzed below: (000's omitted)

		Group		Company	
		2001	2000	2001	2000
Audit	\$	165	\$ 144	\$ 10	\$ 9
Regulatory work		109	5	—	—
Tax services		18	10	—	—
Other		17	21	—	—
Total	auditors \$	309	\$ 180	\$ 10	\$ 9
remuneration					

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(6) Profit/(loss) on ordinary activities before tax

The profit/(loss) on ordinary activities before tax is stated after charging the following amounts which are included in administrative expenses: (000's omitted)

	<u>2001</u>	<u>2000</u>
Rent payable on operating leases - land and buildings	\$ 739	\$ 840

(7) Tax on profit/(loss) on ordinary activities

The (charge)/credit for taxation comprises: (000's omitted)

	<u>2001</u>	<u>2000</u>
United Kingdom corporation tax charge	\$ (202)	\$ —
Overseas tax charge	(77)	(37)
(Charge)/reversal of prior years tax provision, net	—	747
Deferred tax	(93)	460
	<u>\$ (372)</u>	<u>\$ 1,170</u>

The U.K. tax resident subsidiaries of the Company provide for U.K. corporation tax at 30% (2000 – 30%). Overseas subsidiaries provide for taxation in the countries in which they operate at the appropriate rates.

(8) Dividends

The directors do not recommend the payment of a dividend for 2001.

(9) Profit for the year

Of the profit for the year of \$2,045,000, a loss of \$30,000 has been dealt with in the accounts of the Company.

(10) Credit 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 within the Company's ultimate parent company, develops procedures for the control and monitoring of all such risk.

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(11) Loans and advances to banks

The remaining maturity of loans and advances to banks at 31 December is as follows: (000's omitted)

	<u>2001</u>	<u>2000</u>
Remaining maturity:		
Repayable on demand	\$ 1,713	\$ 1,713
3 months or less but not repayable on demand or at short notice	172,296	106,813
1 year or less but over 3 months	<u>28,162</u>	<u>37,757</u>
Total loans and advances to banks	<u>\$ 202,171</u>	<u>\$ 146,283</u>

Loans and advances to banks include:

Amounts due from shareholders and their affiliates	<u>\$ 182,306</u>	<u>\$ 90,669</u>
--	-------------------	------------------

(12) Loans and advances to customers

The remaining maturity of loans and advances to customers at 31 December is as follows: (000's omitted)

	<u>2001</u>	<u>2000</u>
Remaining maturity:		
Repayable on demand	\$ 19,951	\$ 47,537
3 months or less but not repayable on demand or at short notice	35,854	53,895
One year or less but over 3 months	6,924	39,101
Five years or less but over 1 year	21,428	21,844
Over 5 years	1,273	6,926
General and specific bad and doubtful debt provisions (note 14)	<u>(15,425)</u>	<u>(16,627)</u>
Total loans and advances to customers	<u>\$ 70,005</u>	<u>\$ 152,676</u>

Loans and advances to customers include:

Amounts due from affiliates	<u>\$ 931</u>	<u>\$ 2,240</u>
-----------------------------	---------------	-----------------

Loans and advances to customers include \$27.3 million (2000 - \$31.1 million) net investment in finance leases. The cost of assets acquired during 2001 to be leased to customers under finance leases by the Company amounted to \$3.4 million (2000 - \$29.0 million).

EQUATOR HOLDINGS LIMITED

Notes to the Consolidated Financial Statements

31 December 2001

(13) Concentrations of exposure

The following industry concentrations, gross of specific provisions, are in excess of 10% of total gross loans and advances to banks and customers exclusive of members of the HSBC Group and the Nedcor Group of South Africa. (000's omitted)

	<u>2001</u>	<u>2000</u>
Agriculture	\$ 32,722	\$ 52,749
Banks	17,353	10,173
Central Banks	8,173	48,376
Petroleum	—	31,224
Insurance	—	25,000
Government	25,214	29,266

(14) Provisions for bad and doubtful debts

Provisions for bad and doubtful debts are included in loans and advances to customers. The movement in the provision for bad and doubtful debts for the years ended 31 December 2001 and 2000 was comprised of the following: (000's omitted)

