HSBC PRIVATE BANK (UK) LIMITED
Registered No: 499482

Financial Statements for the year ended 31 December 2014

HSBC

Financial Statements for the year ended 31 December 2014

Contents

Principal activities

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

The Company provides investment management to high net worth individuals and their families in HSBC Group's priority markets. The Company aims to meet the needs of its clients by providing excellent customer service and offering a range of wealth management products.

Review of the Company's business

Drawing on the strength of HSBC 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 Company continues to reposition its business in line with its stated strategy of focusing on fewer markets complying with HSBC Global Standards, including financial crime compliance and tax transparency standards.

During 2014 the Company continued to deliver on strategic decisions as it sought to restructure, simplify and set the foundations for the sustainable growth of its business in future years. One of the impacts of this was lower year on year growth in income than in prior year. However, the repositioning of the Company over the prior two years has seen the Company, in its targeted client base, grow assets under management and associated revenues. This has been driven by an increase in referrals from existing Group clients. Part of our repositioning has seen a reduction of assets under management in non-core markets.

Performance

The Company's results for the year under review are as detailed in the income statement shown in these accounts on page 12.

Profit for the year in 2014 of £73.1 million was 15% lower than the equivalent figure in 2013 (£83.6 million). In comparison to prior year there was lower net interest income driven by reduced loan volumes and provisions for customer redress. Loan impairment charges for the year were significantly lower than in prior years due to recoveries in specific loan impairment charges and releases of collective impairment charges.

Total expenditure grew in the year to support the repositioning of the business notably in regard of Global Standards. Headcount, the main driver of employment costs, increased from an average of 668 full-time employees in 2013 to 678.

The outcome of the highlights above has led to a decrease in Profit before Tax from £108 million to £94 million.

Total Assets under Management (including cash deposits) remain stable at £8.9 billion at 31 December 2014 (31 December 2013: £8.9 billion).

Total equity of the Company increased by £77 million to £1,216 million at 31 December 2014 (31 December 2013: £1,139 million).

Key performance indicators

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

Financial KPIs.

Measure	2014	2013	Change
Pre-tax return on risk-weighted assets	3%	3%	-
Cost efficiency (%)	62%	47%	15%
Core tier 1 capital	41.0%	30.9%	10.1%
Advances to core funding ratio	1.31	1.19	0.12

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

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

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

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

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

Principal risks and uncertainties

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

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

Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the Company's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Company's risk appetite, as 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 Company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

By order of the Board

C. D. ALLEN

Director

Dated 17 April 2015

Registered Office
8 Canada Square
London
E14 5HQ

Directors

The Directors who served during the year were as follows:

Name

J F Trueman

R B Janvrin

F Morra

C D Allen

P Tremble

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2014, as per prior year, as early repayment of subordinated liabilities is under consideration.

Significant events since the end of the financial year

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

Future developments

In December 2013, the UK's Financial Services (Banking Reform) Act 2013 ('Banking Reform Act') received Royal Assent, which requires large banking groups to 'ring-fence' UK retail banking activity in a separately incorporated banking subsidiary (a 'ring-fenced bank') that is prohibited from engaging in significant trading activity. Ring-fencing is to be completed by 1 January 2019.

In October 2014, the PRA published a consultation paper on ring-fencing rules in relation to legal structure, governance, and continuity of services and facilities. As required by the PRA's consultation paper, HSBC Holdings plc ('Group')presented a provisional ring-fencing project plan to the UK regulators in November 2014.

The plan remains subject to further planning and Group approvals and is ultimately subject to the approval of the PRA, FCA and other applicable regulators.

Going concern basis

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

Financial instruments

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

Employment of disabled persons

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

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels, 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 Company is further encouraged through a profit participation scheme.

Capital management

The Company 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 Company's approach to capital management during the year.

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 Company as the Company is included in the consolidated Pillar 3 disclosures of HSBC Bank plc. These disclosures are published as a separate document on HSBC Bank plc's website.

