HSBC Private Bank (UK) Limited
Registered No: 499482

Financial Statements for the year ended 31 December 2016

HSBC

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Contents

Strategic Report

Principal activities

HSBC Private Bank (UK) Limited (the 'Entity') 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 Entity's principal activity is private banking.

The Entity's products and services include: investment management, incorporating advisory, discretionary and brokerage services; private wealth solutions comprising trust and estate planning; and a full range of private bank services.

Review of the Entity's business

Drawing on the strength of HSBC group and the most suitable products from the marketplace, we work with our clients to provide solutions to grow, manage and preserve wealth for today and for the future. The Entity continues to simplify and improve the way it conducts its business, including complying with HSBC Global Standards, financial crime compliance measures, customer due diligence and tax transparency standards.

During 2016 the Entity 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. The positioning of the Entity over the past years has seen the Entity, in its targeted client base, grow assets under management and associated revenues. This has been driven by an increase in referrals from existing HSBC Group clients. Part of our repositioning has seen a reduction of assets under management from customers from non-core markets.

Implementation and operationalisation of the ServCo group

HSBC Group has started making changes to its corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, to remove operational dependencies (where one subsidiary bank provides critical services to another), the Group is in the process of transferring critical services from subsidiary banks to a separately incorporated group of service companies ("ServCo group").

In 2015, to progress implementation, 265 employees performing shared services in the UK were transferred from the Entity to the ServCo group, which is a subsidiary of HSBC Holdings plc. There were no changes to employment terms and conditions or pension benefits as a result of these transfers.

A further 50 employees, critical shared services in the UK and other jurisdictions were transferred in 2016. Following the transfers of employees, the ServCo group in the UK has started providing services to the Entity. From 1 July 2016, the Entity recognises a management charge for the services provided by ServCo group instead of staff compensation. The implementation process is expected to complete during 2017.

Performance

The Entity's results for the year under review are as detailed in the income statement shown on page 12 of these financial statements.

Profit for the year in 2016 of £54,598,000 was 25% lower than in 2015 (£72,345,000). 2015 profit included a £9,071,000 one-off gain from the sale of financial investments and customer redress provision releases of £5,498,000 compared to £936,000 in 2016. Excluding these two significant items, the decrease of 7% in profit for the year compared to 2015 was primarily attributable to a lower net interest income as a result of a decrease in the lending book partly offset by lower loan impairment charges due to significant recoveries in previously impaired and collective impairment allowances releases.

Total expenditure remained constant between 2015 and 2016. Headcount decreased from an average of 677 full-time employees in 2015 to 476 as employees that moved into the Servco group, and were seconded back to the Entity in 2015, were fully transferred in 2016. A management charge for these employees are included in 'General and administrative expense'.

Business Position

Total assets of £6,243,641,000 were 4% lower than at 31 December 2015 (£6,518,246,000), principally due to a decrease in loans and advances to customer as the Entity continues to reposition itself by exiting customers from non-core markets and focus on growth on its targeted client base.

Total liabilities increased by 6% and were at £5,530,415,000 as at 31 December 2016, as compared to £5,234,737,000 as at 31 December 2015, primarily driven by an increase in customer accounts.

Total equity of the Entity decreased by £570,283,000 to £713,226,000 at 31 December 2016 (31 December 2015: £1,283,509,000) mainly due to the payment of dividends during the year (£625,000,000).

Total Assets under Management (including cash deposits) decreased to £6,728,816,000 at 31 December 2016 (31 December 2015: £7,895,689,000).

Key performance indicators

The Directors use Key Performance Indicators ('KPI's) 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 Entity is exposed.

Financial KPIs

	2016	2015
Profit before tax (£'000)	**75,127**	91,286
Total Risk-Weighted Assets (£'000)	**2,272,064**	3,185,879
Pre-tax return on risk-weighted assets	**3%**	3%
Common equity tier 1	**29%**	39%
Cost efficiency ratio	**68%**	59%
Ratio of customers advances to customer accounts	**1.34**	1.57

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

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

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

Ratio of customers advances to customer accounts comprises loans and advances to customers as a ratio of the total core customer deposits. The lower the percentage, the stronger the funding position.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in note 28 of the financial statements.

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

Operational risk is relevant to every aspect of the Entity'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 Entity'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 Entity's risk appetite, as proposed by the Risk Management Committee set by the Board.

Regulators in the UK and other countries have continued to increase their focus on 'conduct' matters relating to fair outcomes for customers and orderly/transparent markets, including, for example, attention to sales processes and incentives, products and investment suitability, product governance, employee activities and accountabilities.

In the UK, the FCA is making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. The FCA is also regulating areas of activity not previously regulated by them, such as consumer credit, and considering competition issues in the markets they regulate. Additionally, the FCA increasingly take actions in response to customer complaints or where they see poor customer outcomes and/or market abuses, either specific to an institution or more generally in relation to a particular product.

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions may significantly alter the competitive landscape.

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

Like other public and private organizations, we continue to be a target of cyber attacks, which, in some cases, disrupt services including the availability of our external facing websites, compromise organizations and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

The security of our information and technology infrastructure is crucial for maintaining our banking applications and processes and protecting our customers and the HSBC brand.

Signed on behalf of the Board

Director

6 March 2017

8 Canada Square
London
E14 5HQ

Directors

The Directors who served during the year were as follows:

Name	Appointed	Resigned
J F Trueman	1 April 2013	
R B Janvrin	30 January 2008	2 March 2016
C D Allen	20 August 2012	
P Tremble	27 March 2012	
P W Boyles	18 April 2016	
J R Paterson	3 October 2016	
D Stewart	2 June 2016	

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity 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. All Directors have the benefit of directors' and officers' liability insurance.

Dividends

Two dividends were declared by the Directors during the year ended 31 December 2016 for £300,000 and £325,000 (2015: £Nil).

Significant events since the end of the financial year

The Board has approved the proposal to transfer 100% of share ownership of HSBC Private Bank (C.I.) Limited to HSBC Bank Plc, its parent undertaking on 10th February 2017.

Future developments

The transfer of HSBC Private Bank (C.I) Limited to HSBC Bank Plc in line with Board approval to support the Group's ring-fenced bank requirements.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity 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 Entity, 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 28 of the Notes to the Financial Statements.

Employment of disabled persons

The Entity 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 Entity 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 Entity's performance through management channels, oral communication 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 Entity is further encouraged through a profit participation scheme.

Capital management

The Entity defines capital as total shareholders' equity. 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 Entity's approach to capital management during the year.

We manage our capital within the context of an annual capital plan which determines the optimal amount and mix of capital required to support planned business growth and meet local regulatory capital requirements.

Pillar 3 of Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks and capital, and how these are managed. Separate Pillar 3 disclosures are not required for the Entity as the Entity 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 PRA is the supervisor of the Entity. The PRA sets capital requirements and receives information on the capital adequacy of the Entity. The Entity complied with the PRA's capital adequacy requirements throughout 2016. Since 1 January 2014, our capital is calculated under CRD IV and supplemented by the PRA Rulebook to effect the transposition of CRD IV directive requirements. The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Capital Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systemically Important Institutions ('G-SII'/'O-SII') buffer. CRD IV legislation implemented Basel III in the EU, and in the UK, the 'PRA Rulebook' for CRR Firms transposed the various discretions under the CRD IV legislation into UK requirements.

Regulatory capital

Our capital base is divided into two main categories namely Common equity tier 1 and tier 2, depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 capital is the highest quality form of capital, comprising shareholders' equity. Under CRD IV various capital deductions which are treated differently for the purposes of capital adequacy - these include negative amounts resulting from the calculation of expected loss amounts under IRB.
- Tier 2 comprises subordinated loans.

The calculation of actual capital is shown below (unaudited).

