Financial Statements
31 December 2013

Registered No: 499482

Financial Statements
31 December 2013

Contents

Strategic Report

Principal activities

The Company is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). The Company's principal activity is private banking.

Business review

The Company continues to deliver successful financial performance as the UK begins to show signs of economic recovery. Additionally, the strategic decisions that have been made over the last two years have positioned the Company for growth.

In 2013 the Company benefited from cost saving initiatives that had been completed in prior years notably reducing its headcount as it exited business that was no longer part of the strategic direction of Global Private Banking. Further cost saving initiatives from reduced occupation of premises, partially offset by provisions for customer redress led to lower expenditure year on year. In addition 2012 included the one off impact of the disposal of its subsidiary Property Vision. Lower loan impairment charges in 2013 than in prior years also contributed to the increased financial performance.

During 2013 the Company continued to deliver on strategic decisions as it sought to restructure, simplify and set the foundations for the sustainable growth of its business in future years. One of the impacts of this was lower year on year growth in income than in prior year. However, the repositioning of the company over the prior two years will allow the company to grow its client base, assets under management and associated revenues in coming years. The change in ownership of HSBC Private Bank (C.I) Ltd from HSBC Private Bank (Holdings) Suisse to HSBC Private Bank (UK) Limited on 29th of November 2013 is part of this strategic repositioning.

The outcome of the highlights above has led to a marked increase in Profit before Tax.

Total Assets under Management (including cash deposits) decreased by £0.3 billion to £3.5 billion at 31 December 2013 (31 December 2012: £3.8 billion), due to outflows from customers as the company repositioned its business.

Performance

The Company's results for the year under review are as detailed in the income statement shown in these accounts on page 10.

Profit for the year in 2013 of £83.6 million was 29.8% higher than the equivalent figure in 2012 (£64.4 million). In comparison to prior year the main highlights on performance were: higher net interest income from the Company's loan portfolio on improved loan margins only partially offset by reduced loan volumes, a decrease in impairment charges against client lending and lower staff expenditure as a result of reduced headcount. This was partially offset by reduced fee income driven by the application of a new pricing tariff on 1st January 2013 following the introduction of the UK Retail Distribution Review.

Total assets of the Company increased by £72 million to £8,904 million at 31 December 2013 (31 December 2012: £8,832 million). This primarily resulted from an increase in advances to banks partially offset by reduction in the loan portfolio and reduced holdings of liquid assets held to satisfy the PRA's liquidity requirements. Where the Company does not fund its activities through its customer deposit base it does so through contractual funding arrangements with other HSBC entities.

Total equity of the Company increased by £486 million to £1,139 million at 31 December 2013 (31 December 2012: £653 million). This is the result of a capital contribution to acquire HSBC Private Bank (C.I.) Limited in 2013 (Note 9).

Strategic Report (continued)

Key performance indicators

The Directors use KPIs to monitor the business. As well as the income statement and the balance sheet, these indicators include measures to identify the returns on different categories of assets and the risks to which the Company is exposed.

Financial KPIs.

Measure	2013	2012	Change
Pre-tax return on risk-weighted assets	3%	2%	1%
Cost efficiency (%)	47%	50%	(3%)
Core tier 1	30.9	15.0	15.9
Advances to core funding ratio	1.19	1.75	(0.56)

Pre-tax return on risk-weighted assets is measured as pre-tax profit divided by average risk weighted assets.

Cost efficiency is measured as total operating expenses divided by net operating income before loan impairment and other credit risk provisions.

Core tier 1 capital comprises shareholders' equity and non-controlling interest less regulatory deductions and adjustments. The group seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

Advances to core funding ratio comprises loans and advances to customers as a percentage of the total core customer deposits and term funding with a remaining term to maturity in excess of one year. The lower the percentage, the stronger the funding position.

Non-financial KPIs monitored include employee engagement measuring employees' emotional and intellectual commitment to the Company.

Principal risks and uncertainties

The principal risks and uncertainties facing the Company are credit risk, liquidity risk and market risk. These risks, the exposure to such risks and management of risk are set out in note 24 of the financial statements.

The most important non-financial types of risk are operational risk, reputational risk and regulatory risk. The Directors have put in place procedures to monitor and manage these risks.

Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the Company's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Company's risk appetite, as defined by the Risk Management Committee.

All employees must safeguard the reputation of the Company by maintaining the highest standards of conduct at all times and by being aware of issues, activities or associations that pose a threat to the reputation of the Company. The FCA has continued to increase its focus on 'conduct risk' and has taken actions in response to customer complaints. There have been recent examples of this approach in the context of interest rate hedging products.

To mitigate the risks of similar financial and reputational losses in the future, the Company has implemented additional controls and training, and has reviewed its product offering. Furthermore, the Company is continuing to work closely with regulators and other stakeholders to implement consistent standards in the Company's dealing with its customers.

In respect of regulatory risk, the UK regulators may take further actions that could result in changes in industry practices, sales and pricing. On 1 January 2014 Capital Requirements Directive IV ('CRD IV') came into effect, which introduced in the EU the Basel III measures. The Company has to apply these rules together with the publication by the PRA of its rules on implementing CRD IV in December 2013. Further information can be found in the Report of Directors – Capital Management.

Strategic Report (continued)

The Company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

By order of the Board

C Allen

Director

Dated 10 April 2014

Registered Office
8 Canada Square
London
E14 5H

Report of the Directors

Directors

The Directors who served during the year were as follows:

Name	Appointed	Resigned
J F Trueman	1st April 2013	
R B Janvrin		
F Morra		
C D Allen		
P Tremble		

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2013, as per prior year, as early repayment of subordinated liabilities is under consideration.

Significant events since the end of the financial year

No important events affecting the Company have occurred since the end of the financial year.

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

Financial instruments

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in note 24 of the Notes to the Financial Statements.

Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual. Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided.

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels, in-house magazines and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Company is further encouraged through a profit participation scheme.

Report of the Directors (continued)

Capital management

It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Company's approach to capital management during the year.

Pillar 3 of Basel II is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks, capital and risk management under the Basel II framework. Separate Pillar 3 disclosures are not required for the Company as the Company is included in the consolidated Pillar 3 disclosures of HSBC Bank plc. These disclosures are published as a separate document on HSBC Bank plc's website.

The Company is regulated by the UK Financial Conduct Authority ("FCA"). The FCA's General Prudential sourcebook ("GENPRU") provides rules for calculating the actual capital and minimum capital resources requirements of the Company. The Company is expected to maintain capital at above the minimum requirement at all times.

The calculation of actual capital is shown below.

	2013 £'000	2012 £'000
Shareholders' equity	**1,138,845**	653,034
Regulatory adjustments to the accounting basis	**(1,783)**	(791)
Unrealised (gains) / losses on available-for-sale debt securities	**-**	-
Reserves arising from unrealised (gains) on available-for-sale equities	**(1,783)**	(791)
Deduction: 50% of excess expected losses over impairment allowances	**(22,803)**	-
Deduction: 50% of tax credit adjustment for excess expected losses	**5,359**	-
Core tier 1 capital	**1,119,618**	652,243
Deduction: 50% unconsolidated investments	**(200,680)**	-
Deduction: 50% of tax credit adjustment for excess expected losses	**5,359**	-
Tier 1 capital	**924,297**	652,243
Total qualifying tier 2 capital before deductions		
100% of surplus impairment allowances over expected losses	**-**	2,521
Collective impairment allowances	**273**	6,403
Term subordinated debt (note 15)	**67,486**	92,965
Deduction: 50% unconsolidated investments	**(200,680)**	-
Deduction: 50% of excess expected losses over impairment allowances	**(22,803)**	-
Total regulatory capital	**768,573**	754,132
Risk-weighted assets (Unaudited)		
Credit and counterparty risk	**3,207,377**	3,989,902
Market risk	**45,332**	25,502
Operational risk	**374,392**	346,705
Total	**3,627,101**	4,362,109
Capital ratios (Unaudited)		
Core tier 1 ratio	**30.9**	15.0
Tier 1 ratio	**25.5**	15.0
Total capital ratio	**21.2**	17.3

The Company held capital resources above the minimum requirement throughout the year.

The regulation and supervision of financial institutions continues to undergo significant change in response to the global financial crisis. The publication of the Capital Requirements Directive IV ('CRD IV') introduced the Basel III measures into the EU and came into effect on 1 January 2014.