From 1 January 2014, the Company's capital is calculated under CRD IV and supplemented by PRA rules to effect the transposition of directive requirements. As a result, unless otherwise stated, compararives for capital and RWAs at 31 December 2013 are on a Basel 2.5 basis.

The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The CRD IV legislation implement Basel II in the EU and, in the UK, the 'PRA rulebook CRR Firms Instrument 2013' transposed the various national discretions under the CRD IV legislation into UK law. The CRD IV and PRA legislation came into force on 1 January 2014.

Regulatory capital

Our capital base is divided in 2 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.

	CRD IV Year 1 transition 2014 £'000	Basel 2.5 2013 £'000
Tier 1 capital		
Shareholders' equity	**1,216,431**	1,138,845
Regulatory adjustments to the accounting basis	**-**	(1,783)
Unrealised (gains) / losses on available-for-sale debt securities	**-**	(1,783)
Deductions		
Excess expected losses over impairment allowances	**(40,489)**	(22,803)
50% of tax credit adjustment for excess expected losses	**-**	5,359
Common equity/ Core tier 1 capital	**1,175,942**	1,119,618
Deductions		
Unconsolidated investments	**(145,762)**	(200,680)
50% of tax credit adjustment for excess expected losses	**-**	5,359
Tier 1 capital	**1,030,180**	924,297
Tier 2 capital		
Total qualifying tier 2 capital before deductions		
Collective impairment allowances	**-**	273
Term subordinated debt (note 14)	**35,840**	67,486
Tier 2 capital	**35,840**	67,759
Deductions other than from tier 1 capital		
Unconsolidated investments	**-**	(200,680)
50% of excess expected losses over impairment allowances	**-**	(22,803)
Total regulatory capital	**1,066,020**	768,573
Risk-weighted assets (Unaudited)		
Credit and counterparty risk	**2,479,292**	3,207,377
Market risk	**7,065**	45,332
Operational risk	**383,274**	374,392
Total	**2,869,631**	3,627,101
Capital ratios (Unaudited)		
Core tier 1 ratio	**41.0%**	30.9%
Tier 1 ratio	**35.9%**	25.5%
Total capital ratio	**37.1%**	21.2%

The Company 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 Company's auditor is unaware; and the Director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries in 2013, PricewaterhouseCoopers LLP has been recommended to be appointed as auditors of the HSBC group entities effective for periods ending on or after 1 January 2015.

As a result KPMG Audit Plc will not be seeking re-appointment as the Company's auditor for the financial year commencing 1 January 2015 and PricewaterhouseCoopers LLP will seek appointment instead.

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C. D. ALLEN
Director

Dated 17 April 2015

Registered Office
8 Canada Square
London
E14 5HQ

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditor's 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 Auditor 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 Company'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 Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments 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 Company 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 Company and to prevent and detect fraud and other irregularities.

By order of the Board

H Shepherd

H-SHEPHERD
Secretary
Dated 17 April 2015

Registered Office
8 Canada Square
London
E14 5HQ

HSBC PRIVATE BANK (UK) LIMITED

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

We have audited the financial statements of HSBC Private Bank (UK) Limited for the year ended 31 December 2014 set out on pages 12 to 56. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

SAMER HIJAZI

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

17 April 2015

Income statement for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Interest income		**191,490**	228,603
Interest expense		**(41,866)**	(52,763)
Net interest income		**149,624**	175,840
Fee and commission income		**63,784**	67,184
Fee and commission expense		**(8,228)**	(12,043)
Net Fee income		**55,556**	55,141
Net trading income	*2*	**3,236**	4,840
Other operating income/ (expense)		**24,260**	(2,099)
Total Operating income		**232,676**	233,722
Loan impairment charges and other credit risk provisions		**6,182**	(13,184)
Operating profit		**238,858**	220,538
Employee compensation and benefits	*3*	**(88,107)**	(73,299)
General and administrative expense	*5*	**(56,979)**	(38,481)
Amortisation and impairment of investment in subsidiaries		**-**	-
Profit before tax		**93,772**	108,758
Tax expense	*6*	**(20,656)**	(25,154)
Profit for the year		**73,116**	83,604