	2016 £'000	2015 £'000
Tier 1 capital		
Shareholders' equity	**713,226**	1,283,509
Regulatory adjustments to the accounting basis		
Deductions		
Excess expected losses over impairment allowances	**(51,639)**	(25,897)
Common equity tier 1	**661,587**	1,257,612
Deductions		
Unconsolidated investments	**(220,598)**	(124,342)
Tier 1 capital	**440,989**	1,133,270
Tier 2 capital		
Total qualifying tier 2 capital before deductions		
Term subordinated debt (note 18)	**-**	17,885
Tier 2 capital	**-**	17,885
Deductions other than from tier 1 capital		
Total regulatory capital	**440,989**	1,151,155
Risk-weighted assets		
Credit and counterparty risk	**1,912,881**	2,820,623
Market risk	**4,059**	1,618
Operational risk	**355,124**	363,638
Total	**2,272,064**	3,185,879
Capital ratios		
Common equity tier 1 ratio	**29.12%**	39.47%
Tier 1 ratio	**19.41%**	35.57%
Total capital ratio	**19.41%**	36.13%

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

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 Entity's auditors are 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 Entity's auditors are aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Independent Auditor

PricewaterhouseCoopers LLP's ('PwC') has completed its second year as external auditors and has expressed willingness to continue in office. The Board recommends that PwC be re-appointed.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on the next page, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing, in accordance with applicable law and regulations, a Strategic Report, a Directors' Report and financial statements for each financial year.

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected to prepare the Entity's financial statements on the same basis.

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 Entity and of the profit or loss of the Entity 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; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that its financial statements comply with the Companies Act 2006.

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

Signed on behalf of the Board

Director

8 Canada Square
London
E14 5HQ

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

Report on the financial statements

Our opinion

In our opinion, HSBC Private Bank (UK) Limited's financial statements (the 'financial statements'):
- give a true and fair view of the state of the Entity's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the 'Annual Report'), comprise:
- the statement of financial position as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Entity and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other Matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

HSBC Private Bank (UK) Limited

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

Responsibilities for the financial statements and the audit

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 9, 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) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Entity's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Entity's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matthew Falconer

Matthew Falconer (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6/3/17

Income statement for the year ended 31 December 2016

	Note	**2016** **£'000**	2015 £'000
Interest income		**145,362**	179,064
Interest expense		**(15,952)**	(29,200)
Net interest income	2	**129,410**	149,864
Fee and commission income		**57,018**	64,554
Fee and commission expense		**(10,186)**	(11,222)
Net Fee income	2	**46,832**	53,332
Net trading income		**3,839**	2,415
Gains less losses from financial investments		**-**	9,071
Other operating income		**34,121**	33,270
Net operating income before loan impairment charges and other credit risk provision		**214,202**	247,952
Loan impairment charges and other credit risk provisions	2	**5,854**	(9,698)
Net operating income	2	**220,056**	238,254
Employee compensation and benefits		**(65,456)**	(88,931)
General and administrative expense		**(79,422)**	(58,037)
Amortisation of intangible assets		**(51)**	-
Total operating expenses		**(144,929)**	(146,968)
Operating profit		**75,127**	91,286
Profit before tax		**75,127**	91,286
Tax expense	7	**(20,529)**	(18,941)
Profit for the year		**54,598**	72,345

The notes on pages 17 to 66 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the year	**54,598**	72,345
Other comprehensive income		
Items that will be reclassified subsequently to profit and loss when specific conditions are met		
Available-for-sale investments		
- fair value losses	-	(7,537)
- income taxes	-	1,647
Other comprehensive expense for the year, net of tax	-	(5,890)
Total comprehensive income for the year	**54,598**	66,455

The accompanying notes on pages 17 to 66 form an integral part of these financial statements.

All operations are continuing. There has been no other material comprehensive income or expenses in 2016.

Statement of financial position as at 31 December 2016

	Note	**2016 £'000**	2015 £'000
Assets			
Cash and balances at central banks		**7,563**	910
Derivatives	25	**12,175**	5,757
Loans and advances to banks		**855,429**	658,740
Loans and advances to customers	11	**4,565,629**	5,288,089
Prepayments and accrued income		**17,325**	26,905
Investments in subsidiary undertakings	12	**401,360**	401,360
Property, plant and equipment	13	**23**	23
Intangible assets	14	**3,174**	1,897
Deferred tax assets	8	**1,612**	1,221
Other assets	15	**379,351**	133,344
Total assets		**6,243,641**	6,518,246
Liabilities and equity			
Liabilities			
Deposits by banks		**48,399**	441,732
Customer accounts	10	**5,368,164**	4,618,224
Derivatives		**15,746**	8,614
Accruals, deferred income and other liabilities	17	**58,986**	63,117
Current tax liabilities		**37,276**	16,662
Provisions	16	**1,844**	4,159
Subordinated liabilities	18	**-**	82,229
Total liabilities		**5,530,415**	5,234,737
Equity			
Called up share capital	19	**176,910**	176,910
Share premium account		**404,636**	404,636
Retained earnings		**131,680**	701,963
Total equity		**713,226**	1,283,509
Total equity and liabilities		**6,243,641**	6,518,246

The notes on pages 17 to 66 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 6 March 2017 and were signed on its behalf by:

Director

Statement of cash flows for the year ended 31 December 2016

	Note	**2016 £'000**	2015 £'000
Cash flows from operating activities			
Profit before tax		**75,127**	91,286
Adjustments for:			
- non cash items included in profit before tax	20	**(4,689)**	13,035
- change in operating assets	20	**611,447**	569,572
- change in operating liabilities	20	**101,679**	(952,933)
- elimination of exchange differences		**(4,127)**	(3,994)
- tax paid		**-**	(20,589)
Net cash generated from/(used in) operating activities		**779,437**	(303,623)
Cash flows from investing activities			
Proceeds from the sale and maturity of financial investments		**-**	944,871
Net cash generated from investing activities		**-**	944,871
Cash flows from financing activities			
Subordinated liabilities repaid		**(85,349)**	(15,000)
Dividends paid		**(625,000)**	-
Net cash used in financing activities		**(710,349)**	(15,000)
Net increase in cash and cash equivalents		**69,088**	626,248
Cash and cash equivalents brought forward		**652,656**	25,649
Effect of exchange rate changes on cash and cash equivalents		**100,541**	759
Cash and cash equivalents carried forward[1]	20	**822,285**	652,656

[1] At 31 December 2016 £6,665,000 was not available for use by the entity, which related to mandatory deposits at central bank

The notes on pages 17 to 66 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2016

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves: Available-for-sale fair value reserve £'000	Total equity £'000
2016					
At 1 January 2016	**176,910**	**404,636**	**701,963**	**-**	**1,283,509**
Profit for the year	**-**	**-**	**54,598**	**-**	**54,598**
Total comprehensive income for the year	**-**	**-**	**54,598**	**-**	**54,598**
Dividends to shareholders	**-**	**-**	**(625,000)**	**-**	**(625,000)**
Net impact of equity-settled share-based payments	**-**	**-**	**134**	**-**	**134**
Other movements	**-**	**-**	**(15)**	**-**	**(15)**
At 31 December 2016	**176,910**	**404,636**	**131,680**	**-**	**713,226**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves: Available-for-sale fair value reserve £'000	Total equity £'000
2015					
At 1 January 2015	176,910	404,636	628,995	5,890	1,216,431
Profit for the year	-	-	72,345	-	72,345
Available-for-sale investments	-	-	-	(5,890)	(5,890)
Total comprehensive income for the year	-	-	72,345	(5,890)	66,455
Net impact of equity-settled share-based payments	-	-	598	-	598
Other movements	-	-	25	-	25
At 31 December 2015	176,910	404,636	701,963	-	1,283,509

The notes on pages 17 to 66 form an integral part of these financial statements.

Equity is wholly attributable to equity shareholders of HSBC Private Bank (UK) Limited.

1 Basis of preparation and summary of significant accounting policies

A Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Entity have been prepared in accordance with IFRSs as adopted by the European Union ('EU').

At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these financial statements and the Entity's application of IFRS results in no differences between IFRSs as issued by the IASB and IFRS as endorsed by the EU.

Standards adopted during the year ended 31 December 2016

There were no new standards applied during the year ended 31 December 2016.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs through the Annual Improvements to IFRSs 2012-2014 cycle and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The Entity has not applied any of the amendments effective after 31 December 2016 and it expects they will have an immaterial impact, when applied, on the financial statements of the Entity.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers'. IFRS 9 and IFRS 15 have been endorsed for use in the EU.

IFRS 9 'Financial Instruments'
In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement
The classification and measurement of financial assets will depend on how these are managed (the entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the Entity expects that the overall impact of any change will not be significant.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks, but do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Based on the analysis performed to date, the Entity expects to exercise the accounting policy choice to continue IAS 39 hedge accounting and therefore is not currently planning to change hedge accounting, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Entity does not intend to restate comparatives. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Entity is assessing the impact that the impairment requirements will have on the financial statements.