	<u>Specific</u>	<u>General</u>	<u>Total</u>	<u>Suspended interest</u>
At 1 January 2001	\$ 15,078	\$ 1,549	\$ 16,627	\$ 2,414
Amounts written off	(2,968)	—	(2,968)	(760)
Recoveries to profit and loss account	(810)	(792)	(1,602)	(463)
Charge to profit and loss account	3,272	96	3,368	—
Interest suspended during the year	—	—	—	1,272
At 31 December 2001	<u>\$ 14,572</u>	<u>\$ 853</u>	<u>\$ 15,425</u>	<u>\$ 2,463</u>
Included in loans and advances to customers	<u>\$ 14,572</u>	<u>\$ 853</u>	<u>\$ 15,425</u>	<u>—</u>

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	<u>Specific</u>	<u>General</u>	<u>Total</u>	<u>Suspended interest</u>
At 1 January 2000	\$ 5,105	\$ 2,109	\$ 7,214	\$ 1,343
Recoveries to profit and loss account	(429)	(560)	(989)	(795)
Charge to profit and loss account	10,402	—	10,402	—
Interest suspended during the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,866</u>
At 31 December 2000	\$ <u>15,078</u>	\$ <u>1,549</u>	\$ <u>16,627</u>	\$ <u>2,414</u>
Included in loans and advances to customers	\$ <u>15,078</u>	\$ <u>1,549</u>	\$ <u>16,627</u>	<u>—</u>

Suspended interest at 31 December 2001 was \$2,463,223 (2000 - \$2,413,775). The total advances on which interest is being placed in suspense, is as follows: (000's omitted)

	<u>2001</u>	<u>2000</u>
Gross	\$ 14,500	\$ 19,896
Net of specific provisions	2,421	4,932

(15) Less developed country exposure

A substantial portion of the Group's business is to provide financing to private and governmental entities in Africa. At 31 December 2001, substantially all of the loans and advances are repayable in United States dollars. Where possible, the Company obtains various risk mitigants that it can exercise in the event of default such as cash collateral, rights to cash and commercial insurance. (000's omitted)

	<u>2001</u>	<u>2000</u>
Total less developed countries exposures to banks and customers	\$ 102,813	\$ 186,459
Accrued interest	471	1,315
	<u>103,284</u>	<u>187,774</u>
General and specific provisions (note 14)	<u>(15,425)</u>	<u>(16,627)</u>
Net exposure to less developed countries	\$ <u>87,859</u>	\$ <u>171,147</u>

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(16) Tangible fixed assets

Tangible fixed assets, all of which are for use in the Group's own business, are comprised of the following: (000's omitted)

	<u>Leasehold improvements</u>	<u>Equipment, Furniture and fixtures</u>	<u>Total</u>
Cost at 1 January 2001	\$ 560	2,480	3,040
Additions	3	654	657
Disposals	<u>(456)</u>	<u>(387)</u>	<u>(843)</u>
Cost at 31 December 2001	<u>107</u>	<u>2,747</u>	<u>2,854</u>
Accumulated depreciation and amortisation at 1 January 2001	421	1,975	2,396
Charge for the year	22	343	365
Disposals	<u>(369)</u>	<u>(340)</u>	<u>(709)</u>
Accumulated depreciation and amortisation at 31 December 2001	<u>74</u>	<u>1,978</u>	<u>2,052</u>
Net book value at 31 December 2001	\$ <u>33</u>	\$ <u>769</u>	\$ <u>802</u>
Net book value at 31 December 2000	\$ <u>139</u>	\$ <u>505</u>	\$ <u>644</u>

(17) Other Assets

Amounts included in other assets are comprised of the following at 31 December: (000's omitted)

	<u>2001</u>	<u>2000</u>
Inventory	\$ 1,201	\$ 64
Deferred tax	367	460
Taxes recoverable	92	185
Other accounts	<u>1,824</u>	<u>2,161</u>
Total other assets	\$ <u>3,484</u>	\$ <u>2,870</u>

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(18) Fixed asset investments - shares in group undertakings