The notes on pages 16 to 56 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2014

	2014 £'000	2013 £'000
Profit for the year	**73,116**	83,604
Other comprehensive income		
Available-for-sale investments		
– Fair value gains	**5,231**	1,424
– Income taxes	**(1,124)**	(331)
Other comprehensive income for the year, net of tax	**4,107**	1,093
Total comprehensive income for the year	**77,223**	84,697

Statement of financial position as at 31 December 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
Cash and cash equivalents		1,226	552
Derivatives	21	9,524	15,186
Loans and advances to banks		33,083	772,104
Loans and advances to customers	7	5,699,391	6,625,676
Financial investments	9	925,769	961,864
Other assets		287,011	76,089
Prepayments and accrued income		41,729	48,108
Investments in subsidiaries	8	401,360	401,360
Property, plant and equipment	11	23	23
Deferred tax assets	10	1,723	2,886
Total assets		7,400,839	8,903,848
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		1,038,647	2,154,624
Customer accounts		4,862,634	5,308,488
Derivatives	21	87,980	92,287
Other financial liabilities	12	41,142	21,972
Current tax liabilities		17,128	24,158
Accruals and deferred income		36,287	40,335
Provisions	13	2,235	3,794
Subordinated liabilities	14	94,909	119,345
Total liabilities		6,184,408	7,765,003
Equity			
Called up share capital	15	176,910	176,910
Share premium account		404,636	404,636
Other reserves		5,890	1,783
Retained earnings		630,395	555,516
Total equity		1,216,431	1,138,845
Total equity and liabilities		7,400,839	8,903,848

The notes on pages 16 to 56 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 April 2015 and were signed on its behalf by:

Director
C. D. ALLEN

Company Registered Number: 499482

Statement of cash flows for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Profit before tax		**93,772**	108,758
Adjustments for:			
– Non-cash items included in net profit	*16(a)*	**(3,952)**	18,615
– Change in operating assets	*16(b)*	**1,090,797**	366,896
– Change in operating liabilities	*16(c)*	**(1,571,342)**	(360,315)
– Tax paid		**(24,202)**	(10,677)
– Elimination of exchange differences		**(3,301)**	2,057
Net cash generated from operating activities		**(418,228)**	125,334
Cash flows from investing activities			
– Net (outflows) from acquisition/ proceeds from disposal of subsidiaries		**-**	(401,360)
– Proceeds from the sale/(purchase) of financial investments		**54,579**	99,926
Net cash used from investing activities		**54,579**	(301,434)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**-**	401,359
(Repayment of)/Proceeds from borrowings		**(27,000)**	(29,412)
Dividends paid		**-**	-
Net cash generated from financing activities		**(27,000)**	371,947
Net increase/(decrease) in cash and cash equivalents		**(390,649)**	195,847
Cash and cash equivalents brought forward		**419,659**	225,407
Effect of exchange rate changes on cash and cash equivalents		**(3,361)**	(1,595)
Cash and cash equivalents carried forward	*16(d)*	**25,649**	419,659

The notes on pages 16 to 56 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2014

	Called up share capital	Share premium	Retained earnings	Other reserves: Available-for-sale fair value reserve	Total equity
	£'000	£'000	£'000	£'000	£'000
2014					
At 1 January 2014	176,910	404,636	555,516	1,783	1,138,845
Profit for the year	-	-	73,116	-	60,534
Other comprehensive income (net of tax)	-	-	-	4,107	4,107
Total comprehensive income for the year	-	-	73,116	4,107	64,641
Proceeds from shares issued	-	-	-	-	-
Net impact of equity-settled share-based payments	-	-	59	-	59
Other movements	-	-	304	-	304
Dividends to shareholders	-	-	-	-	-
At 31 December 2014	176,910	404,636	628,995	5,890	1,216,431

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

The notes on pages 16 to 56 form an integral part of these financial statements.