The Entity intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Financial Statements 2017. Until reliable estimates of the impact are available, particularly on the interaction with the regulatory capital requirements, further information on the expected impact on the financial position and on capital planning cannot be provided.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Entity has assessed the impact of IFRS 15 and it expects that the standard will have no significant effect, when applied, on the financial statements of the Entity.

(c) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below as the critical accounting estimates and judgements, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2016 Financial Statements. Management's selection of the Entity's accounting policies which contain critical estimates and judgements is listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

- Impairment of loans and advances: refer to Note 28
- Deferred tax assets: refer to Note 8
- Provisions: refer to Note 16

(d) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity 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, including future projections of profitability, cash flows and capital resources.

(e) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost that are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

B Summary of significant accounting policies

(a) Loans and advances to banks and customers

Loans and advances to banks and customers are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as for some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan (as described in Note 24) through the recognition of interest income, unless the loan becomes impaired.

(b) Impairment of loans and advances

Critical accounting estimates and judgements

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience. Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models, risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations and other influences on customer payment patterns. Different factors are applied in different regions and countries to reflect local economic conditions, laws and regulations. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss experience. For example, roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan portfolio has occurred. Losses which may arise from future events are not recognised.

Individually assessed loans and advances
The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, the importance of the individual loan relationship and how this is managed. Loans that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the Entity considers on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan is impaired.

The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which include expected future receipts of contractual interest, at the loan's original effective interest rate or an approximation thereof, and comparing the resultant present value with the loan's current carrying amount.

The Entity might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgement and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Where collectively assessed loan portfolios include significant levels of loan forbearance, portfolios are segmented to reflect the different credit risk characteristics of forbearance cases, and estimates are made of the incurred losses inherent within each forbearance portfolio segment. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

Incurred but not yet identified impairment
Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the Entity has incurred as a result of events occurring before the balance sheet date which the Entity is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within a group, those loans are removed from the group and assessed individually.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes once a minimum number of payments required have been received. Where collectively assessed loan portfolios include significant levels of renegotiated loans, these loans are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

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. Any new loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

(c) Operating income

Interest income and expense
Interest income and expense for all financial instruments excluding 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.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

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

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating a transaction, such as the acquisition of shares for a third party); and
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services).

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 the related interest income, expense and dividends.

Dividend income is recognised when the right to receive a payment is established. This is usually the date when the shareholders approve the dividend for unlisted equity securities.

2 Operating Profit

Operating profit is stated after the following items of income, expense, gains and losses, and loan impairment charges and other credit risk provisions:

	2016 £'000	2015 £'000
Interest income		
Short-term funds and loans and advances to banks*	7,042	2,585
Loans and advances to customers	138,320	173,929
Financial investments	-	2,550
Total interest income	145,362	179,064
Interest recognised on impaired financial assets	342	432
Interest expense		
Deposits by banks*	668	8,632
Customer accounts	15,284	20,568
Total interest expense	15,952	29,200

	2016 £'000	2015 £'000
Fee income		
Fees earned on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	34,460	44,294
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	22,558	20,260
Fee expense		
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	10,186	11,222
Loan impairment charges and other credit risk provisions		
Net impairment charge on loans and advances	(5,854)	9,698

*'Loans and advances to banks' and 'Deposits by banks' include balances with group companies. In 2015 £573,000 of interest paid to HSBC Bank plc was reported and recognised under Interest Expense 'Deposits by banks'. The interest had been incorrectly recorded as an expense in 2015 and 2014 (£1,583,000) and corrected in 2016. Interest income of £4,312,000 was recognised under 'Short-term funds and loans and advances to banks' in 2016 to correct this prior year error.

3 Employee compensation and benefits

Total employee compensation

	2016 £'000	2015 £'000
Wages and salaries including share-based payments (see below)	55,034	71,583
Social security costs	6,124	8,568
Post- employment benefits	4,298	8,780
Year ended 31 December	65,456	88,931

Average number of persons employed by the Entity during the year

	2016	2015
Client/Product Services	**244**	268
Operations and Support	**116**	214
Head Office Administration	**60**	112
Asset Management Services	**56**	83
Year ended 31 December	**476**	677

From 1 July 2016, all employees that were seconded to the Entity in 2015 and fully transferred to the ServCo group in 2016 are no longer included in the Entity's head count. Management charge for services provided by ServCo group is included in General and administrative expense.

Post-employment benefit plans

The Entity's employees are members of various schemes.

The HSBC Bank (UK) Pension Scheme, which is the principal scheme, covers employees of HSBC Bank plc and other group companies. 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.

There is no contractual agreement or stated policy for charging the net defined benefit cost from HSBC Bank plc to the other members of the group pension plan. Instead 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.

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2016, of which employees of the Entity are members, are disclosed in the statutory accounts of HSBC Bank plc.

In 2016, the pension cost for defined contribution plans which cover 70% of the Entity's employees was £5,260,000 (2015: £6,494,000). The Entity expects to make £7,715,381 of contributions to the defined contribution plans during 2017.

4 Share-based payments

Accounting policy

The Entity enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for services by employees.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period and are treated as an acceleration of vesting recognised immediately. Failure to meet a vesting condition by the employee is not treated as a cancellation and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

Income statement charge

	2016	2015
	£'000	£'000
Restricted and performance share awards	**1,751**	3,209
Savings-related and other share option plans	**128**	11
Year ended 31 December	**1,879**	3,220

The share-based payment income statement charge is recognised in wages and salaries.

HSBC Share Awards

Award	Policy	Purpose
Restricted share awards (including GPSP awards)	• Vesting of awards generally subject to continued employment with HSBC. • Vesting is generally staggered over three years. GPSP awards vest after five years. • Certain shares subject to a retention requirement post-vesting. In the case of GPSP awards retention applies until cessation of employment. • Awards generally not subject to performance conditions. • Awards granted from 2010 onwards are subject to malus provision prior to vesting.	• Rewards employee performance and potential and supports retention of key employees. • To defer variable pay

Movement on HSBC share awards

	Restricted share awards	
	2016	2015
	Number	Number
Outstanding at 1 January	**758,280**	730,191
Additions during the year	**823,087**	555,374
Released in the year	**(717,831)**	(485,963)
Forfeited in the year	**(48,359)**	(1,246)
Transferred	**(322,967)**	(40,076)
Outstanding at 31 December	**492,210**	758,280
Weighted average fair value of awards granted (£)	**4.22**	6.14

HSBC Share Options

Main plans	**Policy**	**Purpose**
Savings-related share option plans	• One plan: the UK plan. • Eligible employees save up to £500 per month (or for options granted prior to 2013, the equivalent in euros), with the option to use the savings to acquire shares. • Exercisable within six months following either the third or fifth anniversaries of the commencement of a three-year or five-year contract, respectively, (or for options granted prior to 2013, three months following the first anniversary of the commencement of a one-year savings contract). • The exercise price is set at a 20% (2015: 20%) discount to the market value immediately preceding the date of invitation (except for the one-year options granted under the US sub-plan prior to 2013 where a 15% discount was applied).	• To align the interests of all employees with the creation of shareholder value.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model.

The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share option plans	
	Number	WAEP[1] £
2016		
Outstanding at 1 January	751,319	5.84
Granted during the year	676,640	4.40
Exercised during the year	(45,871)	4.72
Expired during the year	(255,179)	4.33
Transferred during the year	(562,230)	4.27
Outstanding at 31 December	**564,679**	**4.26**
Weighted average remaining contractual life (years)		2.93

	Savings-related share option plans	
	Number	WAEP[1] £
2015		
Outstanding at 1 January	509,110	6.30
Granted during the year	604,941	5.84
Exercised during the year	(203,227)	5.84
Expired during the year	(159,505)	5.86
Outstanding at 31 December	751,319	5.84
Weighted average remaining contractual life (years)		2.34

1 Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transactions are contracted, was £0.83 (2015: £1.15).

5 Remuneration of Directors

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

	2016 £'000	2015 £'000
Fees[1]	88	50
Salaries and other emoluments	1,267	937
Annual incentives[2]	1,087	1,242
Year ended 31 December	2,442	2,229

1 *Fees included fees paid to non-executive directors.*

2 *Awards made to executive Directors in respect of 2016 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £261,000 in cash, £285,000 in deferred cash (vesting annually over a five-year and seven-year period), £256,000 in Restricted Shares and £285,000 in deferred Restricted Shares (vesting annually over a five-year and seven-year period) issued under the HSBC Share Plan.*

Awards made to executive Directors in respect of 2015 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £265,000 in cash, £367,000 in deferred cash (vesting annually over a three-year period), £243,000 in Restricted Shares and £367,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

No directors exercised share options over HSBC Holdings plc ordinary shares during the year (2015: 1 Director).