Report of the Directors (continued)

The Basel III rules set out the minimum common equity tier 1 ratio requirement of 4.5% and additional capital conservation buffer requirement of 2.5%, to be phased in sequentially from 1 January 2013, becoming fully effective on 1 January 2019. The leverage ratio is subject to a supervisory monitoring period which commenced on 1 January 2011, and a parallel run period which will last from 1 January 2013 until 1 January 2017.

The CRD IV rule changes introduce a revised definition of regulatory capital, primarily focused on common equity tier 1 ('CET1') capital as the predominant form of going concern capital, with a greater quantum to be held by banks. There are increased capital deductions and new regulatory adjustments affecting this higher tier of capital. The new rules also introduce increased RWA requirements, mainly for Counterparty Credit Risk ('CCR').

The most significant impact on CET1 capital is the proposed deduction of equity holdings in banks, financial institutions and insurance entities resulting from a reallocation of current deductions to this higher tier of capital and new rules for calculating the amounts to be deducted.

CRD IV also requires banks to maintain a number of additional capital buffers to be met by CET1 capital. These new capital requirements include a Capital Conservation Buffer designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred, currently set at 2.5 per cent, and an institution specific Countercyclical Capital Buffer ('CCB'), to protect against future losses where unsustainable levels of leverage, debt or credit growth pose a systematic threat. The Capital Conservation Buffer and the CCB are to be phased in subject to national transposition in the UK.

Despite final PRA rules uncertainty remains around the precise amount of capital that banks will be required to hold. In addition, many Technical Standards and guidelines have been issued by the EBA in draft form for consultation or are pending publication in 2014. These are due for adoption by the European Commission to become legally enforceable. This provides further uncertainty as to the precise capital requirements under CRD IV.

Disclosure of information to auditor

Each person who is a Director at the date of approval of this report confirms that so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and the Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

C Allen

Director

Dated 10 April 2014

Registered Office
8 Canada Square
London
E14 5H

Statement of Directors' Responsibilities
31 December 2013

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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

H Shepherd

Secretary
Dated 10 April 2014

Registered Office
8 Canada Square
London
E14 5HQ

Independent Auditor's Report to the Members of HSBC Private Bank (UK) Limited

We have audited the financial statements of HSBC Private Bank (UK) Limited for the year ended 31 December 2013 set out on pages 10 to 48. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

SAMER HIGAZI

Samer Hijazi (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London

10 April 2014

Financial Statements

Income statement for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Interest income		**228,603**	246,073
Interest expense		**(52,763)**	(72,854)
Net interest income		**175,840**	173,219
Fee and commission income		**67,184**	79,954
Fee and commission expense		**(12,043)**	(10,749)
Net Fee income		**55,141**	69,205
Net trading income	3	**4,840**	2,191
Dividend income		**-**	284
Other operating expense		**(2,099)**	(4,685)
Total Operating income		**233,722**	240,214
Loan impairment charges and other credit risk provisions		**(13,184)**	(21,363)
Net operating profit		**220,538**	218,851
Employee compensation and benefits	4	**(73,299)**	(86,055)
General and administrative expense	6	**(38,481)**	(33,199)
Amortisation and impairment of investment in subsidiaries		**-**	(9,365)
Profit before tax		**108,758**	90,232
Tax expense	7	**(25,154)**	(25,844)
Profit for the year		**83,604**	64,388

The notes on pages 14 to 48 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2013

	2013 £'000	2012 £'000
Profit for the year	**83,604**	64,388
Other comprehensive income		
Available-for-sale investments		
– Fair value gains	**1,424**	5,690
– Permanent impairment/disposal of AFS Investments	**-**	(684)
– Income taxes	**(331)**	(1,268)
Other comprehensive income for the year, net of tax	**1,093**	3,738
Total comprehensive income for the year	**84,697**	68,126

Financial Statements (continued)

Statement of financial position as at 31 December 2013

	Notes	2013 £'000	2012 £'000
ASSETS			
Cash and cash equivalents		**552**	991
Derivatives	*22*	**15,186**	18,016
Loans and advances to banks		**772,104**	240,372
Loans and advances to customers	*8*	**6,625,676**	7,311,585
Financial investments	*10*	**961,864**	1,105,185
Other assets		**76,089**	66,981
Prepayments and accrued income		**48,108**	84,924
Investments in subsidiaries	*9*	**401,360**	-
Property, plant and equipment	*12*	**23**	23
Deferred tax assets	*11*	**2,886**	4,177
Total assets		**8,903,848**	8,832,254
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		**2,154,624**	2,349,478
Customer accounts		**5,308,488**	5,439,746
Derivatives	*22*	**92,287**	138,266
Other financial liabilities	*13*	**21,972**	12,895
Current tax liabilities		**24,158**	10,641
Accruals and deferred income		**40,335**	79,107
Provisions	*14*	**3,794**	937
Subordinated liabilities	*15*	**119,345**	148,150
Total liabilities		**7,765,003**	8,179,220
Equity			
Called up share capital	*16*	**176,910**	176,910
Share premium account		**404,636**	3,277
Other reserves		**1,783**	690
Retained earnings		**555,516**	472,157
Total equity		**1,138,845**	653,034
Total equity and liabilities		**8,903,848**	8,832,254

The notes on pages 14 to 48 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 10 April 2014 and were signed on its behalf by:

C Allen
Director

Company Registered Number: 499482

Financial Statements (continued)

Statement of cash flows for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Cash flows from operating activities			
Profit before tax		**108,758**	90,232
Adjustments for:			
– Non-cash items included in net profit	*17(a)*	**18,615**	31,545
– Change in operating assets	*17(b)*	**366,896**	560,680
– Change in operating liabilities	*17(c)*	**(360,315)**	(1,004,131)
– Tax paid		**(10,677)**	(20,535)
– Elimination of exchange differences		**2,057**	2,324
Net cash generated from operating activities		**125,334**	(339,885)
Cash flows from investing activities			
– Net (outflows) from acquisition/ proceeds from disposal of subsidiaries		**(401,360)**	471
– Proceeds from the sale/(purchase) of financial investments		**99,926**	(302,667)
Net cash used from investing activities		**(301,434)**	(302,196)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**401,359**	-
(Repayment of)/Proceeds from borrowings		**(29,412)**	336,680
Dividends paid		**-**	-
Net cash generated from financing activities		**371,947**	336,680
Net increase/(decrease) in cash and cash equivalents		**195,847**	(305,401)
Cash and cash equivalents brought forward		**225,407**	536,259
Effect of exchange rate changes on cash and cash equivalents		**(1,595)**	(5,451)
Cash and cash equivalents carried forward	*17(d)*	**419,659**	225,407

The notes on pages 14 to 48 form an integral part of these financial statements.

Financial Statements (continued)

Statement of changes in equity for the year ended 31 December 2013

	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
2013					
At 1 January 2013	176,910	3,277	472,157	690	653,034
Profit for the year	-	-	83,604	-	83,604
Other comprehensive income (net of tax)	-	-	-	1,093	1,093
Total comprehensive income for the year	-	-	83,604	1,093	84,697
Proceeds from shares issued	-	401,359	-	-	401,359
Net impact of equity-settled share-based payments	-	-	(160)	-	(160)
Other movements	-	-	(85)	-	(85)
Dividends to shareholders	-	-	-	-	-
At 31 December 2013	176,910	404,636	555,516	1,783	1,138,845

	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
2012					
At 1 January 2012	176,910	3,277	411,188	(3,048)	588,327
Profit for the year	-	-	64,388	-	64,388
Other comprehensive income (net of tax)	-	-	-	3,738	3,738
Total comprehensive income for the year	-	-	64,388	3,738	68,126
Net impact of equity-settled share-based payments	-	-	(3,419)	-	(3,419)
Dividends to shareholders	-	-	-	-	-
At 31 December 2012	176,910	3,277	472,157	690	653,034

The notes on pages 14 to 48 form an integral part of these financial statements.

Equity is wholly attributable to equity shareholders of HSBC Bank plc.

Notes on the Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU.

At 31 December 2013, there were no unendorsed standards effective for the year ended 31 December 2013 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 December 2013 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the IFRS Interpretations Committee ('IFRIC') and its predecessor body.

Standards adopted during the year ended 31 December 2013

On 1 January 2013, the Company adopted the following significant new standards and amendments to standards for which the financial effect is insignificant to these financial statements:

- IFRS 13 'Fair Value Measurement' establishes a single framework for measuring fair value and introduces new requirements for disclosure of fair value measurements. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application. Disclosures are provided in Note 20 and Note 21.
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' require disclosure of the effect or potential effects of netting arrangements on an entity's financial position. The amendment requires disclosure of recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement. The amendments have been applied retrospectively. Disclosures are provided in Note 24a IV.