Details of the principal group undertakings of the Company at 31 December 2001 are as follows:

Interests in group undertakings	Description	Country of Incorporation	Proportion of ordinary shares held %
HSBC Equator (USA) Incorporated	Administration	USA	100
Equator Advisory Services Limited	Marketing	Bahamas	100
Equator Trade Services Limited	Trade	Bahamas	100
HSBC Equator Bank plc	Banking	England & Wales	98
HSBC Equator (Africa) Limited	Marketing	England & Wales	100
Equator Financial Services Limited	Marketing	Ghana	100
Equity Group of Kenya	Fund Management	Kenya	100
Equator Bank Limited	Banking	Bahamas	100

By way of the historical cost method of valuation, the aggregate amount of the total investment in the shares of group undertakings was \$13,924,000 at 31 December 2001. (2000 - \$13,924,000)

(19) Deposits by banks

The remaining maturity of deposits by banks at 31 December is as follows: (000's omitted)

	2001	2000
Repayable on demand	\$ 124,719	\$ 60,237
With agreed maturity dates or periods of notice, by remaining maturity:		
3 months or less but not repayable on demand	105,785	180,991
1 year or less but over 3 months	3,702	13,355
	<u>\$ 234,206</u>	<u>\$ 254,583</u>

Deposits by banks include amounts due to:

Affiliate of shareholder	\$ <u>—</u>	\$ <u>2,235</u>
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(20) Customer accounts

The remaining maturity of customer accounts at 31 December is as follows: (000's omitted)

	<u>2001</u>	<u>2000</u>
Repayable on demand	\$ 17,717	\$ 17,216
With agreed maturity dates or periods of notice by remaining maturity:		
Three months or less but not repayable on demand	8,167	5,872
One year or less but over 3 months	<u>2,000</u>	<u>149</u>
	\$ <u>27,884</u>	\$ <u>23,237</u>

Customer accounts include amounts due to:

Associated undertakings	\$ <u>180</u>	\$ <u>—</u>
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(21) Other liabilities

Amounts included in other liabilities are comprised of the following at 31 December: (000's omitted)

	<u>2001</u>	<u>2000</u>
Amounts owed to affiliated companies	\$ 508	\$ 375
Other	<u>1,318</u>	<u>960</u>
Total other liabilities	\$ <u>1,826</u>	\$ <u>1,335</u>

(22) Subordinated liabilities

At 31 December 2001 there was dated subordinated loan capital received from the Company's majority shareholder and maturing 2007 in the amount of \$5,250,000 (2000 - \$5,250,000). Interest rates are related to interbank offered rates.

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(23) Called up share capital

(000's omitted)	<u>2001</u>	<u>2000</u>
Authorized:		
25,000,000 ordinary shares of \$1.00 each	\$ <u>25,000</u>	\$ <u>25,000</u>
Issued, allotted, and fully paid:		
100,000 ordinary shares of \$1.00 each	\$ <u>100</u>	\$ <u>100</u>

(24) Profit and Loss Account

(000's omitted)	<u>Group</u>	<u>Company</u>
At 1 January 2001	\$ 20,245	\$ 13,217
Profit/(loss) on ordinary activities after tax	<u>2,045</u>	<u>(30)</u>
At 31 December 2001	\$ <u>22,290</u>	\$ <u>13,187</u>

(25) Reconciliation of movements in shareholders' funds

(000's omitted)	<u>Group</u>		<u>Company</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Profit/(loss) for the year attributable to shareholders	\$ 2,045	\$ 14	\$ (30)	\$ 149
Shareholders' funds at 1 January	<u>20,345</u>	<u>20,331</u>	<u>13,317</u>	<u>13,168</u>
Shareholders' funds at 31 December	\$ <u>22,390</u>	\$ <u>20,345</u>	\$ <u>13,287</u>	\$ <u>13,317</u>

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(26) 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. For the Company, they include spot and forward foreign exchange, commodity futures, and interest rate swap transactions in the foreign exchange, commodity and interest rate markets.

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. 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, the credit risk relative to a derivative is principally the replacement cost of any contract with a positive mark-to-market gain. 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.