Awards were made to 2 Directors under long-term incentive plans in respect of qualifying services rendered in 2016 (2015: 3 Directors). During 2016, 2 Directors received shares in respect of awards under long-term incentive plans that vested during the year (2015: Nil).

Retirement benefits are accruing to Nil Directors under a defined benefit scheme and are accruing to 4 Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £55,762 (2015: £37,476) were made during the year to money purchase arrangements and £Nil to defined benefit schemes in respect of Directors' qualifying services (2015: £29,182).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent Entity, 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.

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

	2016 £'000	2015 £'000
Salaries and other emoluments	664	441
Annual incentives[1]	606	682
Year ended 31 December	1,270	1,123

1 *Awards made to the highest paid Director in respect of 2016 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £121,000 in cash, £182,000 in deferred cash (vesting annually over a three-year period), £121,000 in Restricted Shares and £182,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

Awards made to the highest paid Director in respect of 2015 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £136,000 in cash, £205,000 in deferred cash (vesting annually over a three-year period), £136,000 in Restricted Shares and £205,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

The highest paid Director received 69,830 (2015: Nil) 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 exercised Nil shares options over HSBC Holdings plc ordinary shares during the year (2015: Nil).

Pension contributions of £21,553 (2015: £19,974) were made by the Entity in respect of services by the highest paid Director during the year.

6 Auditors' remuneration

	2016	2015
	£'000	£'000
Audit fees for HSBC Private Bank (UK) Limited statutory audit:		
- Fees relating to current year	**80**	80
- Fees relating to prior year	**32**	-
Fees for other services provided to the Entity:		
- Other services provided to the Entity	**26**	14
Total fees payable	**138**	94

7 Tax expense

Accounting policy

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 and any adjustment to tax payable in respect of previous years. The Entity provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

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 is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled. Current and deferred tax is calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

Tax charged to the income statement

	2016 £'000	2015 £'000
Current tax		
UK Corporation tax		
- for this year	20,695	18,379
- adjustments in respect of prior years	(34)	15
Total current tax	20,661	18,394
Deferred tax		
Origination and reversal of temporary differences	197	839
Effect of changes in tax rates	24	(292)
Adjustments in respect of prior years	(353)	-
Total deferred tax	(132)	547
Total tax charged to income statement	20,529	18,941

The UK corporation tax rate applying to the Company was 20.00% (2015: 20.25%).

The UK government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. A further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned. These reductions in the corporation tax rate were enacted in the Finance (No2) Act 2016.

The UK government introduced a surcharge of banking companies in the Finance (No 2) Act 2015 to apply with effect from 1 January 2016. This company meets the definition of a banking company and will therefore be subject to the 8% bank surcharge.

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:

	2016 £'000	Percentage of overall profit before tax	2015 £'000	Percentage of overall profit before tax
Profit before tax	75,127		91,286	
Tax at 20.00% (2015: 20.25%)	15,025	20.00%	18,485	20.25%
Adjustments in respect of prior period liabilities	(387)	(0.52)%	15	0.02%
Permanent disallowables	47	0.06%	74	0.08%
Bank surcharge	5,900	7.85%	-	-
Adjustment in respect of share-based payments	(79)	(0.11)%	518	0.57%
Impact due to changes in tax rates	23	0.03%	(151)	(0.17)%
Total tax charged to income statement	20,529	27.33%	18,941	20.75%

The effective tax rate for 2016 of 27.33% was higher than the UK corporation tax rate of 20.00%.

8 Deferred tax assets

Critical accounting estimates and judgements

Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relate to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

The following table shows the gross deferred tax assets and liabilities recognised in the statement of financial position and the related amounts recognised in the Income Statement:

	Property, plant and equipment £'000	**Share based payments £'000**	**Other temporary differences £'000**	**Total £'000**
At 1 January 2016	**88**	**823**	**310**	**1,221**
Income statement (expense)/credit	**(48)**	**4**	**176**	**132**
Equity statement credit	**-**	**259**	**-**	**259**
At 31 December 2016	**40**	**1,086**	**486**	**1,612**

	Property, plant and equipment £'000	Share based payments £'000	Other temporary differences £'000	Total £'000
At 1 January 2015	96	716	911	1,723
Income statement (expense)/credit	(8)	62	(601)	(547)
Equity statement credit	-	45	-	45
At 31 December 2015	88	823	310	1,221

9 Dividends

An interim dividend of £300,000 was declared by the Directors on 24 June 2016. An interim dividend of £325,000 was declared by the Directors on 21 October 2016.

10 Customer accounts

Customer accounts increased by 16% from £4,618,224 in December 2015 to 5,368,164 in December 2016. The increase was mainly driven by higher average new deposits compared to prior year and foreign exchange gains on non-GBP deposits, which makes up approximately 25% of the portfolio.

11 Loans and advances to customers

	2016 £'000	2015 £'000
Gross loans and advances to customers	**4,606,671**	5,341,328
Fair value adjustment to loans hedged by designated swaps	**2,780**	2,731
Impairment allowances (note 28)	**(43,822)**	(55,970)
Loans and advances to customers	**4,565,629**	5,288,089

The following table analyses loans and advances to customers by industry sector:

	2016		2015	
	Gross loans and advances to customers £'000	**Gross loan by industry as % of total gross loans %**	Gross loans and advances to customers £'000	Gross loan by industry as % of total gross loans %
Personal				
Residential mortgages	**2,390,284**	**52**	2,536,351	48
Other personal	**549,939**	**12**	648,918	12
Corporate and commercial				
Commercial, industrial and trade	**77,961**	**2**	83,987	2
Commercial real estate	**793,158**	**17**	1,144,970	21
Other property-related	**643,728**	**14**	754,301	14
Other commercial	**110,975**	**2**	107,518	2
Financial	**43,406**	**1**	68,014	1
As at 31 December	**4,609,451**	**100**	5,344,059	100
Impaired loans (£'000)		**300,247**		216,817
as a % of total		**7%**		4%

12 Investment in subsidiary undertakings

Accounting policy

The Company classifies investments in entities which it controls as subsidiaries. Where an entity is governed by voting rights, the Company consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

The Company's investments in subsidiaries are stated at cost less impairment losses.

	Country of incorporation	**Interest in Equity Capital**	**Share Class**	**No. of shares**
HSBC Private Bank (C.I.) Limited	Guernsey	100.00%	Ordinary $1.00	8,000,000

13 Property, plant and equipment

Accounting policy

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRSs ('deemed cost'), less impairment losses and depreciation over their estimated useful lives, as follows:

- freehold land is not depreciated;
- freehold buildings are depreciated at the greater of 2% per annum on a straight-line basis or over their remaining useful lives; and
- leasehold land and buildings are depreciated over the shorter of their unexpired terms of the leases or their remaining useful lives.

Equipment, fixtures and fittings (including equipment on operating leases where the company is the lessor) are stated at cost less impairment losses and depreciation over their useful lives, which are generally between 0 years and 20 years. Property, plant and equipment is subject to an impairment review if their carrying amount may not be recoverable.

There are no changes in cost or depreciation and impairment for property, plant and equipment in 2016 (2015: Nil)

14 Intangible assets

Accounting policy

Intangible assets are stated at cost less amortisation and are amortised straight line over their estimated useful lives of five years. Expenditure on internally developed software is recognised as an asset when the Entity is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete development. Borrowing costs are not included in the capitalised costs of intangible assets. Assets are subject to regular impairment reviews which compare the carrying value to the expected value in use. Any impairment losses are recognised in the Income Statement. Amortisation does not commence until the asset is brought into operational use.

	2016 Software development costs £'000	2015 Software development costs £'000
Cost		
At 1 January	1,897	-
Additions	1,328	1,897
As at 31 December	3,225	1,897
Accumulated amortisation		
Charge for the year	(51)	-
As at 31 December	(51)	-
Net book value		
At 1 January	1,897	-
As at 31 December	3,174	1,897

15 Other Assets

	2016 £'000	2015 £'000
Amounts due from group companies	**377,811**	131,803
Other	**1,540**	1,543
	379,351	133,344

16 Provisions

Accounting policy

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

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations.

Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.
Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, for example, the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

	Restructuring provision	Customer redress provision	Impairment allowance on commitments	Total
	£'000	£'000	£'000	£'000
At 1 January 2016	2,441	200	1,518	4,159
Increase in provision	1,613	-	-	1,613
Provision utilised	(3,271)	-	-	(3,271)
Amounts reversed	(200)	(200)	(257)	(657)
At 31 December 2016	**583**	**0**	**1,261**	**1,844**

	Restructuring provision	Customer redress provision	Impairment allowance on commitments	Total
	£'000	£'000	£'000	£'000
At 1 January 2015	-	1,460	775	2,235
Increase in provision	2,441	-	743	3,184
Provision utilised	-	(632)	-	(632)
Amounts reversed	-	(628)	-	(628)
At 31 December 2015	2,441	200	1,518	4,159

Restructuring provision

A provision of £583,000 (31 December 2015: £2,441,000) exists for redundancy payments to an employee where employment is to be terminated as part of a restructuring programme. The provision reflects the full amount of payments agreed with the individual affected.

Customer redress

During the year the remaining provision for the redress to customers in respect of possible mis-selling of inter rate derivatives was released (2015: £200,000). No further amounts are expected to be payable to customers in respect of historical payments under derivative contracts by the Entity of open derivative contract balances.

The Entity has previously undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the UK Consumer Credit Act (CCA). During the year payments of £334,000 were made for the repayment of interest to customers where annual statements did not remind them of their right to partially repay the loan, notwithstanding that the customer documentation did include this right. The remaining provision has been released. As at 31 December 2016 no provision is recognised in 'Other liabilities'.

17 Accruals, deferred income and other financial liabilities

	2016	2015
	£'000	£'000
Accruals and deferred income	**27,444**	35,461
Share-based payment liabilities	**4,877**	4,715
Amounts owed to immediate parent undertaking	**8,473**	9,662
Amounts owed to other group companies	**15,797**	7,247
Other liabilities	**2,395**	6,032
	58,986	63,117

18 Subordinated liabilities

	2016 £'000	2015 £'000
£35,000,000 floating subordinated notes maturing 22 May 2016 (Fully repaid Feb 2016)	-	35,000
$30,000,000 floating subordinated notes maturing 30 Oct 2016 (Fully repaid Feb 2016)	-	20,241
$40,000,000 floating subordinated notes maturing 6 Mar 2018 (Fully repaid Feb 2016)	-	26,988
	-	82,229

The Entity has not had any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2016 and 2015.

19 Called up share capital

Accounting policy

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

	2016 £'000	2015 £'000
Issued, allotted and fully paid up		
17,961,000 (2015: 17,691,000) Ordinary shares of £10 each		
As at 1 January and 31 December	**176,910**	176,910
Authorised:		
19,500,000 (2015: 19,500,000) Ordinary shares of £10 each		
As at 1 January and 31 December	**195,000**	195,000

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

Accounting policy

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 three months' maturity from the date of acquisition.

Notes on the Financial Statements (continued)

a) Non-cash items included in profit and loss	2016 £'000	2015 £'000
Depreciation, amortisation and impairment	51	4,229
Share-based payment expense	128	11
Credit-related impairment losses	(5,854)	9,698
Provisions raised	955	2,556
Fair value movement and gain on disposals of available-for-sale assets	31	(3,459)
	(4,689)	13,035

b) Change in operating assets	2016 £'000	2015 £'000
Change in prepayments and accrued income	9,580	14,826
Change in loans and advances to banks	(33,715)	1,668
Change in loans and advances to customers	826,263	401,298
Change in other assets	(190,681)	151,780
	611,447	569,572

c) Change in operating liabilities	2016 £'000	2015 £'000
Change in accruals and deferred income	(8,017)	(827)
Change in deposits by banks	(393,333)	(596,915)
Change in customer accounts	502,733	(263,809)
Change in other liabilities	296	(91,382)
	101,679	(952,933)

d) Cash and cash equivalents comprise	2016 £'000	2015 £'000
Cash and balances at central banks	7,563	910
Loans and advances to banks of one month or less	814,722	651,746
	822,285	652,656

e) Interest and dividends	2016 £'000	2015 £'000
Interest paid	15,108	33,350
Interest received	149,111	208,964
	164,219	242,314

21 Contingent liabilities and contractual commitments and guarantees

Accounting policy

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security as well as contingent liabilities related to legal proceedings or regulatory matters are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable.

Financial guarantee contracts

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

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.

The following table gives the nominal principal amounts of off-balance sheet transactions:

	2016 **£'000** **Contract amount**	2015 £'000 Contract amount
Contingent liabilities:		
Guarantees and assets pledged as collateral security	**45,871**	72,259
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	**596,168**	715,672
	596,168	715,672

The Entity could be liability to pay a proportion of the outstanding amount that Financial Services Compensation Scheme ('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 the FSCS and changes in the level of protected deposits and the population of FSCS members at the time.

22 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 following table analyses the carrying amount of financial assets and liability by category as defined in IAS 39 and by balance sheet heading:

At 31 December 2016	Held for trading £'000	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedging instruments £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	7,563	-	7,563
Derivatives	12,018	-	-	157	12,175
Loans and advances to banks	-	855,429	-	-	855,429
Loans and advances to customers	-	4,565,629	-	-	4,565,629
Other assets	-	-	379,351	-	379,351
Accrued income	-	-	17,325	-	17,325
Total financial assets	12,018	5,421,058	404,239	157	5,837,472
Total non financial assets					406,169
Total assets					6,243,641
Liabilities					
Deposits by banks	-	-	48,399	-	48,399
Customer accounts	-	-	5,368,164	-	5,368,164
Derivatives	13,779	-	-	1,967	15,746
Accruals, deferred income and other liabilities	-	-	58,986	-	58,986
Provisions	-	-	1,844	-	1,844
Total financial liabilities	13,779	-	5,477,393	1,967	5,493,139
Total non financial liabilities					37,276
Total liabilities					5,530,415

At 31 December 2015	Held for trading £'000	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedging instruments £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	910	-	910
Derivatives	5,706	-	-	51	5,757
Loans and advances to banks	-	658,740	-	-	658,740
Loans and advances to customers	-	5,288,089	-	-	5,288,089
Other assets	-	-	133,344	-	133,344
Accrued income	-	-	26,905	-	26,905
Total financial assets	5,706	5,946,829	161,159	51	6,113,745
Total non financial assets					404,501
Total assets					6,518,246
Liabilities					
Deposits by banks	-	-	441,732	-	441,732
Customer accounts	-	-	4,618,224	-	4,618,224
Derivatives	6,977	-	-	1,637	8,614
Accruals, deferred income and other liabilities	-	-	63,117	-	63,117
Provisions	-	-	4,159	-	4,159
Subordinated liabilities	-	-	82,229	-	82,229
Total financial liabilities	6,977	-	5,209,461	1,637	5,218,075
Total non financial liabilities					16,662
Total liabilities					5,234,737

23 Fair value of financial instruments carried at fair value

Accounting policy

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, HSBC recognises the difference as a trading gain or loss at inception ('day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures or is closed out, the valuation inputs become observable or HSBC enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Entity manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRSs offsetting criteria.

Critical accounting estimates and judgements

Valuation of financial instruments

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, where the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Entity will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced.

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Determination of fair value

Fair values are determined according to the following hierarchy:

(a) Level 1 – 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 or quoted prices for identical or similar instruments in inactive 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.

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

	Fair values Valuation techniques			
	Using observable inputs Level 1 £'000	Using observable inputs Level 2 £'000	Using observable inputs Level 3 £'000	Total £'000
At 31 December 2016				
Assets				
Derivatives	-	12,175	-	12,175
Liabilities				
Derivatives	-	15,746	-	15,746

At 31 December 2015	Fair values Valuation techniques Using observable inputs Level 1 £'000	Using observable inputs Level 2 £'000	Using observable inputs Level 3 £'000	Total £'000
Assets				
Derivatives	-	5,757	-	5,757
Liabilities				
Derivatives	-	8,614	-	8,614

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2016 (2015: £Nil).

24 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.