(b) Presentation of information

Capital disclosures under IAS 1 'Presentation of Financial Statements' ('IAS 1') have been included in the audited sections of the 'Report of the Directors: Capital Management' on page 6-7.

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by Section 400 of the Companies Act 2006.

The functional currency of the Company is Sterling.

(c) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is continuing to work on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.

Amendments issued by the IASB and endorsed by the EU

In December 2011, the IASB issued amendments 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively.

Based on the assessment performed to date, we do not expect the amendments to IAS 32 to have a material effect on the Company's financial statements.

Amendments issued by the IASB but not endorsed by the EU

During 2012 and 2013, the IASB issued various amendments to IFRS that are effective from 1 January 2014 and which are expected to have an insignificant effect on the financial statements of the Company.

In November 2009, the IASB issued IFRS 9 'Financial Instruments' which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 classification and measurement requirements are to be applied retrospectively but prior periods need not be restated.

In November 2013, The IASB issued proposed amendments to IFRS 9 in respect of classification and measurement. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effects of IFRS 9 as at the date of publication of these financial statements.

The second phase in the IASB's project to replace IAS 39 will address the impairment of financial assets. It is proposed to replace the 'incurred loss' approach to the impairment of financial assets carried at amortised cost in IAS 39 with an expected credit loss approach, and require that the expected credit loss approach be applied to other categories of financial instrument, including loan commitment and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014.

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. This effective date has not yet been set by the IASB but is not expected to be earlier than 1 January 2017. The revised hedge accounting requirements are applied prospectively and the Company is currently assessing the impact they may have on the financial statements.

2 Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held-for-trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

(b) Non interest income

Fee income is earned from a diverse range of services provided by the Company to its customers. Fee income is accounted for as follows:

i. income earned on the execution of a significant act is recognised as revenue when the act is completed;

ii. income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and

iii. income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income' (Note 2(a)).

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with related interest income, expense and dividends.

(c) Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the Company. Loans and advances are recognised when cash is advanced to borrowers. They are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses. Where exposures are hedged by derivatives designated and qualifying as fair value hedges, the carrying value of the loans and advances so hedged includes a fair value adjustment for the hedged risk only.

Changes in the fair value adjustment are recorded as "Trading Income" (Note 3).

(d) Impairment of loans and advances to Customers

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded as charges to the income statement.

Impairment losses on individual loans are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount and charging the amount of any loss to the income statement.

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Company has incurred as a result of events occurring before the balance sheet date, which the Company is not able to identify on an individual loan basis, and that can be reliably estimated.

Losses expected as a result of future events, no matter how likely, are not recognised.

Renegotiated loans

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated retain this classification until maturity or derecognition. Interest is recorded on renegotiated loans taking into account the new contractual terms following renegotiation. A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

(e) Financial Investments

Debt securities intended to be held on a continuing basis are classified as available-for-sale. Financial investments are recognised on trade date, when the Company enters into contractual arrangements with counterparties to purchase securities, and are normally derecognised when either the securities are sold or the borrowers repay their obligations.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income in "Available-for-sale investments – fair value gains/(losses)" until the financial assets are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement as 'Other operating income'.

Interest income is recognised on available-for-sale debt securities using the effective interest method, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of dated investment securities are included in the calculation of their effective interest rates.

If the available-for-sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

Impairment losses for available-for-sale debt securities are recognised within 'Loan impairment charges and other credit risk provision' in the income.

(f) Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

The method of recognising fair value gains or losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement. When derivatives are designated as hedges, the Company classifies them as hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge provided certain criteria are met.

Hedge accounting

At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and hedged items, its risk management objective and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair value of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

If a hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is released to the income statement immediately.

Hedge effectiveness testing

To qualify for hedge accounting, the Company requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. For prospective effectiveness the hedging instrument must be expected to be highly effective in offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value must offset each other in the range of 80 per cent to 125 per cent. Hedge ineffectiveness is recognised in the income statement in 'Net trading income'.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement in 'Net trading income'.

(g) Property, plant and equipment

Tangible assets relate to artworks owned by the company, which are not depreciated.

(h) Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at costs less any impairment losses. Impairment losses recognised in prior periods are reversed through the income statement if, and only if, there has been a change in the estimates used to determine the investment in subsidiary's recoverable amount since the last impairment loss was recognised.

(i) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the group intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to share-based payment transactions is recognised directly in other comprehensive income to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value remeasurements of available for-sale investments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

(j) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

(k) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Company; or are present obligations that have arisen from past events but are not recognised because it not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(l) Debt securities in issue and deposits by banks and customers

Financial liabilities are recognised when the Company enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the proceeds received net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss, is at amortised cost, using the effective interest rate method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument.

(m) Share-based payments and discretionary cash bonuses

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'Retained Earnings'. The vesting period is the period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Notes on the Financial Statements (continued)

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.

HSBC Holdings plc is the grantor of its equity instrument for all share awards and share options across the group. The credit to 'Retained earnings' over the vesting period on expensing an award represents the effective capital contribution from HSBC Holdings plc. To the extent the Company will be, or has been, required to fund a share-based payment arrangement, this capital contribution is reduced and the fair value of shares expected to be released to employees is recorded within 'Other liabilities'.

(n) Significant judgments

In preparing the financial statements, the Directors are required to make judgements where uncertainty exists at the balance sheet date.

In the following cases, the balance sheet value at the reporting date is influenced by significant judgements:

- Impairment of loans and advances to customers (note 2d);
- Impairment of Available for sale investments (note 2e); and
- Provisions (note 14).

(o) Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received). In certain circumstances, however, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Company recognises a trading gain or loss on inception of the financial instruments, being the difference between the transaction price and the fair value.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are traded on active markets are based on those active quoted prices. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than one months' maturity from the date of acquisition, and include cash and balances at central banks and loans and advances to banks.

Notes on the Financial Statements (continued)

3 Net Trading Income

Net trading income is stated after the following items of income, expense, gains and losses:

	2013	2012
	£'000	£'000
Foreign exchange	2,936	4,859
Interest income/ (expense) on forward foreign exchange contracts	621	(186)
Change in fair value of hedging instruments (note 23)	50,675	(23,656)
Change in fair value of hedged items (note 23)	(49,098)	22,432
Change in fair value of derivatives held for trading		
– Fair value	1,822	891
– Interest expense	(2,116)	(2,149)
Net trading income	**4,840**	2,191

4 Employee compensation and benefits

	2013	2012
	£'000	£'000
Wages and salaries including share-based payments (see below)	59,629	70,581
Social security costs	6,617	8,177
Other pension costs	7,053	7,297
	73,299	86,055

	Number	Number
The average number of persons employed by the Company during the year was:		
– Client / Product Services	300	351
– Operations and Support	186	203
– Head Office Administration	75	91
– Asset Management Services	107	112
	668	757

a) Post-employment benefit plans

The Company's employees are members of various schemes.

The HSBC Bank (UK) Pension Scheme, which is the principal scheme, covers employees of HSBC Bank plc, its UK subsidiaries (including the Company) and certain other employees of the Group. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit section, which is closed, and a defined contribution section, which was established on 1 July 1996 for new employees.

Individual subsidiaries within the Group, whose employees participate in the defined benefit section, are not able to identify their share of the underlying assets and liabilities of the scheme and account for the scheme as a defined contribution scheme. For this reason, the Company has not disclosed the details of the defined benefit section required under IAS 19, "Employee Benefits".

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2013, of which employees of the Company are members, are disclosed in the statutory accounts of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees. The Company has not been asked to contribute to any scheme deficit, except through amendments to its regular payments.

In 2013, the pension cost for defined contribution plans which cover 70% of the Company's employees was £4,502,000 (2012: £4,456,000). The Company expects to make £3,955,000 of contributions to the defined contribution plans during 2014.

b) Share-based payments

The ultimate parent company, HSBC Holdings plc, operates share option schemes and share award schemes, in which employees of HSBC Private Bank (UK) Ltd participate.

Included in 'Wages and salaries' is a charge of £1,408,000 (2012: £5,411,000) in respect of equity-settled share-based payment transactions.

Share awards

Share awards are made to eligible employees for recruitment and retention purposes or as part of deferral of annual bonus. The awards vest between one and three years from the date of the award.