Derivatives held for trading purposes

The following tables summarise the contract amount, replacement cost and mark-to-market values of trading derivatives by product type. The replacement cost shown is the positive mark-to-market value and 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.

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.

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. Since the Company entered into coffee trading activities during 2001, comparative figures for 31 December 2000 are not applicable.

		31 December 2001	
		Contract amount	Replacement Cost
(000's omitted)			
Commodity futures contracts – exchange traded	\$	1,949	\$ 82

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(000's omitted)

	<u>2001</u> <u>Mark-to-</u> <u>Market</u> <u>values</u>
Commodity futures contracts – exchange traded	
Assets	\$ <u>82</u>
Liabilities	\$ <u>(16)</u>

Derivatives held for risk management purposes

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.

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

(000's omitted)	<u>2001</u>		<u>2000</u>	
	<u>Contract amount</u>	<u>Replacement cost</u>	<u>Contract amount</u>	<u>Replacement cost</u>
Spot and forward foreign exchange contracts	\$ —	\$ —	\$ 999	\$ 38
Interest rate contracts	13,145	—	23,970	—
Total 31 December	\$ <u>13,145</u>	\$ <u>—</u>	\$ <u>24,969</u>	\$ <u>38</u>

The following table provides the mark-to-market value of derivative contracts held for risk management purposes at 31 December 2000. Mark-to-market values of derivatives held for risk management purposes are determined by reference to market values prevailing on the date of valuation.

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(000's omitted)	2001		2000	
	Carrying value	Mark-to-Market values	Carrying value	Mark-to-Market values
Spot and forward foreign exchange contracts:				
Assets	\$ —	\$ —	\$ 38	\$ 38
Liabilities	\$ —	\$ —	\$ (4)	\$ (4)
Interest rate contracts:				
Assets	—	—	—	—
Liabilities	\$ (117)	\$ (198)	\$ (62)	\$ (61)

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.

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The following table analyses the replacement cost of all third party exchange rate, interest rate and commodity contracts with positive mark-to-market gains, after netting where possible, by maturity at 31 December 2001 and 31 December 2000. All of the Company's interest rate contracts are with members of the HSBC Group. The coffee commodity contracts are transacted with a broker licensed on the London International Financial Futures and Options Exchange and the New York Board of Trade. The counterparties for the forward foreign exchange contracts are banks.

	Replacement cost residual maturity				
	<i>Less than 1 year 000</i>	<i>1 – 5 years 000</i>	<i>Over 5 years 000</i>	<i>2001 Total 000</i>	<i>2000 Total 000</i>
Spot and forward foreign exchange contracts	—	—	—	—	38
Interest rate contracts	—	—	—	—	—
Commodity Contracts	82	—	—	82	—
Total 2001	82	—	—	82	
Total 2000	38	—	—		38

The following provides a maturity profile of the notional principal values of third party derivative contracts with positive mark-to-market gains outstanding as at 31 December 2001 and 31 December 2000.

	Notional principal residual maturity				
	<i>Less than 1 year 000</i>	<i>1 – 5 years 000</i>	<i>Over 5 years 000</i>	<i>2001 Total 000</i>	<i>2000 Total 000</i>
Spot and forward foreign exchange contracts	—	—	—	—	999
Interest rate contracts	—	—	—	—	—
Commodity Contracts	1,326	—	—	1,326	—
Total 2001	1,326	—	—	1,326	
Total 2000	999	—	—		999

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(b) *Gains and losses on hedges*

Gains and losses on derivatives used for hedging are recognised in line with the underlying assets and liabilities which are being hedged. The unrecognised gains on derivatives used for hedging at 31 December 2001 were nil (2000 - \$515) and the unrecognised losses were \$81,200 (2000 - \$nil).

No gains or losses have been recognised in the profit and loss account during 2001 which were unrecognised at 1 January 2001. In addition, the Company does not expect to recognise any gains or losses in the profit and loss account in 2002 resulting from outstanding derivative contracts at 31 December 2001.

(27) **Memorandum items**

The following table gives the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance-sheet transactions. The credit equivalent amounts are calculated for purpose of deriving the risk-weighted amounts. These are assessed in accordance with the Financial Services Authority Guidelines, which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics.