		Fair values			
			Valuation techniques		
At 31 December 2016	**Carrying amount £'000**	**Quoted market price Level 1 £'000**	**Using observable inputs Level 2 £'000**	**With significant unobservable inputs Level 3 £'000**	**Total £'000**
Assets					
Loans and advances to customers	**4,565,629**	**-**	**1,673,878**	**2,905,271**	**4,579,149**
Loans and advances to banks	**855,429**	**-**	**855,429**	**-**	**855,429**
Liabilities					
Deposits by banks	**48,399**	**-**	**48,399**	**-**	**48,399**
Customer accounts	**5,368,164**	**-**	**5,370,817**	**-**	**5,370,817**
		-			

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2015					
Assets					
Loans and advances to customers	5,288,089	-	1,897,786	3,426,305	5,324,091
Loans and advances to banks	658,740	-	658,740	-	658,740
Liabilities					
Deposits by banks	441,732	-	441,732	-	441,732
Customer accounts	4,618,224	-	4,631,472	-	4,631,472
Subordinated debt	82,229	-	82,229	-	82,229

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporates a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions which HSBC believes are consistent with those which would be used by market participants in valuing such loans; and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. The stratification of a loan book considers all material factors, including vintage, origination period, estimates of future interest rates, prepayment speeds, delinquency rates, loan-to-value ratios, the quality of collateral, default probability, and internal credit risk ratings.

The fair value of a loan reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value impact of repricing between origination and the balance sheet date.

25 Derivatives

Accounting policy

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a standalone basis.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the group and designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting
When derivatives are held for risk management purposes they are designated in hedge relationships where the required criteria for documentation and hedge effectiveness are met. The Entity enters into fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge
Changes in the fair value of derivatives are recorded in the income statement, along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued; the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Derivatives that do not qualify for hedge accounting
Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

Trading derivatives

Derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. The held-for-trading category also includes derivatives managed in conjunction with financial instruments designated at fair value.

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

	2016	2015
	£'000	£'000
Exchange rate	**1,988,247**	1,133,056
Interest rate	**47,845**	70,733
Commodities	**85,035**	54,700
Total	**2,121,127**	1,258,489

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

	At 31 December 2016		At 31 December 2015	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Exchange rate	**9,279**	**12,415**	4,219	4,690
Interest rate	**1,319**	**3,331**	1,538	3,328
Commodities	**1,577**	-	-	596
Total	**12,175**	**15,746**	5,757	8,614

26 Hedging instruments

The Entity uses derivatives (interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios. This enables the Entity 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.

The notional contract amounts of derivatives held for hedge accounting purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

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

	2016		2015	
	Fair value hedge £'000	**Cash Flow £'000**	Fair value hedge £'000	Cash Flow £'000
Interest rate contracts:				
- pay fixed swaps	**145,425**	-	159,697	-

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.

Fair value hedges

The Entity'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. 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 £157,000 (2015: £51,000) and liabilities of £1,967,000 (2015: £1,637,000).

	2016 £'000	2015 £'000
(Losses)/gains arising from the change in fair value of fair value hedges:		
- On hedging instruments	**(495)**	2,856
- On hedged item attributable to the hedged risk	**494**	(2,864)
Total derivatives	**(1)**	(8)

27 Offsetting of financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets	Gross amounts £'000	Amounts reported in the balance sheet £'000	Amounts not offset in the balance sheet Financial Instruments £'000	Net amount £'000
Financial assets				
Derivatives (Note 25)	**12,175**	**12,175**	-	**12,175**
Loans and advances to customer at amortised cost	**4,606,671**	**4,606,671**	**131,253**	**4,475,418**
At 31 December 2016	**4,618,846**	**4,618,846**	**131,253**	**4,487,593**
Financial assets				
Derivatives (Note 25)	5,757	5,757	-	5,757
Customer accounts at amortised costs	5,341,328	5,341,328	216,421	5,124,907
At 31 December 2015	5,347,085	5,347,085	216,421	5,130,664

Financial Liabilities	Gross amounts £'000	Amounts reported in the balance sheet £'000	Amounts not offset in the balance sheet Financial Instruments £'000	Net amount £'000
Financial liabilities				
Derivatives (Note 25)	**15,746**	**15,746**	-	**15,746**
Customer accounts at amortised cost	**5,368,164**	**5,368,164**	**131,253**	**5,236,911**
At 31 December 2016	**5,383,910**	**5,383,910**	**131,253**	**5,252,657**
Financial liabilities				
Derivatives (Note 25)	8,614	8,614	-	8,614
Customer accounts at amortised cost	4,618,224	4,618,224	216,421	4,401,803
At 31 December 2015	4,626,838	4,626,838	216,421	4,410,417

28 Management of financial risk

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

a) Credit risk management

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

Within the overall framework of the HSBC Group policy, the Entity 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 Entity 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 Entity'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.

I. Maximum exposure to credit risk

	2016			2015		
	Maximum exposure £'000	Offset £'000	Exposure to credit risk (net) £'000	Maximum exposure £'000	Offset £'000	Exposure to credit risk (net) £'000
Cash and balances at central banks	7,563	-	7,563	910	-	910
Derivatives	12,175	-	12,175	5,757	-	5,757
Loans and advances at amortised costs	5,462,100	131,254	5,330,846	6,000,062	216,421	5,783,641
Other assets	396,349	-	396,349	157,863	-	157,863
Financial guarantees	45,871	-	45,871	72,259	-	72,259
Loan commitments	596,168	-	596,168	715,672	-	715,672
As at 31 December	6,520,226	131,254	6,388,972	6,952,523	216,421	6,736,102

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 11). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing. Collateral and other credit enhancements.

III. Credit quality

The 5 credit quality classification defined below each encompass a range of more granular, internal credit rating grades, as well as external rating.

	Debt securities and other bills	Lending
Quality classification	**External credit rating**	**Internal credit rating**
Strong	A- and above	CRR1 to CRR2
Good	BBB+ and BBB-	CRR3
Satisfactory	BB+ and B and unrated	CRR4 to CRR5
Sub-standard	B- and below	CRR6 to CRR8
Impaired	Impaired	CRR9 to CRR10

The five classifications below describe the credit quality of the Entity'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.
- Good: exposures require closer monitoring and demonstrate good capacity to meet financial commitments, with low default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- Satisfactory: exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with a moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minor 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.

	2016						
	Neither past due nor impaired						
	Strong £'000	Good £'000	Satis-factory £'000	Sub-Standard £'000	Impaired £'000	Impairment Allowances £'000	Total £'000
At 31 December 2016							
Cash and balances at central banks	7,563	-	-	-	-	-	7,563
Derivatives	5,743	6,432	-	-	-	-	12,175
Loans and advances to banks	855,429	-	-	-	-	-	855,429
Loans and advances to customers	542,465	1,926,621	1,744,236	95,883	300,246	(43,822)	4,565,629

	2015						
	Neither past due nor impaired						
	Strong £'000	Good £'000	Satis-factory £'000	Sub-Standard £'000	Impaired £'000	Impairment Allowances £'000	Total £'000
At 31 December 2015							
Cash and balances at central banks	910	-	-	-	-	-	910
Derivatives	1,668	4,089	-	-	-	-	5,757
Loans and advances to banks	658,740	-	-	-	-	-	658,740
Loans and advances to customers	580,583	2,446,767	1,890,680	209,212	216,817	(55,970)	5,288,089

IV. Impaired loans and advances

Impaired loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Entity.
- Retail loans and advances classified as Expected Loss ('EL') 9 or CRR 10. These grades are assigned to retail loans and advances greater than 90 days past due unless individually they have been assessed as not impaired.

Impaired loans and advances to customers by industry sector:

	2016			2015		
	Individually assessed £'000	**Collectively assessed £'000**	**Total £'000**	Individually assessed £'000	Collectively assessed £'000	Total £'000
Impaired loans & advances to customers						
Personal	**153,465**	-	**153,465**	131,238	-	131,238
Corporate and commercial	**146,598**	-	**146,598**	85,383	-	85,383
Financial	**183**	-	**183**	196	-	196
As at 31 December	**300,246**	-	**300,246**	216,817	-	216,817

The existence of collateral has an effect when calculating impairment on individually assessed impaired loans. When we no longer expect to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for impairment. If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for an impairment allowance. No impairment allowance is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

V. Renegotiated loans and forbearance

The Entity 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 Entity 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 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 Entity discloses loan forbearance as 'renegotiated loans', which represent concessions granted which the Entity would not normally consider as a result of financial difficulties of a customer.