The total number of shares outstanding at 31 December 2013 was 761,137 (2012: 1,319,241). Total shares awarded in 2013 were 241,638. The weighted average fair value of share awards granted outstanding was £4.58 (2012: £6.28).

Share options

The Save-As-You-Earn ("SAYE") share option scheme, invites eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares in HSBC Holdings plc. The HSBC Holdings Group Share Option Plan was a long term incentive plan under which certain employees between 2000 and 2005 were awarded share options. Employees of the Company have participated in both the HSBC Holdings plc "SAYE" share option scheme and HSBC Holdings Group Share Option Plan.

Movement on HSBC share option plans:

	SAYE share option plans		**HSBC Holdings Group share option plan**	
	Number	**WAEP***	**Number**	**WAEP***
		£		**£**
At 1 January 2013	**1,141,257**	**3.99**	**417,340**	**6.87**
Granted during the year	**127,466**	**5.75**	**8,492**	**7.71**
Exercised during the year	**(71,688)**	**7.05**	**(49,909)**	**7.16**
Forfeited and expired during the year	**(150,208)**	**6.91**	**(60,859)**	**7.04**
At 31 December 2013	**1,046,827**	**6.59**	**315,064**	**7.59**

	SAYE share option plans		HSBC Holdings Group share option plan	
	Number	WAEP*	Number	WAEP*
		£		£
At 1 January 2012	1,440,687	3.66	607,058	6.99
Granted during the year	438,545	4.46	-	-
Exercised during the year	(537,336)	2.14	(1,911)	6.38
Forfeited and expired during the year	(200,639)	4.5	(187,807)	7.28
At 31 December 2012	1,141,257	3.99	417,340	6.87

* Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transactions are contracted, was £1.28 (2012: £1.23).

Notes on the Financial Statements (continued)

Full details of all HSBC Share Awards / Options, and the calculation of the fair values of share options, are included in the Annual Report and Accounts of HSBC Holdings plc.

At 31 December 2013	SAYE share option plans		HSBC Holdings Group share option plan	
	Number	WAEP*	Number	WAEP*
Exercise price range (£):				
5.00 – 6.50	-	-	-	-
6.51 – 8.00	71,688	7.05	49,909	7.16
8.01 – 9.50	-	-	-	-
9.51 – 11.00	-	-	-	-
Of which exercisable:	2,885	-	315,064	-
Weighted average remaining contractual life (years)		1.42		-

5 Remuneration of Directors

The aggregate emoluments of the Directors of the Company, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2013	2012
	£'000	£'000
Fees	38	-
Salaries	818	1,782
Bonuses	1,608[1]	1,029[2]
	2,464	2,811

1 *Awards made to executive Directors in respect of 2013 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £389,042 in cash, £255,712 in deferred cash (vesting annually over a three-year period), £353,004 in Restricted Shares and £610,345 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

2 *Awards made to executive Directors in respect of 2012 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £452,383 in cash, £164,724 in deferred cash (vesting annually over a three-year period), £247,086 in Restricted Shares and £164,724 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

1 Director exercised share options over HSBC Holdings plc ordinary shares during the year.

Awards were made to 4 Directors under long-term incentive plans in respect of qualifying services rendered in 2013 (2012: 5 Directors). During 2013, Nil Directors received shares in respect of awards under long-term incentive plans that vested during the year (2012: 5 Directors).

Retirement benefits are accruing to 1 Director under a defined benefit scheme and are accruing to 3 Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £34,636 were made during the year to money purchase arrangements in respect of Directors' qualifying services (2012: £60,802).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Company's ultimate parent company, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.

Notes on the Financial Statements (continued)

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2013	2012
	£'000	£'000
Salaries and other emoluments	308	298
Bonuses	710[1]	412[2]
	1,018	710

1 *Awards made to the highest paid Director in respect of performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £161,780 in cash, £107,854 in deferred cash (vesting annually over a three-year period), £161,780 in Restricted Shares and £278,854 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

2 *Awards made to the highest paid Director in respect of 2012 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £123,543 in cash, £82,362 in deferred cash (vesting annually over a three-year period), £123,543 in Restricted Shares and £82,362 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

The highest paid Director received 35,904 shares, in respect of qualifying services, as the result of awards under long-term incentive plans that vested during the year. The highest paid Director did not exercise share options over HSBC Holdings plc ordinary shares during the year.

Pension contributions of £15,795 were made by the Company in respect of services by the highest paid Director during the year.

6 Auditor's remuneration

	2013	2012
	£'000	£'000
Auditor's remuneration:		
– Audit of these financial statements pursuant to legislation	78	91
– Other audit-related services pursuant to such legislation	14	34
– Tax advisory services provided to the company	13	5
– Other services provided to the company	40	12
	145	142

Notes on the Financial Statements (continued)

7 Tax expense

Tax charged to the income statement

	Notes	2013 £'000	2012 £'000
Current tax			
UK Corporation tax			
– for this year		**23,825**	22,777
– adjustments in respect of prior years		**39**	50
Total current tax		**23,864**	22,827
Deferred tax	*11*		
Origination and reversal of temporary differences		**1,035**	2,614
Effect of changes in tax rates		**283**	378
Adjustment in respect of prior years		**(28)**	25
Total deferred tax		**1,290**	3,017
Total tax charged to income statement		**25,154**	25,844

Tax reconciliation

The tax charged to the income statement differs to the tax charge that would apply if all profits had been taxed at the UK Corporation tax rate as follows:

	2013 £'000	2012 £'000
Profit before tax	**108,758**	90,232
Tax at 23.25% (2012: 24.5%)	**25,286**	22,107
Adjustments in respect of prior period liabilities	**12**	75
Permanent disallowables	**258**	3,676
Gain less losses from financial investments	**-**	(63)
Deferred tax temporary differences not recognised/(previously not recognised)		
Adjustment in respect of share-based payments	**(685)**	(329)
Impact due to changes in tax rates	**283**	378
Total tax charged to income statement	**25,154**	25,844

The UK Corporation tax rate applying to the Company was 23.25% (2012: 24.5%).

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2013 will reduce from 24% to 23%, to be followed by a further 2% reduction to 21% for the year beginning 1 April 2014 and a further 1% reduction to 20% for the year beginning 1 April 2015. The reduction in the corporate tax rate to 23% was enacted through the 2012 Finance Act and this results in a weighted average rate of 23.25% for 2013 (2012: 24.5%). The reductions to 21% and 20% that were announced in the 2012 Autumn Statement and 2013 Budget respectively became enacted through the 2013 Finance Act on 17 July 2013.

Notes on the Financial Statements (continued)

8 Loans and advances to customers

	2013 £'000	2012 £'000
Gross loans and advances to customers	**6,703,637**	7,400,300
Impairment allowances (Note 24 (a) V)	**(81,550)**	(102,069)
Fair value adjustment to loans hedged by designated swaps	**3,589**	13,354
Loans and advances to customers	**6,625,676**	7,311,585

9 Investments in Subsidiaries

On 29th November 2013 HSBC Private Bank (UK) Limited acquired 100% of the issued share capital of HSBC Private Bank (C.I.) Limited, by way of inter-group transfer from HSBC Private Banking Holdings (Suisse) SA, for a cash consideration of USD 655.4 million. The acquisition was funded by a capital injection of USD 655.4 million from HSBC Bank plc. Private Bank (C.I.) Limited carries on the business of banking and related financial services including fiduciary activities and is regulated by the Guernsey Financial Services Commission ('GFSC'). HSBC Private Bank (C.I.) has two subsidiaries: HSBC Trustee (Guernsey) Limited, registered in Guernsey and HSBC Trustee (C.I.) Limited, registered in Jersey.

	Country of incorporation	Interest in Equity	Share Class	No. of shares
HSBC Private Bank (C.I.) Limited	Guernsey	100%	Ordinary $1	8,000,000

10 Financial Investments

	2013 £'000	2012 £'000
As at 1 January	**1,105,185**	798,609
Exchange differences	**145**	(7,000)
Net (disposals)/additions	**(99,926)**	289,507
Amortisation	**(3,557)**	(3,505)
Fair value movement through reserves	**1,424**	5,690
Fair value hedge movement	**(41,407)**	21,884
As at 31 December	**961,864**	1,105,185

Available for sale financial investments include the following:

	2013	2012
Listed:		
Debt securities – UK	**517,027**	653,716
Debt securities – Europe	**444,837**	451,469
	961,864	1,105,185

Notes on the Financial Statements (continued)

Available for sale financial investments are denominated in the following currencies:

	2013 £'000	2012 £'000
Pounds	520,670	657,079
Euros	244,351	245,135
US Dollar	196,843	202,971
	961,864	1,105,185

11 Deferred tax

The following are the major deferred tax assets recognised by the Company and movements thereon during the current and prior periods:

	Property, plant and equipment £'000	Share based payments £'000	Other temporary differences £'000	Total £'000
At 1 January 2013	93	1,550	2,534	4,177
Income statement credit/(expense)	(5)	(326)	(960)	(1,291)
Equity statement credit/(charge)	-	-	-	-
At 31 December 2013	88	1,224	1,574	2,886

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributable to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

12 Property, plant and equipment

There are no changes in cost or depreciation and impairment for property, plant and equipment in 2013 (2012: Nil).