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

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

International Financial Reporting Standards ('IFRSs') comprise accounting standards issued or adopted by the International Accounting Standards Board ('IASB') as well as interpretations issued or adopted by the IFRS Interpretations Committee ('IFRS IC').

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU.

At 31 December 2014, there were no unendorsed standards effective for the year ended 31 December 2014 affecting these financial statements and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 December 2014 are prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the year ended 31 December 2014

There were no new standards applied during the year ended 31 December 2014.

On 1 January 2014, the Company applied 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)', which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments were applied retrospectively and did not have a material effect on the Company's financial statements.

During 2014, HSBC adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

(b) Future accounting developments

Standards and amendments issued by the IASB and endorsed by the EU but effective after 31 December 2014

During 2014, the EU has endorsed the amendments issued by IASB through the Annual Improvements to IFRSs 2010-2012 Cycle and the 2011-2013 Cycle, as well as a narrow-scope amendment to IAS 19 Employee Benefits. The Company has not early applied any of these amendments and it expects they will have an immaterial impact, when applied, on the financial statements of the Company.

Standards and amendments issued by the IASB but not endorsed by the EU

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Company is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

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 the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities 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 certain loan commitments and financial guarantee contracts. At initial recognition, 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, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

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 future events and 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.

Transition

The Company is currently assessing the impact that the rest of IFRS 9 will have on the financial statements through a project which has been in place since 2012, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effect.

(c) Changes to the presentation of the Financial Statements and Notes on the Financial Statements

In order to make the financial statements and notes thereon easier to understand, the Company has changed the location and the wording used to describe certain accounting policies within the notes, removed certain immaterial disclosures and changed the order of certain sections. In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2014 are as follows:

- Note 2 Summary of significant accounting policies: accounting policies have been placed, whenever possible, within the relevant Notes on the financial statements, and the changes in wording are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.
- Critical accounting policies: replaced 'Critical accounting policies' with 'Critical accounting estimates and judgements' and placed them within the relevant Notes alongside the significant accounting policy to which they relate. The new approach meets the reporting requirements of IAS 1 'Presentation of Financial Statements'.

(d) Presentation of information

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

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

The functional currency of the Company is Sterling.

(e) 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, 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 2014 Financial Statements. Management's selection of the Company'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, the high degree of judgement involved and estimation uncertainty involved:

- Impairment of loans and advances: refer to Note 1(i);
- Deferred tax assets: refer to Note 6;
- Valuation of financial instruments: refer to Note 19;
- Provisions: refer to Note 13;

(f) Going concern

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

(g) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

(h) Loans and advances to banks and customers

These include loans and advances originated by the Company, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance.

(i) Impairment of loans and advances and available-for-sale financial assets

Critical accounting estimates and judgements

Impairment of loans and advances

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.

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.

The Company 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 judgment 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.

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

Impairment losses on individual loans are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

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

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period may vary over time as these factors change.

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. They 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, including write-off.

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 agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset an impairment loss is recognised.

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

Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments.

In assessing objective evidence of impairment for available-for-sale debt securities at the reporting date, the Company considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

Once an impairment loss has been recognised, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement.

(j) Operating income

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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.

Non-interest income and expense

Fee income is earned from a diverse range of services provided by the Company 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, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

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.

2 Net trading income

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

	2014 £'000	2013 £'000
Foreign exchange	**3,301**	2,936
Interest income/ (expense) on forward foreign exchange contracts	**(1,202)**	621
Change in fair value of hedging instruments (note 22)	**(20,116)**	50,675
Change in fair value of hedged items (note 22)	**21,510**	(49,098)
Change in fair value of derivatives held for trading		
– Fair value	**760**	1,822
– Interest expense	**(1,017)**	(2,116)
Net trading income	**3,236**	4,840

3 Employee compensation and benefits

	2014 £'000	2013 £'000
Wages and salaries including share-based payments (see below)	**70,694**	59,629
Social security costs	**9,962**	6,617
Other pension costs	**7,451**	7,053
	88,107	73,299

	Number	Number
The average number of persons employed by the Company during the year		
– Client / Product Services	**295**	300
– Operations and Support	**182**	186
– Head Office Administration	**102**	75
– Asset Management Services	**99**	107
	678	668

a) Post-employment benefit plans

The Company's employees are members of various schemes.