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

	At 31 December 2016			At 31 December 2015		
	Neither past due nor impaired £'000	**Impaired £'000**	**Total £'000**	Neither past due nor impaired £'000	Impaired £'000	Total £'000
Retail	**44,229**	**104,390**	**148,619**	51,628	95,455	147,083
Residential Mortgages	**27,587**	**77,095**	**104,682**	34,776	66,871	101,647
Other personal	**16,642**	**27,295**	**43,937**	16,852	28,584	45,436
Commercial real estate	**22,600**	**101,121**	**123,721**	101,589	59,104	160,693
Corporate and commercial	**-**	**5,269**	**5,269**	2	2,558	2,560
Financials	**-**	**181**	**181**	-	193	193
Other	**-**	**364**	**364**	-	364	364
	66,829	**211,325**	**278,154**	153,219	157,674	310,893
Impairment allowance on renegotiated loans		**(26,181)**			(31,644)	
-renegotiated loans and advances as % of total gross loans		**6%**			6%	

VI. Collateral and other credit enhancements

The Entity 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 Entity'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.

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

At 31 December	**2016**	2015
	£'000	£'000
Other property*	**1,206,539**	1,285,066
Residential property	**2,044,974**	2,432,792
Cash backed	**261,762**	243,138
Other**	**937,436**	1,029,102
Unsecured	**155,960**	351,230
Gross loan and advances to customers	**4,606,671**	5,341,328

**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.*

Collateral held is analysed separately for commercial real estate, for other corporate and commercial and financial (non-bank) lending and residential mortgage lending.

Commercial real estate loans and advances including loan commitments by level of collateral

	2016 £'000	2015 £'000
Rated CRR 1 to 7		
Not collateralised	11,410	9,557
Fully collateralised	1,267,110	1,731,986
Partially collateralised	4,855	7,061
-collateral value	2,515	5,883
Rated CRR 8 to 10		
Not collateralised	384	332
Fully collateralised	147,738	137,443
LTV ratio less than 50%	10,222	7,260
51% to 75% LTV	120,050	111,028
76% to 90% LTV	7,432	9,656
91% to 100% LTV	10,034	9,499
Partially collateralised greater than 100% LTV	5,391	12,887
-Collateral value	3,475	8,180
At 31 December	**1,436,888**	1,899,266

Other corporate, commercial and financial (non-bank) loans and advances including loan commitments by level of collateral rated CRR/ EL 8 to 10 only

	2016 £'000	2015 £'000
Fully collateralised	5,751	8,838
LTV ratio less than 50%	5,453	8,406
51% to 75% LTV	242	432
76% to 90% LTV	56	-
91% to 100% LTV	-	-
At 31 December	5,751	8,838

Residential mortgage lending

The table below show residential mortgage lending including off-balance sheet loan commitments by level of collateral. The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off- balance sheet loan commitment at the balance sheet date divided by the value of collateral. The value of collateral is determined using professional valuations and house prices indices.

	2016 £'000	2015 £'000
Non-impaired loans and advances		
Fully collateralised	**2,132,157**	2,337,065
Less than 50% LTV	**745,713**	742,090
51% to 60% LTV	**449,174**	466,959
61% to 70% LTV	**579,049**	595,171
71% to 80% LTV	**243,493**	352,313
81% to 90% LTV	**91,945**	133,347
91% to 100% LTV	**22,783**	47,186
Partially collateralised		
greater than 100% LTV	**136,799**	104,372
-Collateral value	**106,552**	75,710
Impaired loans and advances		
Fully collateralised	**95,123**	83,189
Less than 50% LTV	**31,573**	5,855
51% to 60% LTV	**12,741**	30,421
61% to 70% LTV	**22,061**	20,710
71% to 80% LTV	**15,216**	9,770
81% to 90% LTV	**7,682**	772
91% to 100% LTV	**5,850**	15,661
Partially collateralised		
greater than 100% LTV	**25,512**	11,464
-Collateral value	**20,472**	7,110
At 31 December	**2,389,591**	2,536,090

VII. Impairment of loans and advances

The tables below analyses the loan impairment charges for the year and the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively impaired allowances on loans and advances classified as not impaired.

Movement in impairment allowances on loans and advances to customers

	2016 Individually assessed £'000	**2016 Collectively impaired £'000**	2015 Individually assessed £'000	2015 Collectively impaired £'000
At 1 January	**43,800**	**12,170**	46,714	10,359
Amounts written off	**(7,865)**	**-**	(9,537)	-
Recoveries of amounts written off in previous years	**172**	**-**	(51)	-
New allowances net of allowance releases	**(1,386)**	**(4,036)**	7,244	1,811
Exchange and other movements	**967**	**-**	(570)	-
As at 31 December	**35,688**	**8,134**	43,800	12,170

b) Liquidity risk management

Liquidity risk is the risk that the Entity 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 92% of the bank's asset base is sterling-based with the remainder mostly denominated in Euros and US Dollars. The Entity funds its sterling asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent Entity, HSBC Bank plc. Surplus balances in other currencies are usually placed with HSBC Bank plc or other HSBC Entity entities.

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

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

31 December 2016	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Assets							
Cash and balances with central banks	898	-	6,665	-	-	-	7,563
Derivatives	6,662	3,220	925	1,228	140	-	12,175
Loans and advances to banks	814,722	-	40,707	-	-	-	855,429
Loans and advances to customers	1,198,095	431,962	778,256	1,908,660	248,656	-	4,565,629
Accrued income and other financial assets	9,555	387,121	-	-	-	-	396,676
Non-financial assets	-	-	-	-	-	406,169	406,169
Total as at 31 December 2016	2,029,932	822,303	826,553	1,909,888	248,796	406,169	6,243,641

31 December 2016	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Liabilities and Equity							
Deposits by banks	48,399	-	-	-	-	-	48,399
Customer accounts	5,093,918	113,854	104,622	54,480	1,290	-	5,368,164
Derivatives	8,574	3,237	900	2,846	189	-	15,746
Accruals and other financial liabilities	1,181	19,041	14,492	-	-	24,272	58,986
Provisions	-	-	-	-	-	1,844	1,844
Non-financial liabilities	-	-	-	-	-	37,276	37,276
Equity	-	-	-	-	-	713,226	713,226
Total as at 31 December 2016	5,152,072	136,132	120,014	57,326	1,479	776,618	6,243,641

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Assets							
Cash and balances with central banks	910	-	-	-	-	-	910
Derivatives	293	3,761	164	973	566	-	5,757
Loans and advances to banks	651,748	-	6,992	-	-	-	658,740
Loans and advances to customers	1,263,054	578,763	1,013,600	2,208,019	224,653	-	5,288,089
Other assets	-	133,344	-	-	-	-	133,344
Accrued income and other financial assets	6,153	20,752	-	-	-	-	26,905
Non financial assets	-	-	-	-	-	404,501	404,501
Total as at 31 December 2015	1,922,158	736,620	1,020,756	2,208,992	225,219	404,501	6,518,246

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Liabilities and Equity							
Deposits by banks	441,732	-	-	-	-	-	441,732
Customer accounts	4,285,868	123,931	60,895	143,783	3,747	-	4,618,224
Derivatives	1,406	3,749	609	2,236	614	-	8,614
Accruals and other financial liabilities	2,499	43,708	-	-	-	16,910	63,117
Subordinated liabilities	-	-	55,241	26,988	-	-	82,229
Provisions	-	-	-	-	-	4,159	4,159
Non financial liabilities	-	16,092	-	-	-	570	16,662
Equity	-	-	-	-	-	1,283,509	1,283,509
Total as at 31 December 2015	4,731,505	187,480	116,745	173,007	4,361	1,305,148	6,518,246

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 £'000	Due within 3 months £'000	Due between 3-12 months £'000	Due between 1-5 years £'000	Due after 5 years £'000	Total £'000
At 31 December 2016						
Deposits by banks	48,399	-	-	-	-	48,399
Customer accounts	4,621,716	589,818	107,045	58,972	1,551	5,379,102
	4,670,115	589,818	107,045	58,972	1,551	5,427,501

	On demand £'000	Due within 3 months £'000	Due between 3-12 months £'000	Due between 1-5 years £'000	Due after 5 years £'000	Total £'000
At 31 December 2015						
Deposits by banks	441,732	-	-	-	-	441,732
Customer accounts	3,864,046	581,036	66,446	164,666	2,732	4,678,926
Subordinated liabilities	-	-	-	83,755	-	83,755
	4,305,778	581,036	66,446	248,421	2,732	5,204,413

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 Entity's income or the value of its portfolios.

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

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

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

Market price risk

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

The Entity 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.

	2016 £'000	2015 £'000
Value at Risk		
At 31 December	**76**	45
Average	**48**	333
Minimum	**32**	45
Maximum	**90**	1,116

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.