Contingent liabilities and commitments are credit-related instruments, which for the Company includes acceptances, letters of credit, guarantees, and commitments to extend credit. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. These arrangements and instruments, to varying degrees, involve elements of credit risk in excess of the amount recognized in the balance sheet. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. The majority of these require cash or other security before funds can be disbursed. Since a portion of the guarantees and commitments and letters of credit may expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	<u>Contract amount</u>	<u>Credit equivalent amount</u>	<u>Risk weighted amount</u>
2001 (000's omitted)			
Contingent liabilities:			
Acceptances	\$ 588	\$ 588	\$ 82
Guarantees and irrevocable letters of credit	83,663	83,345	11,283
	<u>\$ 84,251</u>	<u>\$ 83,933</u>	<u>\$ 11,365</u>
Commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend:			
One year and under	\$ 90,682	\$ —	\$ —

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2000 (000's omitted)	<u>Contract amount</u>	<u>Credit equivalent amount</u>	<u>Risk weighted amount</u>
Contingent liabilities:			
Acceptances	\$ 402	\$ —	\$ —
Guarantees and irrevocable letters of credit	<u>66,682</u>	<u>38,831</u>	<u>10,844</u>
	<u>\$ 67,084</u>	<u>\$ 38,831</u>	<u>\$ 10,844</u>
Commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend:			
One year and under	<u>\$ 124,496</u>	<u>\$ —</u>	<u>\$ —</u>

(28) Market risk management

Market risk is the risk that interest rates, or foreign exchange rates 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).

(a) *Interest rate sensitivity gap table*

In accordance with FRS 13, the tables below disclose 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. 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.

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Interest rate sensitivity gap table at 31 December 2001

	Not more than three months \$000	More than three months but not more than six months \$000	More than six months but not more than one year \$000	More than one year but not more than five years \$000	More than five years \$000	Non- interest bearing \$000	Total \$000
Assets:							
Loans and advances to banks	\$ 178,796	\$ 14,992	\$ 8,383	\$ —	\$ —	\$ —	\$ 202,171
Loans and advances to customers	84,171	248	543	468	—	(15,425)	70,005
Other assets	13,957	—	—	—	—	11,168	25,125
Total assets	\$ 276,924	\$ 15,240	\$ 8,926	\$ 468	\$ —	\$ (4,257)	\$ 297,301
Liabilities and shareholders' funds:							
Deposits by banks	\$ (228,382)	\$ —	\$ (3,702)	\$ —	\$ —	\$ (2,122)	\$ (234,206)
Customer accounts	(25,726)	(2,000)	—	—	—	(158)	(27,884)
Other liabilities	—	—	—	—	—	(7,571)	(7,571)
Subordinated loan capital	—	(5,250)	—	—	—	—	(5,250)
Shareholders' funds	—	—	—	—	—	(22,390)	(22,390)
Total liabilities	\$ (254,108)	\$ (7,250)	\$ (3,702)	\$ —	\$ —	\$ (32,241)	\$ (297,301)
Off-balance-sheet items	(4,930)	5,067	188	(325)	—	—	—
Interest rate sensitivity gap	17,886	13,057	5,412	143	—	(36,498)	—
Cumulative interest rate sensitivity gap	\$ 17,886	\$ 30,943	\$ 36,355	\$ 36,498	\$ 36,498	\$ —	\$ —

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Interest rate sensitivity gap table at 31 December 2000