13 Other financial liabilities

	2013 £'000	2012 £'000
Share-based payment liabilities	4,087	7,853
Other liabilities	17,885	5,042
	21,972	12,895

Notes on the Financial Statements (continued)

14 Provisions

	Provisions for liabilities and charges	Premises related provisions	Total
	£'000	£'000	£'000
At 1 January 2013	937	-	937
Additional provisions/increase in provisions	2,920	-	2,920
Provision released	-	-	-
Amount reversed	(63)	-	(63)
At 31 December 2013	3,794	-	3,794

	Provisions for liabilities and charges	Premises related provisions	Total
	£'000	£'000	£'000
At 1 January 2012	2,900	92	2,992
Additional provisions/increase in provisions	937	-	937
Charge to income statement	-	-	-
Provision released	(943)	-	(943)
Amount reversed	(1,957)	(92)	(2,049)
At 31 December 2012	937	-	937

A provision of £1,460,000 (2012: Nil) relating to the estimated liability for redress in respect of possible mis-selling of interest rate derivatives. The Company will contact customers who have been sold certain interest rate derivatives, explaining the scope of the contact exercise, and either advising that their product sale will be automatically reviewed, or seeking confirmation from the customer that they wish to have their derivative sale reviewed and requesting further details of the sale.

The Company's liability at 31 December 2013 depends on the responses of contacted and other customers during the review period and analysis of the facts and circumstances of each individual case. Those facts and circumstances include whether:

- the customer is classified as 'non-sophisticated' under the relevant criteria;
- the Company is deemed to have failed to comply with the relevant sales standards at the time of sale; and
- an alternative interest rate derivative product would have been deemed appropriate, which will impact the calculation of any redress payable and write-down of open products.

For these reasons, there is currently a high degree of uncertainty as to the eventual costs of redress relating to this programme.

A further provision of £1,272,000 (2012: Nil) relating to the estimated liability for redress in respect of possible mis-selling of AIG's enhanced Variable Rate Fund. The Company's obligation is based on facts and circumstances of each individual customer's case which have not been completed. For these reasons, there remains a high degree of uncertainty as to the eventual costs of redress for this matter.

Notes on the Financial Statements (continued)

15 Subordinated liabilities

	2013	2012
	£'000	£'000
Loan from fellow subsidiary undertaking:		
Dated subordinated loan capital:		
US$45,000,000 variable rate subordinated loan maturing 2013	**-**	27,841
GB£27,000,000 variable rate subordinated loan maturing 2014	**27,000**	27,000
GB£15,000,000 variable rate subordinated loan maturing 2015	**15,000**	15,000
GB£35,000,000 variable rate subordinated loan maturing 2016	**35,000**	35,000
US$30,000,000 variable rate subordinated loan maturing 2016	**18,148**	18,561
US$40,000,000 variable rate subordinated loan maturing 2018	**24,197**	24,748
	119,345	148,150

Subordinated loan capital is repayable at par on maturity but may be repayable prior to maturity at the option of the borrower, generally with the consent of the Financial Conduct Authority. The interest rate is related to interbank offered rates.

16 Called up share capital

	2013	2012
	£'000	£'000
Issued, allotted and fully paid up		
17,691,000 Ordinary shares of £10 each		
As at 1 January and 31 December	**176,910**	176,910
Authorised:		
19,500,000 Ordinary shares of £10 each		
As at 1 January and 31 December	**195,000**	195,000

Notes on the Financial Statements (continued)

17 Reconciliation of profit before tax to net cash flow from operating activities

	2013 £'000	2012 £'000
a) Non-cash items included in profit and loss		
Amortisation and items recognised in equity	**3,857**	2,796
Loan impairment charges	**13,184**	21,363
Loan written off net of recoveries	**-**	(8,513)
Impairment/loss on disposal of subsidiary	**-**	14,529
Provisions (released)/ raised for liabilities and charges	**2,857**	(1,112)
Fair value (gains)/losses	**(1,283)**	2,482
	18,615	31,545
b) Change in operating assets		
Change in prepayments and accrued income	**36,816**	1,230
Change in loans and advances to banks	**(337,041)**	11,376
Change in loans and advances to customers	**676,314**	556,938
Change in other assets	**(9,193)**	(8,864)
	366,896	560,680
c) Change in operating liabilities		
Change in accruals and deferred income	**(38,772)**	(7,986)
Change in deposits by banks	**(194,854)**	(843,501)
Change in customer accounts	**(135,270)**	(140,053)
Change in other liabilities	**8,581**	(12,591)
	(360,315)	(1,004,131)
d) Cash and cash equivalents comprise		
Cash and balances at central banks	**552**	991
Loans and advances to banks of one month or less	**419,107**	224,416
	419,659	225,407

18 Contingent liabilities and contractual commitments

The bank is party to legal proceedings, investigations and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the bank considers that none of these matters is material, either individually or in the aggregate. The bank recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. While the outcome of these matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made as at 31 December 2013. The following table gives the nominal principal amounts of off-balance sheet transactions.

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.

	2013 Contract Amount	2012 Contract Amount
	£'000	£'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security	**109,356**	138,336
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	**382,622**	466,557

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury, which at 31 December 2013 stood at approximately £17 billion. In order to repay the loan principle which is not expected to be recovered, the FSCS confirmed in February 2013 that it would levy approximately £363 million in Scheme Year 2013/2014 and in the following two Scheme Years on participating financial institutions. In January 2014, the FSCS announced that the expected levy on participating financial institutions for Scheme Year would be £399 million. The Company could be liable to pay a further proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury. The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by FSCS and changes to the level of protected deposits and the population of FSCS at the time.

Notes on the Financial Statements (continued)

19 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The significant accounting policies in note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

Fair values of the financial investments are determined directly by reference to published price quotations in an active market or by using internal models. The following table analyses the financial assets and liabilities in the Balance Sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

At 31 December 2013	Held for trading	Loans and receivables	Available -for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	-	-	-	552	-	552
Derivatives	12,577	-	-	-	2,609	15,186
Loans and advances to banks	-	772,104	-	-	-	772,104
Loans and advances to customers	-	6,625,676	-	-	-	6,625,676
Financial investments	-	-	961,864	-	-	961,864
Other assets	-	-	-	76,089	-	76,089
Accrued income	-	-	-	48,108	-	48,108
Total financial assets	12,577	7,397,780	961,864	124,749	2,609	8,499,579
Total non financial assets						404,269
Total assets						8,903,848
Liabilities						
Deposits by banks	-	-	-	2,154,624	-	2,154,624
Customer accounts	-	-	-	5,308,488	-	5,308,488
Derivatives	27,084	-	-	-	65,203	92,287
Other financial liabilities	-	-	-	21,972	-	21,972
Accruals and deferred income	-	-	-	40,335	-	40,335
Provisions	-	-	-	3,794	-	3,794
Subordinated liabilities	-	-	-	119,345	-	119,345
Total financial liabilities	27,084	-	-	7,648,558	65,203	7,740,845
Total non financial liabilities						24,158
Total liabilities						7,765,003

Notes on the Financial Statements (continued)

At 31 December 2012	Held for trading	Loans and receivables	Available-for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	-	-	-	991	-	991
Derivatives	18,016	-	-	-	-	18,016
Loans and advances to banks	-	240,372	-	-	-	240,372
Loans and advances to customers	-	7,311,585	-	-	-	7,311,585
Financial investments	-	-	1,105,185	-	-	1,105,185
Shares in Group undertakings	-	-	-	-	-	-
Other assets	-	-	-	66,981	-	66,981
Accrued income	-	-	-	84,924	-	84,924
Total financial assets	18,016	7,551,957	1,105,185	152,896	-	8,828,054
Total non financial assets						4,200
Total assets						8,832,254
Liabilities						
Deposits by banks	-	-	-	2,349,478	-	2,349,478
Customer accounts	-	-	-	5,439,746	-	5,439,746
Derivatives	23,097	-	-	-	115,169	138,266
Other financial liabilities	-	-	-	23,536	-	23,536
Accruals	-	-	-	66,915	-	66,915
Subordinated liabilities	-	-	-	148,150	-	148,150
Total financial liabilities	23,097	-	-	8,027,825	115,169	8,166,091
Total non financial liabilities						13,129
Total liabilities						8,179,220

Comparative figures for Loans and receivables and Financial assets liabilities at amortised costs have been reclassified to be consistent with current year presentation.