	2016 £'000	2015 £'000
Euro	**(136,052)**	(102,735)
US dollars	**(593,480)**	(119,637)
Sterling	**805,136**	279,143
Others, each less than £150 million	**(75,604)**	(56,771)
	-	-

Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the Entity's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBP'). At 31 December 2016 the Entity's risk as measured by PVBP was £18,004 (2015: £25,402). 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 IAS 39 (note 26) at 31 December 2016 was £1,773 (31 December 2015: Nil).

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 2016. 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.

31 December 2016	Not more than 3 months £'000	Between 3 and 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Loans & advances to banks	855,429	-	-	-	-	-	855,429
Loans & advances to Customers	2,082,551	1,969,652	181,296	297,178	77,366	(42,414)	4,565,629
Other assets	385,054	-	6,665	-	-	430,864	822,583
Total Assets	3,323,034	1,969,652	187,961	297,178	77,366	388,450	6,243,641
Liabilities							
Deposits by banks	48,399	-	-	-	-	-	48,399
Customer accounts	5,207,771	39,072	65,551	54,480	-	1,290	5,368,164
Other liabilities	-	-	-	-	-	113,852	113,852
Shareholders' equity	-	-	-	-	-	713,226	713,226
Total equity and liabilities	5,256,170	39,072	65,551	54,480	-	828,368	6,243,641
Notional value:							
Interest rate swaps	163,045	-	-	(132,079)	(30,966)	-	-
Interest rate sensitivity gap	(1,770,091)	1,930,580	122,410	110,619	46,400	-	-
Cumulative interest rate sensitivity gap	(1,770,091)	160,489	282,899	393,518	439,918	-	-

31 December 2015	Not more than 3 months £'000	Between 3 and 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Loans & advances to banks	651,748	-	6,992	-	-	-	658,740
Loans & advances to Customers	2,735,401	2,149,107	107,394	344,665	6,272	(54,750)	5,288,089
Other assets	137,395	-	-	-	-	434,022	571,417
Total Assets	3,524,544	2,149,107	114,386	344,665	6,272	379,272	6,518,246
Liabilities							
Deposits by banks	441,732	-	-	-	-	-	441,732
Customer accounts	4,409,796	40,983	19,912	143,783	2,013	1,737	4,618,224
Other liabilities	-	-	-	-	-	92,552	92,552
Subordinated liabilities	-	-	55,241	26,988	-	-	82,229
Shareholders' equity	-	-	-	-	-	1,283,509	1,283,509
Total equity and liabilities	4,851,528	40,983	75,153	170,771	2,013	1,377,798	6,518,246
Notional value:							
Interest rate swaps	217,316	-	(24,189)	(169,776)	(23,351)	-	-
Interest rate sensitivity gap	(1,109,668)	2,108,124	15,044	4,118	(19,092)	-	-
Cumulative interest rate sensitivity gap	(1,109,668)	998,456	1,013,500	1,017,618	998,526	-	-

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.

29 Legal proceedings and regulatory matters

The Entity is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Entity considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2016 (see Note 16). Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

In August 2013, a claim was filed in the High Court of Zimbabwe against the Entity and HSBC Bank plc. The claimant alleged that the HSBC parties caused it loss by making a regulatory notification in relation to one of the Company's customer's accounts and by failing to respond to enquiries following the filing of the notification. A claim against the Entity relating to the same facts was dismissed by the High Court of England and Wales in 2012. The proceedings in the High Court of Zimbabwe are ongoing.

In March 2014, a claim was filed in the High Court of England and Wales against the Entity, HSBC Private Bank (Monaco) SA and HSBC Holdings plc. The claimant alleged that the Entity and HSBC Holdings plc had failed to properly investigate the claimant's complaints in respect of an alleged misselling of certain products by HSBC Private Bank (Monaco) SA. The court has dismissed the claim against HSBC Private Bank (Monaco) SA on jurisdictional grounds. The proceedings against the Entity and HSBC Holdings plc are ongoing.

In September 2014, a claim was filed in the High Court of England and Wales against the Entity, HSBC Bank plc and 13 other non-HSBC parties. The claimant alleged that the HSBC parties had misrepresented the identity of an HSBC customer with whom they claim to have entered into certain business arrangements. Previous proceedings commenced separately by the claimant directly against the HSBC customer were dismissed in February 2014. The proceedings against the HSBC entities are ongoing.

Between March 2015 and November 2015, four separate actions were filed against HSBC Private Bank (UK) Limited in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty by the Company in the provision of certain historic services relating to the participation by the claimants in certain film finance transactions. One of the claims has been discontinued by the claimants and another has been settled. The other two claims are at an early stage. It is possible that HSBC Private Bank (UK) Limited may be subject to additional claims. It is not practicable to estimate the potential financial impact of possible additional claims but it could be significant.

Based on the facts currently known, it is not practicable at this time for HSBC Private Bank (UK) Limited to predict the resolution of these lawsuits, including the timing or any possible impact on HSBC Private Bank (UK) Limited, which could be significant.

30 Related party transactions

a) Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity and includes members of the Board of Directors

Compensation of Key Management Personnel

The following represents the compensation for Directors and other Key Management Personnel of the Entity in exchange for services rendered to the bank for the period they served during the year.

	2016	2015
	£'000	£'000
Short-term employee benefits	**1,267**	937
Post-employment benefits	**56**	67
Other long-term benefits	**252**	170
Share-based payments	**483**	573

Transactions, arrangements and agreements including Directors and other Key Management Personnel.

There are no transactions which fall to be disclosed under IAS 24 'Related Party Disclosures' between the Entity and the Key Management Personnel

Shareholdings, options and of securities of Directors and other Key Management Personnel

	Balance at 31 December 2016	Balance at 31 December 2015
Number of HSBC Holdings plc shares held by Directors and other Key Management Personnel beneficially	**104,621**	103,458

b) Transactions with other related parties

Transactions detailed below include amounts due to/from HSBC Bank plc.

	2016		2015	
	Highest balance during the year[1] £'000	**Balance at 31 December[1] £'000**	Highest balance during the year[1] £'000	Balance at 31 December[1] £'000
Assets				
Derivatives	**11,707**	**4,166**	18,639	1,668
Loans and advances to banks	**949,297**	**851,920**	760,618	379,737
Other assets	**355,142**	**355,142**	151,644	83,872
Liabilities				
Derivatives	**19,712**	**13,863**	95,502	7,852
Other liabilities	**11,433**	**8,473**	9,662	9,662

	2016 £'000	2015 £'000
Income statement		
Interest income	**6,965**	2,163
Interest expense	**-**	593
Fee income	**104**	184
Fee expense	**2,912**	2,550
General and administrative expenses	**22,065**	26,230
Dividend expense	**625,000**	-

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

Transactions detailed below include amounts due to/from HSBC Bank (C.I.) Limited.

	2016		2015	
	Highest balance during the year[1]	**Balance at 31 December[1]**	Highest balance during the year[1]	Balance at 31 December[1]
	£'000	**£'000**	£'000	£'000
Assets				
Other assets	**7,881**	**7,881**	33,350	5,293
Liabilities				
Deposits by banks	**441,732**	**-**	985,970	441,732

	2016	2015
	£'000	£'000
Income statement		
Interest income	**71**	422
Interest expense	**283**	6,819
Fee income	**7,787**	4,045
Fee expense	**-**	381
Other operating income	**805**	596
General and administrative expenses	**87**	30

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

Transactions detailed below include amounts due to/from Other Group Companies.

	2016		2015	
	Highest balance during the year[1]	**Balance at 31 December[1]**	Highest balance during the year[1]	Balance at 31 December[1]
	£'000	**£'000**	£'000	£'000
Assets				
Loans and advances to banks	**71,532**	**3,078**	367,008	271,965
Other assets	**42,892**	**14,814**	41,381	38,793
Liabilities				
Subordinated amounts due	**85,349**	**-**	97,332	82,229
Other liabilities	**25,950**	**15,797**	16,135	7,247

	2016	2015
	£'000	£'000
Income statement		
Interest expense	**351**	1,209
Fee income	**4,600**	7,190
Fee Expense	**1,725**	-
Other operating income	**31,040**	27,617
General and administrative expenses	**33,754**	12,048

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

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

31 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 is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Bank plc. All companies are registered in England and Wales.

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

32 Events after the balance sheet date

The Board has approved the proposal to transfer 100% of share ownership to HSBC Private Bank (C.I.) Limited to HSBC Bank Plc, its parent undertaking, at cost of investment on 10th February 2017.