	Not more than three months \$000	More than three months but not more than six months \$000	More than six months but not more than one year \$000	More than one year but not more than five years \$000	More than five years \$000	Non- interest bearing \$000	Total \$000
Assets:							
Loans and advances to banks	\$ 120,470	\$ 21,600	\$ 2,500	\$ —	\$ —	\$ 1,713	\$ 146,283
Loans and advances to customers	165,525	1,174	1,274	1,330	—	(16,627)	152,676
Other assets	—	—	—	—	—	13,942	13,942
Total assets	\$ 285,995	\$ 22,774	\$ 3,774	\$ 1,330	\$ —	\$ (972)	\$ 312,901
Liabilities and shareholders' funds:							
Deposits by banks	\$ (238,541)	\$ (11,705)	\$ (1,650)	\$ —	\$ —	\$ (2,687)	\$ (254,583)
Customer accounts	(22,946)	—	(149)	—	—	(142)	(23,237)
Other liabilities	—	—	—	—	—	(9,486)	(9,486)
Subordinated loan capital	—	(5,250)	—	—	—	—	(5,250)
Shareholders' funds	—	—	—	—	—	(20,345)	(20,345)
Total liabilities	\$ (261,487)	\$ (16,955)	\$ (1,799)	\$ —	\$ —	\$ (32,660)	\$ (312,901)
Off-balance-sheet items	12,798	(10,396)	(1,184)	(1,218)	—	—	—
Interest rate sensitivity gap	37,306	(4,577)	791	112	—	(33,632)	—
Cumulative interest rate sensitivity gap	\$ 37,306	\$ 32,729	\$ 33,520	\$ 33,632	\$ 33,632	\$ —	\$ —

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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, described above.

(b) Assets and liabilities denominated in foreign currency

(000's omitted)	<u>2001</u>	<u>2000</u>
Denominated in United States dollars	\$ 262,455	\$ 288,712
Denominated in currencies other than United States dollars	<u>34,826</u>	<u>24,189</u>
Total assets	<u>\$ 297,281</u>	<u>\$ 312,901</u>
Denominated in United States dollars	265,226	290,573
Denominated in currencies other than United States dollars	<u>32,055</u>	<u>22,328</u>
Total liabilities	<u>\$ 297,281</u>	<u>\$ 312,901</u>

(29) Capital commitments

There were no capital commitments at 31 December 2001 (2000 - nil).

(30) Lease commitments

At the end of the year, annual commitments under non-cancelable operating leases were: (000's omitted)

	<u>2001</u>	<u>2000</u>
Leasehold land and buildings operating leases which expire:		
Within one year	\$ 148	\$ 36
Two years to five years	25	114
Over five years	<u>453</u>	<u>621</u>
Total	<u>\$ 626</u>	<u>\$ 771</u>

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(31) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

(000's omitted)	<u>2001</u>	<u>2000</u>
Operating profit	\$ 4,183	\$ 8,257
Change in prepayments and accrued income	698	(3,744)
Change in accruals and deferred income	(2,426)	3,488
Depreciation and amortisation	365	380
Provision for bad and doubtful debts	1,766	9,413
Net cash inflow from trading activities	<u>4,586</u>	<u>17,794</u>
Change in loans and advances to banks	(55,888)	(47,920)
Change in loans and advances to customers	51,552	11,138
Change in other assets	(614)	(285)
Change in deposits by banks	(20,377)	51,840
Change in customer accounts	4,647	(6,917)
Change in other liabilities	<u>596</u>	<u>1,542</u>
Net cash (outflow)/inflow from operating activities	<u>\$ (15,498)</u>	<u>\$ 27,192</u>

(32) Analysis of cash

(a) Changes in cash during the year: (000's omitted)

	<u>2001</u>	<u>2000</u>
Balance at 1 January	\$ 52,118	\$ 25,908
Net cash (outflow) /inflow before the effect of foreign exchange movements	<u>(16,497)</u>	<u>26,210</u>
Balance at 31 December	<u>\$ 35,621</u>	<u>\$ 52,118</u>

(b) Analysis of the balances of cash as classified in the balance sheet: (000's omitted)

	<u>2001</u>	<u>2000</u>
Cash	\$ 13,957	\$ 2,868
Loans and advances to banks (note 11)	1,713	1,713
Loans and advances to customers (note 12)	<u>19,951</u>	<u>47,537</u>
	<u>\$ 35,621</u>	<u>\$ 52,118</u>

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(33) Litigation

The Company is party to various legal proceedings incidental to its business. Although the outcome of these proceedings is uncertain, based on discussions with legal counsel management believes that no material adverse impact on the financial position of the Company is expected to arise from these proceedings.

(34) 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 pursuant to the requirements of section 232 of the Companies Act 1985 are as follows.