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

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

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2014, of which employees of the Company are members, are disclosed in the statutory accounts of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees. The Company has not been asked to contribute to any scheme deficit, except through amendments to its regular payments.

In 2014, the pension cost for defined contribution plans which cover 70% of the Company's employees was £4,943,000 (2013: £4,502,000). The Company expects to make £4,559,000 of contributions to the defined contribution plans during 2015.

b) Share-based payments

Accounting Policy

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

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'Retained Earnings'.

For cash-settled share based payment arrangements, the services acquired and the liability incurred are measured at the fair value of the liability, and recognised as the employees render services. Until settlement, the fair value of the liability is re-measured over the vesting period with a corresponding credit to 'Retained earnings'.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions of the award. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions.

Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of the award. Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction

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

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

Income statement charge

	2014	2013
	£m	£m
Restricted and performance share awards	**3,851**	1,408
Savings-related and other share option plans	**280**	336
Year ended 31 December	**4,131**	1,744

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	
	2014 Number	2013 Number
Outstanding at 1 January	**718,551**	660,914
Additions during the year	**103,526**	243,507
Released in the year	**(39,454)**	(115,983)
Forfeited in the year	**(13,258)**	(69,887)
Transferred	**(39,174)**	-
Outstanding at 31 December	**730,191**	718,551
Weighted average fair value of awards granted (£)	**6.31**	6.42

HSBC Share Option Plans

Main plans	Policy	Purpose
Savings-related share option plans	• Two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012. • 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% (2013: 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		HSBC Holdings Company share option plan	
	Number	WAEP[1] £	Number	WAEP[1] £
2014				
Outstanding at 1 January	**1,046,827**	**6.59**	**315,064**	**7.59**
Granted during the year	**65,608**	**6.05**	**2,295**	**7.22**
Exercised during the year	**(465,786)**	**6.36**	**-**	**-**
Expired during the year	**(137,539)**	**6.35**	**(317,359)**	**7.22**
Outstanding at 31 December	**509,110**	**6.30**	**0**	**0**
Weighted average remaining contractual life (years)		**2.46**		
2013				
Outstanding at 1 January	1,141,257	3.99	417,340	6.87
Granted during the year	127,466	5.75	8,492	7.71
Exercised during the year	(71,688)	7.05	(49,909)	7.16
Expired during the year	(150,208)	6.91	(60,859)	7.04
Outstanding at 31 December	1,046,827	6.59	315,064	7.59
Weighted average remaining contractual life (years)		1.42		

[1] Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transaction are contracted, was £1.11 (2013: £1.28)

4 Remuneration of Directors

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

	2014	2013
	£'000	£'000
Fees	**50**	38
Salaries	**933**	818
Bonuses	**1,192**[1]	1,608[2]
	2,175	2,464

1 *Awards made to executive Directors in respect of 2014 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £254,792 in cash, £351,676 in deferred cash (vesting annually over a three-year period), £254,792 in Restricted Shares and £351,676 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

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

No director exercised share options over HSBC Holdings plc ordinary shares during the year.

Awards were made to 4 Directors under long-term incentive plans in respect of qualifying services rendered in 2014 (2013: 4 Directors). During 2014, Nil Directors received shares in respect of awards under long-term incentive plans that vested during the year (2013: Nil).

Retirement benefits are accruing to 1 Director under a defined benefit scheme and are accruing to 3 Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £36,103 were made during the year to money purchase arrangements and £47,250 to defined benefit schemes in respect of Directors' qualifying services (2013: £34,636).

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

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

	2014	2013
	£'000	£'000
Salaries and other emoluments	**441**	308
Bonuses	**664**[1]	710[2]
	1,105	1,018

1 *Awards made to the highest paid Director in respect of performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £132,787 in cash, £199,181 in deferred cash (vesting annually over a three-year period), £132,787 in Restricted Shares and £199,181 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

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

The highest paid Director received 44,932 shares, in respect of qualifying services, as the result of awards under long-term incentive plans that vested during the year. The highest paid Director did not exercise share options over HSBC Holdings plc ordinary shares during the year.