20 Fair value of financial instruments carried at fair value

The classification of financial instruments is determined in accordance with the accounting policies set out in Note 2. The use of assumptions and estimation in valuing financial instruments is described in Note 2n 'Determination of fair value'.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

Fair values are determined according to the following hierarchy:

(a) Level – quoted market price: financial instruments with quoted prices for identical instruments in active markets.

(b) Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

Notes on the Financial Statements (continued)

The following table sets out the financial instruments carried at fair value.

	Valuation techniques			
	Level 1 quoted market price £'000	**Level 2 using observable inputs £'000**	**Level 3 With significant unobservable inputs £'000**	**Total £'000**
At 31 December 2013				
Assets				
Derivatives	-	**15,186**	-	**15,186**
Financial investment available for sale	**961,864**	-	-	**961,864**
Liabilities				
Derivatives	-	**92,287**	-	**92,287**

	Valuation techniques			
	Level 1 quoted market price £'000	Level 2 using observable inputs £'000	Level 3 With significant unobservable inputs £'000	Total £'000
At 31 December 2012				
Assets				
Derivatives	-	18,016	-	18,016
Financial investment available for sale	1,105,185	-	-	1,105,185
Liabilities				
Derivatives	-	138,266	-	138,266

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2013 (2012: Nil).

21 Fair value of financial instruments not carried at fair value

For all financial instruments, the fair value is equal to the carrying value in the Balance Sheet, except as analysed below; that is because they are short-term in nature or reprice to current market rates frequently. Fair value is assumed to equal carrying value for all balances repricing in less than six months. Where repricing is greater than six months using discounted cash flow, each loan or deposit is valued using a LIBOR-based discount curve applied to the expected cash flows.

Notes on the Financial Statements (continued)

	At 31 December 2013					At 31 December 2012	
		Fair values					
		Valuation techniques					
	Carrying amount	Level 1 quoted market price £'000	Level 2 using observable inputs £'000	Level 3 With significant un-observable inputs £'000	Total £'000	Carrying amount £'000	Fair value £'000
Assets							
Loans and advances to customers	6,625,676	-	2,026,277	4,696,177	6,722,454	7,311,585	7,412,860
Liabilities							
Customer accounts	5,308,488	-	5,331,326	-	5,331,326	5,439,746	5,479,019

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Company as a going concern.

22 Derivatives

Derivatives are carried at fair value and shown in the Balance Sheet as separate totals of assets and liabilities. Changes in the values of derivatives are recognised in 'Trading income' (note 2b).

The Company transacts derivatives primarily to manage and hedge the Company's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held, and qualify as hedging instruments, are formally designated as hedges as defined in IAS 39. All other derivative instruments are classified as held-for-trading. The held-for-trading category includes derivatives managed in conjunction with financial instruments designated at fair value.

Contract amounts of derivatives held-for-trading purposes by product type:

	2013 £'000	2012 £'000
Exchange rate	1,487,114	2,251,746
Interest rate	159,076	262,163
Precious metals	-	-
Total derivatives	1,646,190	2,513,909

Fair values of derivative open positions by type of product contract:

	At 31 December 2013		At 31 December 2012	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Exchange rate	9,514	21,864	13,474	15,166
Interest rate	5,668	69,708	4,542	123,100
Precious metals	4	715	-	-
Total	15,186	92,287	18,016	138,266

Notes on the Financial Statements (continued)

of which the following are third party:

	At 31 December 2013		At 31 December 2012	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Exchange rate	**7,227**	**1,071**	2,868	774
Interest rate	**364**	**134**	720	1,101
Precious metals	**-**	**4**	-	-
Total	**7,591**	**1,209**	3,588	1,875

23 Hedging instruments

The Company uses derivatives (interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios. This enables the Company to mitigate the market risk which would otherwise arise from structural imbalances in the contract rates and other profiles of its assets and liabilities. All derivatives qualifying as hedging instruments are fair value hedges as defined under IAS 39.

Contract amounts of derivatives held-for-hedging purposes by product type:

	2013	2012
	£'000	£'000
Interest rate contracts:		
- pay fixed swaps	**1,199,168**	1,215,993

The notional or contractual amounts of interest rate contracts indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The Company's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term loans to customers due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in "Trading income". If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at the end of the reporting period, were assets of £2,609,000 (2012: £Nil) and liabilities of £65,203,000 (2012: £115,169,000).

	2013	2012
	£'000	£'000
Gain/(losses) arising from the change in fair value of fair value hedges:		
- on hedging instruments	**50,675**	(23,656)
- on hedged item attributable to the hedged risk	**(49,098)**	22,432
	1,577	(1,224)

24 Management of financial risk

All of the Company's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and

Notes on the Financial Statements (continued)

consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Company as a going concern.

a) Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Company fails to meet a payment obligation under a contract.

Within the overall framework of the HSBC Group policy, the Company has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Company is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Company's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The Company's risk rating system facilitates the internal ratings-based ('IRB') approach under Basel II to support calculation of the minimum credit regulatory capital requirement.

I. Maximum exposure to credit risk

Maximum exposure at 31 December

	2013	2012
	£'000	£'000
Derivatives	**15,186**	18,016
Loans and advances to banks	**772,104**	240,372
Loans and advances to customers (excluding fair value adjustment to loans hedged by designated swaps)	**6,703,637**	7,400,300
Off-balance sheet:		
- guarantees and assets pledged as collateral security	**109,356**	138,336
- undrawn formal standby facilities, credit lines and other commitments to lend	**382,622**	466,557
	7,982,905	8,263,581

II. Collateral and other credit enhancements

The Company follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. Whilst collateral is important in mitigating credit risk, it is the Company's practice to lend on the basis of the customer's ability to meet their obligations out of cash from resources rather than rely on the value of security offered. The principal collateral types are as follows:

- In the personal sector, mortgages over residential properties, cash and securities;
- In the commercial real estate sector, charges over the properties being financed; and
- In the financial sector, charges over financial instruments such as debt securities, bank guarantees and equities in support of trading facilities.

Notes on the Financial Statements (continued)

A summary of the loan book analysed by collateral type is provided below:

At 31 December	2013 £'000	2012 £'000
Other property*	**3,086,678**	3,451,455
Residential property	**2,780,537**	2,812,901
Cash backed	**442,148**	530,754
Bank guaranteed	**24,427**	40,890
Other**	**221,627**	420,999
Unsecured	**148,220**	143,301
Gross loan and advances to customers	**6,703,637**	7,400,300

*Other property is predominantly UK residential investment property and UK commercial investment property.

**Other collateral includes charges over marketable investments such as stocks, shares and bonds, hold covered guarantees and charges over music rights and other assets.

III. Credit quality

The four classifications below describe the credit quality of the Company's lending and derivatives. These categories each encompass a range of more granular, internal credit rating grades assigned to corporate and personal lending business.

- Strong: exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters and only exceptionally show any period of delinquency.
- Medium: exposures require closer monitoring, with low to moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- Sub-standard: exposures show varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- Impaired: exposures have been assessed, individually as impaired.