(a) Directors

There were no transactions, arrangements and agreements entered into by the Company with directors.

(b) Other related parties

In the normal course of business, the Group maintains on-balance-sheet and off-balance-sheet accounts and conducts transactions with other members of the HSBC group and the Nedcor group of South Africa. This business is conducted at prevailing market rates and terms and includes the maintenance of its correspondent cash accounts, deposits placed and accepted and interest rate swaps and foreign exchange spot and forward transactions.

Cash and advances to affiliated banks were approximately \$193 million at 31 December 2001 (2000 - \$124 million). Time deposits accepted from affiliated banks were nil at 31 December 2001 (2000 - \$2.2 million). Interest income on time deposits placed with affiliated banks was approximately \$9.3 million (2000 - \$5.8 million). Interest expense on balances owed to affiliated banks was \$629 thousand (2000 - \$882 thousand). All of the Group's interest rate and foreign exchange contracts as summarized in note 24 are with members of the HSBC group.

Under loan participation agreements, at 31 December 2001, the Company had \$21.9 million of loans to customers and \$1.5 million of related interest income participated to its 40% shareholder, Nedbank Africa Investments Limited. (2000 - \$22.9 million and \$1.1 million respectively).

The Company's ultimate parent company and its subsidiaries provide compliance, internal audit, tax, legal, insurance and treasury management services. During 2001, charges for these services

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were \$229,254 (2000 - \$143,823) and are included in other administrative expenses in the profit and loss account.

During 1999, the Bank, subsidiaries of the Bank's ultimate parent company, HSBC Investment Bank plc and HSBC Investment Services (Africa) (Pty) Limited and other affiliated companies in the Equator Group entered into a Business Cooperation Agreement (the "agreement") related to African corporate finance business. At 31 December 2001, there was \$75,000 due from HSBC Investment Bank plc (2000 - \$191,000) and \$35,000 due from HSBC Investment Services (Africa) (Pty) Limited (2000 - \$204,000) related to the agreement. Additionally, under the agreement at 31 December 2001, there was \$12,000 owed to HSBC Securities (Zimbabwe) (Private) Limited (2000 - \$12,000), and \$288,000 owed to HSBC Investment Services (Africa) (Pty) Limited (2000 - \$290,000). Included in fees and commissions receivable in the profit and loss account is \$558,000 relating to fees received from HSBC Investment Services (Africa) (Pty) Limited (2000 - \$725,000).

Fees and commissions receivable in the profit and loss account includes \$926,000 earned from subsidiaries of the HSBC Group (2000 - nil) related to asset management commissions and customer deposit fees.

Included in administrative expenses is \$149,000 (2000 - \$250,000) payable to HSBC Investment Bank plc, an HSBC group undertaking, by HSBC Equator Bank plc, for a guarantee that additional capital will be provided in the event that the capital of HSBC Equator Bank plc, a subsidiary of the Company, falls below its regulatory requirements.

The Group had loans outstanding to other related parties of \$931,000 at 31 December 2001 (2000 - \$2.2 million) and had interest income on these loans of \$157,000 in 2001 (2000 - \$586,000). The Group maintains customer accounts for other related parties of \$180,000 at 31 December 2001 (2000 - \$137,000) and had interest expense on these accounts of \$5,000 in 2001 (2000 - \$8,000).

At 31 December 2001, the Company has a tax receivable from a subsidiary of the Company's ultimate parent company of \$136,621 (2000 - \$140,000).

(35) Contingencies

Under an HSBC Holdings plc ("HSBC") group registration, the Company is jointly and severally liable for value added tax due by other HSBC Group companies. No valuable security has been provided by the Company in respect of this contingency.

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(36) Ultimate and immediate parent company

The Company's immediate parent company is HSBC Investment Bank plc, which is incorporated in England. The Company's ultimate parent company is HSBC Holdings plc, which is also incorporated in England.

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 results of the Company are included in the consolidated financial statements of HSBC Holdings plc. The consolidated financial statements of HSBC Holdings plc are available to the public and may be obtained from Group Corporate Affairs, HSBC Holdings plc, 10 Lower Thames Street, London EC3R 6AE.