Pension contributions of £17,106 were made by the Company in respect of services by the highest paid Director during the year.

5 Auditor's remuneration

	2014	2013
	£'000	£'000
Auditor's remuneration:		
– Audit of these financial statements pursuant to legislation	**80**	78
– Other audit-related services pursuant to such legislation	**14**	14
– Tax advisory services provided to the Company	**-**	13
– Other services provided to the Company	**-**	40
	94	145

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

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

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

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

Tax charged to the income statement

	Notes	**2014** **£'000**	2013 £'000
Current tax			
UK Corporation tax			
– for this year		**19,444**	23,825
– adjustments in respect of prior years		**49**	39
Total current tax		**19,493**	23,864
Deferred tax			
Origination and reversal of temporary differences		**1,073**	1,035
Effect of changes in tax rates		**42**	283
Adjustment in respect of prior years		**48**	(28)
Total deferred tax	*10*	**1,163**	1,290
Total tax charged to income statement		**20,656**	25,154

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:

	2014 £'000	2013 £'000
Profit before tax	**93,772**	108,758
Tax at 21.5% (2013: 23.25%)	**20,161**	25,286
Adjustments in respect of prior period liabilities	**97**	12
Permanent disallowables	**86**	258
Gain less losses from financial investments	-	-
Deferred tax temporary differences not recognised/(previously not recognised)		
Adjustment in respect of share-based payments	**270**	(685)
Impact due to changes in tax rates	**42**	283
Total tax charged to income statement	**20,656**	25,154

The UK Corporation tax rate applying to the Company was 21.5% (2013: 23.25%).

The main rate of corporation tax in the UK reduced from 23% to 21% on April 2014 and will be further reduced to 20% on 1 April 2015. The reduction in the corporate tax rate to 20% was enacted through the 2013 Finance Act on 17 July 2013.

7 Loans and advances to customers

	2014 £'000	2013 £'000
Gross loans and advances to customers	**5,752,328**	6,703,637
Impairment allowances (Note 24 (a) IV)	**(57,073)**	(81,550)
Fair value adjustment to loans hedged by designated swaps	**4,136**	3,589
Loans and advances to customers	**5,699,391**	6,625,676

8 Investments in Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries.

The Company's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through the income statement if, there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

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

9 Financial Investments

Accounting policy

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale. They are recognised on trade date when the group enters into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed.

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

Interest income is recognised over the debt asset's expected life. Premiums and/or discounts arising on the purchase of dated debt securities are included in the interest recognised. Dividends from equity assets are recognised in the income statement when the right to receive payment is established.

The accounting policy relating to impairments of available-for-sale securities is presented in Note 1 (i).

	2014	2013
	£'000	£'000
As at 1 January	**961,864**	1,105,185
Exchange differences	**(3,849)**	145
Net disposals	**(54,579)**	(99,926)
Amortisation	**(3,624)**	(3,557)
Fair value movement through reserves	**5,231**	1,424
Fair value hedge movement	**20,726**	(41,407)
As at 31 December	**925,769**	961,864

Available for sale financial investments include the following:

Listed:		
Debt securities – UK	**529,098**	517,027
Debt securities – Europe	**396,671**	444,837
	925,769	961,864

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

	2014	2013
	£'000	£'000
Pounds	**531,430**	520,670
Euros	**186,171**	244,351
US Dollar	**208,168**	196,843
	925,769	961,864

10 Deferred tax

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

	Property, plant and equipment	Share based payments	Other temporary differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2014	88	1,224	1,574	2,886
Income statement credit/(expense)	8	(508)	(663)	(1,163)
Equity statement credit/(charge)	-	-	-	-
At 31 December 2014	96	716	911	1,723

	Property, plant and equipment	Share based payments	Other temporary differences	Total
	£'000	£'000	£'000	£'000
At 1 January 2013	92	1,550	2,534	4,176
Income statement credit/(expense)	(4)	(326)	(960)	(1,290)
Equity statement credit/(charge)	-	-	-	-
At 31 December 2013	88	1,224	1,574	2,886

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

11 Property, plant and equipment

Accounting Policy

Property, plant and equipment

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 HSBC is the lessor) are stated at cost less impairment losses and depreciation over their useful lives, which are generally between 5 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 2014 (2013: Nil).