	Strong £'000	Medium £'000	Sub-Standard £'000	Impaired £'000	Impairment Allowances £'000	Total £'000
At 31 December 2013						
Derivatives	**7,595**	**7,591**	-	-	-	**15,186**
Loans and advances to banks	**772,104**	-	-	-	-	**772,104**
Loans and advances to customers	**334,994**	**5,738,655**	**384,876**	**248,701**	**(81,550)**	**6,625,676**
At 31 December 2012						
Derivatives	14,428	3,588	-	-	-	18,016
Loans and advances to banks	240,372	-	-	-	-	240,372
Loans and advances to customers	310,990	6,554,092	293,966	254,606	(102,069)	7,311,585

Notes on the Financial Statements (continued)

IV. Loans and advances to customers and banks – net total credit risk

Loans and advances against which the Company had legally enforceable rights to offset with financial liabilities were as follows:

	2013			2012		
	Amounts presented in the balance sheet	Amount not offset in the balance sheet- Financial instruments	Net amount	Amounts presented in the balance sheet	Amount not offset in the balance sheet- Financial instruments	Net amount
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to banks	772,104	-	772,104	240,372	-	240,372
Loans and advances to customers	6,625,676	452,595	6,173,081	7,311,585	517,327	6,794,258
	7,397,780	452,595	6,945,185	7,551,957	517,327	7,034,630

V. Impairment allowances

Where impairment losses occur, the Company reduces the carrying amount of loans and advances to customers through the use of an allowance account. The following is an analysis of the movement in individually and collectively assessed impairment provisions:

	2013 Individually assessed £'000	2013 Collectively assessed £'000	2012 Individually assessed £'000	2012 Collectively assessed £'000
At 1 January	76,250	25,819	66,107	24,124
Amounts written off	(34,770)	-	(8,513)	-
Recoveries of amounts written off in previous years	311	-	-	-
Charge to income statement	15,734	(2,550)	19,668	1,695
Exchange and other movements	756	-	(1,012)	-
At 31 December	58,281	23,269	76,250	25,819

In 2013, interest of £711,502 (2012: £536,000) was accrued on loans for which individually assessed impairment provisions existed.

VI. Renegotiated loans and forbearance

The Company may renegotiate the terms and conditions of a loan for a number of reasons which include changing market conditions, customer retention and other reasons not related to the credit condition of a customer. Under certain circumstances, the Company may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer; this practice of renegotiation for credit purposes is known as forbearance.

A range of forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. The policies and practices are based on criteria which, in the judgement of local management, indicate that repayment is likely to continue.

Forbearance strategies include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosure, and other forms of loan modifications and re-ageing. These management policies and practices typically provide the customer with terms and conditions that are more favourable than those provided initially. Such

Notes on the Financial Statements (continued)

arrangements could include cases where an account is brought up-to-date without full repayment of all arrears.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations. From this point forward, the Company discloses loan forbearance as 'renegotiated loans', which represent concessions granted which the Company would not normally consider as a result of financial difficulties of a customer.

The following table shows the Company's holdings of renegotiated loans and advances to customers by industry sector and credit quality classification:

	At 31 December 2013				At 31 December 2012			
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Retail	**117,211**	**27,990**	**51,517**	**196,718**	90,244	41,885	66,754	198,883
Residential Mortgages	**99,901**	**24,852**	**23,243**	**147,996**	79,664	39,187	54,833	173,684
Other personal	**17,310**	**3,138**	**28,274**	**48,722**	10,580	2,698	11,921	25,199
Commercial real estate	**146,455**	**48,287**	**33,956**	**228,698**	197,780	38,667	78,436	314,883
Corporate and commercial	**36**	**286**	**9,932**	**10,254**	77	-	4,449	4,526
Financials	**7**	**228**	**-**	**235**	7	-	-	7
Other	**-**	**615**	**800**	**1,415**	-	615	-	615
	263,709	**77,406**	**96,205**	**437,320**	288,108	81,167	149,639	518,914

Ageing analysis of days past due but not impaired gross loans and advances to customers

At 31 December 2013	**Up to 29 days**	**30-59 days**	**60-89 days**	**90-179 days**	**Over 180 days**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Loans and advances held at amortised cost	**69,554**	**12,220**	**-**	**4,278**	**46,730**	**132,782**

At 31 December 2012	Up to 29 days	30-59 days	60-89 days	90-179 days	Over 180 days	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances held at amortised cost	17,805	11,318	4,407	9,769	62,104	105,403

VII. Sovereign Debt Exposure

For the purpose of this disclosure, eurozone countries are members of the EU and part of the euro single currency bloc. The peripheral eurozone countries are those which exhibited levels of market volatility which exceeded other eurozone countries, demonstrating persistent fiscal or political uncertainty in 2013.

Throughout 2012 and 2013, in spite of austerity measures and structural reforms, peripheral euro zone countries continued to exhibit a high ratio of sovereign debt to gross domestic product ('GDP') or short to medium-term maturity concentration of their liabilities. Although the overall situation has improved, further structural reforms are still needed to contain the threat of the exit of countries from the eurozone.

Notes on the Financial Statements (continued)

The Company's exposure to peripheral eurozone countries is limited.

At 31 December 2013	Greece £'000	Ireland £'000	Italy £'000	Portugal £'000	Spain £'000	Total £'000
Loans and advances	-	45,000	1,000	-	-	46,000
Gross	-	56,000	1,000	-	-	57,000
Impairment allowances	-	(11,000)	-	-	-	(11,000)
Off-balance sheet exposures - commitments	5,000	1,000	-	-	-	6,000

At 31 December 2012	Greece £'000	Ireland £'000	Italy £'000	Portugal £'000	Spain £'000	Total £'000
Loans and advances	42	52,683	1,025	1,223	7	54,980
Gross	42	89,630	1,025	1,223	7	91,927
Impairment allowances	-	(36,947)	-	-	-	(36,947)
Off-balance sheet exposures - commitments	212	143	253	-	8	616

b) Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost.

Approximately 87% of the bank's asset base is sterling-based with the remainder mostly denominated in Euros and US Dollars. The Company funds its sterling asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent company, HSBC Bank plc. Surplus balances in other currencies are usually placed with HSBC Bank plc or other HSBC Group entities.

Since 1 April 2013 the Company is part of the Defined Liquidity Group ('DLG') of HSBC Bank plc. The Company has therefore no direct obligation to fulfil the liquidity requirement of the PRA. Instead, the liquid assets of the Company support the wider liquidity buffer of the DLG. The Company is also part of the internal liquidity control and management structure of HSBC Bank plc.

For risk monitoring purposes, management monitor the ratio of net liquid assets to customer accounts. Net liquid assets are defined as the difference between liquid assets and liabilities falling due within three months. Target and trigger liquidity ratios are set for the Company by HSBC Bank plc.

Notes on the Financial Statements (continued)

The following is an analysis of assets and liabilities by remaining contractual maturities at the balance sheet date:

31 December 2013:	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	552	-	-	-	-	-	552
Derivatives	6,729	2,663	238	2,843	2,713	-	15,186
Loans and advances to banks	759,209	-	12,895	-	-	-	772,104
Loans and advances to customers	2,107,827	750,811	1,013,817	2,639,802	194,969	(81,550)	6,625,676
Financial investments	58,346	-	-	385,091	518,427	-	961,864
Other assets	-	76,089	-	-	-	-	76,089
Prepayments and accrued income	14,978	32,906	-	125	-	99	48,108
Investments in subsidiaries	-	-	-	-	-	401,360	401,360
Property, plant and equipment	-	-	-	-	-	23	23
Deferred tax assets	-	-	-	-	-	2,886	2,886
Total as at 31 December 2013	2,947,641	862,469	1,026,950	3,027,861	716,109	322,818	8,903,848

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities and Equity							
Deposit by banks	114,624	-	-	2,040,000	-	-	2,154,624
Customer accounts	4,360,214	191,566	514,752	211,223	30,733	-	5,308,488
Derivatives	18,310	4,176	2,149	13,631	54,021	-	92,287
Other liabilities	-	17,885	2,463	1,624	-	-	21,972
Current tax liabilities	-	24,158	-	-	-	-	24,158
Accruals and deferred income	-	26,617	-	13,718	-	-	40,335
Provisions for liabilities and charges	-	-	-	-	-	3,794	3,794
Subordinated liabilities	-	27,000	-	92,345	-	-	119,345
Equity	-	-	-	-	-	1,138,845	1,138,845
Total as at 31 December 2013	4,493,148	291,402	519,364	2,372,541	84,754	1,142,639	8,903,848

Notes on the Financial Statements (continued)

31 December 2012:

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	991	-	-	-	-	-	991
Derivatives	-	12,421	1,129	1,471	2,995	-	18,016
Loans and advances to banks	58,641	166,065	13,686	1,980	-	-	240,372
Loans and advances to customers	682,087	1,651,862	1,624,016	3,234,193	221,496	(102,069)	7,311,585
Financial investments	-	99,926	-	456,999	548,260	-	1,105,185
Property, plant and equipment	-	-	-	-	-	23	23
Other assets	-	3,828	-	-	-	67,330	71,158
Prepayments and accrued	-	73,071	-	-	-	11,853	84,924
Total as at 31 December 2012	741,719	2,007,173	1,638,831	3,694,643	772,751	(22,863)	8,832,254

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities and Equity							
Deposit by banks	74,218	180,000	1,695,260	400,000	-	-	2,349,478
Customer accounts	3,367,503	1,177,431	567,409	203,608	123,795	-	5,439,746
Derivatives	-	12,106	4,431	30,577	91,152	-	138,266
Other liabilities	-	10,641	-	-	-	12,895	23,536
Accurals and deferred income	-	79,004	-	-	-	103	79,107
Provisions for liabilities and charges	-	-	-	-	-	937	937
Subordinated liabilities	-	-	27,841	95,561	24,748	-	148,150
Equity	-	-	-	-	-	653,034	653,034
Total as at 31 December 2012	3,441,721	1,459,182	2,294,941	729,746	239,695	666,969	8,832,254

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

	On demand	**Due within 3 months**	**Due between 3-12 months**	**Due between 1-5 years**	**Due after 5 years**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2013						
Deposit by banks	**114,624**	**-**	**-**	**2,059,893**	**-**	**2,174,517**
Customer accounts	**3,589,838**	**962,102**	**517,554**	**248,144**	**34,953**	**5,352,591**
Subordinated liabilities	**-**	**-**	**27,087**	**95,852**	**-**	**122,939**
	3,704,462	**962,102**	**544,641**	**2,403,889**	**34,953**	**7,650,047**

Notes on the Financial Statements (continued)

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2012						
Deposit by banks	74,745	184,425	1,709,639	417,253	-	2,386,062
Customer accounts	3,367,503	1,185,361	577,681	223,653	142,743	5,496,941
Subordinated liabilities	-	437	29,153	101,242	25,624	156,456
	3,442,248	1,370,223	2,316,473	742,148	168,367	8,039,459

c) Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates or equity and commodity prices will impact the Company's income or the value of its portfolios.

The Company's objective is to manage and control market rate exposures while maintaining a market profile consistent with its risk appetite.

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

Disclosures on interest rate risk, market price risk and foreign exchange risk are provided below.

Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the Company's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBP'). At 31 December 2013 the Company's risk as measured by PVBP was £34,276 (2012: £4,129). PVBP is the change in the present value of future cash flows and not recognised as an immediate gain or loss in the Income Statement.

The PVBP of Interest Rate Swaps which have not qualified as Fair Value Hedges for the purposes of IAS39 (note 23) at 31 December 2013 was £5,299 (31 December 2012: £12,326).

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rate on a contractual basis or, if earlier, the dates on which the instruments mature as at 31 December 2013. 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 financial assets and liabilities.

Notes on the Financial Statements (continued)

31 December 2013:

	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	752,189	10,960	1,935	-	-	7,020	772,104
Loans & advances to Customers	5,779,786	90,210	158,786	470,108	84,157	42,629	6,625,676
Other assets	58,898	-	-	385,091	518,427	543,652	1,506,068
Total Assets	6,590,873	101,170	160,721	855,199	602,584	593,301	8,903,848
Liabilities							
Deposits by banks	2,040,000	-	-	-	-	114,624	2,154,624
Customer accounts	4,551,781	244,278	270,474	211,222	30,733	-	5,308,488
Other liabilities	-	-	-	-	-	182,546	182,546
Subordinated liabilities	24,197	95,148	-	-	-	-	119,345
Shareholders' equity	-	-	-	-	-	1,138,845	1,138,845
Total equity and liabilities	6,615,978	339,426	270,474	211,222	30,733	1,436,015	8,903,848
Notional value:							
Interest rate swaps	1,228,087	(31,090)	(110,686)	(606,135)	(480,176)	-	-
Interest rate sensitivity gap	1,202,982	(269,346)	(220,439)	37,842	91,674	-	-
Cumulative interest rate sensitivity gap	1,202,982	933,636	713,197	751,039	842,713	-	-

Notes on the Financial Statements (continued)

31 December 2012:

	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	224,706	5,027	1,816	1,980	-	6,843	240,372
Loans & advances to Customers	6,088,951	277,293	96,993	659,978	134,840	53,530	7,311,585
Other assets	99,926	-	-	456,999	548,260	175,112	1,280,297
Total Assets	6,413,583	282,320	98,809	1,118,957	683,100	235,485	8,832,254
Liabilities							
Deposits by banks	1,715,739	633,739	-	-	-	-	2,349,478
Customer accounts	4,550,423	171,176	396,233	203,608	118,306	-	5,439,746
Other liabilities	-	-	-	-	-	241,846	241,846
Subordinated liabilities	24,748	123,402	-	-	-	-	148,150
Shareholders' equity	-	-	-	-	-	653,034	653,034
Total equity and liabilities	6,290,910	928,317	396,233	203,608	118,306	894,880	8,832,254
Notional value:							
Interest rate swaps	1,282,692	(5,455)	(59,863)	(736,991)	(480,383)	-	-
Interest rate sensitivity gap	1,405,365	(651,452)	(357,287)	178,358	84,411	(659,395)	-
Cumulative interest rate sensitivity gap	1,405,365	753,913	396,626	574,984	659,395	-	-

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.

Market price risk

The Company uses Value at risk ('VAR') to monitor and limit market risk exposures. VAR is a technique that estimates the potential losses on risk positions in a portfolio as a result of movement in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model is based predominantly on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

VAR measures in the table below are calculated to a 99% confidence level and use a one-day holding period.

Value at Risk	**2013** **£'000**	2012 £'000
At 31 December	**2,876**	3,706
Average	**3,501**	3,346
Minimum	**2,871**	2,849

Maximum	**4,079**	4,018

The nature of VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. Although a valuable guide to risk, VAR should always be viewed in the context of limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of one-day holding period assumes that all positions can be liquidated or the risks offset in one day;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

Foreign exchange risk

The table below shows an analysis of assets and liabilities between balances denominated in sterling and those denominated in other currencies.

	2013 £'000	2012 £'000
Denominated in sterling	**7,788,494**	7,638,326
Denominated in currencies other than sterling	**1,115,354**	1,193,928
Total assets	**8,903,848**	8,832,254
Denominated in sterling	**7,190,764**	6,569,072
Denominated in currencies other than sterling	**1,713,084**	2,263,182
Total equity and liabilities	**8,903,848**	8,832,254

25 Related party transactions

a) Transactions, arrangements and agreements involving Directors and connected persons and Companies controlled by them.

	2013 Number of Directors	**2013 £'000**	2012 Number of Directors	2012 £'000
Loans (including housing loans) to, and guarantees on behalf of	-	-	1	1,000

The maximum amount of loans for Directors outstanding during the year was £Nil (2012: £1,125,166).

b) Compensation to the Board of Directors, as executives of the Company, is disclosed in note 5 to the accounts.

c) Summary of aggregate balances of transactions with other related parties of HSBC Private Bank (UK) Limited:

Notes on the Financial Statements (continued)

31 December 2013:

	HSBC Bank plc	HSBC Bank (C.I) Ltd	Other Group Companies
	£'000	£'000	£'000
Assets:			
Derivatives	7,595	-	-
Loans and advances to banks	620,675	133,628	6,769
Liabilities:			
Deposits by banks	114,624	700,000	1,340,000
Derivatives	91,078	-	-
Subordinated liabilities	-	-	119,345
Income Statement:			
Interest income	2,929	11	923
Interest expense	-	784	20,985
Fee income	152	825	8,584
Fee expense	2,228	223	6,490
Other operating expense	-	-	3,012
General and administrative expenses	21,176	(13)	1,634
Off Balance Sheet:			
Contract amount of derivatives	2,607,350	-	-

31 December 2012:

	HSBC Bank plc	Other Group Companies
	£'000	£'000
Assets:		
Derivatives	14,428	-
Loans and advances to banks	176,482	56,009
Liabilities:		
Deposits by banks	80,239	2,269,239
Derivatives	136,391	-
Subordinated liabilities	-	148,150
Income Statement:		
Interest income	984	5,553
Interest expense	138	34,388
Fee income	70	14,932
Fee expense	(473)	8,429
Other operating expense	-	-
General and administrative expenses	15,944	851
Off Balance Sheet:		
Contract amount of derivatives	3,510,672	-

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar

Notes on the Financial Statements (continued)

standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

26 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc, incorporated in England, is the parent undertaking of the smallest group to consolidate these financial statements. Both companies are registered in England.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square
London
E14 5HQ
www.hsbc.com

27 Events after the balance sheet date

There are no significant events after the balance sheet date.