12 Other financial liabilities

	2014 £'000	2013 £'000
Share-based payment liabilities	4,981	4,087
Other liabilities	36,161	17,885
	41,142	21,972

13 Provisions

Accounting policy

Critical accounting estimates and judgements

Provisions

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.

	Provision for liabilities and charges £'000
At 1 January 2014	3,794
Additional provisions/increase in provisions	775
Provision released	(2,039)
Amount reversed	(295)
At 31 December 2014	2,235

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

A provision of £1,460,000 (2013: £1,460,000) relates to the estimated liability for redress in respect of possible mis-selling of interest rate derivatives. This amount is based on estimated redress payable to customers in respect of historical payments under derivative contracts and expected write-off by the bank of open derivative contracts balances.

Following the announcement by the FCA on 28 January 2015 of the extension of the scheme to 31 March 2015 and the expectation of an additional population who will opt into the scheme following communications to affected customers, the scope of the redress have been reviewed. This increased scope and the updated claim experience have resulted in no change in the provision.

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

The Company has undertaken a review of compliance with the requirements of the UK Consumer Credit Act (CCA). £9,000,000 has been recognised as at 31 December 2014 within 'Other Liabilities' (Note 12) for the repayment of interest to customers under some fixed sum credit agreements where loan account statements have not included certain required information. No payments to customers have been done so far.

14 Subordinated liabilities

	2014	2013
	£'000	£'000
Loan from fellow subsidiary undertaking:		
Dated subordinated loan capital:		
GB£27,000,000 variable rate subordinated loan maturing 2014	**-**	27,000
GB£15,000,000 variable rate subordinated loan maturing 2015	**15,000**	15,000
GB£35,000,000 variable rate subordinated loan maturing 2016	**35,000**	35,000
US$30,000,000 variable rate subordinated loan maturing 2016	**19,247**	18,148
US$40,000,000 variable rate subordinated loan maturing 2018	**25,662**	24,197
	94,909	119,345

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

15 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.

	2014 £'000	2013 £'000
Issued, allotted and fully paid up		
17,691,000 Ordinary shares of £10 each		
As at 1 January and 31 December	**176,910**	176,910
Authorised:		
19,500,000 Ordinary shares of £10 each		
As at 1 January and 31 December	**195,000**	195,000

16 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.

	2014 £'000	2013 £'000
a) Non-cash items included in profit and loss		
Amortisation and items recognised in equity	**3,624**	3,857
Loan impairment charges	**(6,182)**	13,184
Provisions (released)/ raised for liabilities and charges	**480**	2,857
Fair value (gains)/losses	**(1,874)**	(1,283)
	(3,952)	18,615
b) Change in operating assets		
Change in prepayments and accrued income	**6,379**	36,816
Change in loans and advances to banks	**344,337**	(337,041)
Change in loans and advances to customers	**951,054**	676,314
Change in other assets	**(210,973)**	(9,193)
	1,090,797	366,896
c) Change in operating liabilities		
Change in accruals and deferred income	**(4,048)**	(38,772)
Change in deposits by banks	**(1,115,977)**	(194,854)
Change in customer accounts	**(468,508)**	(135,270)
Change in other liabilities	**17,191**	8,581
	(1,571,342)	(360,315)
d) Cash and cash equivalents comprise		
Cash and balances at central banks	**1,226**	552
Loans and advances to banks of one month or less	**24,423**	419,107
	25,649	419,659

17 Contingent liabilities and contractual commitments

Accounting policy

Contingent liabilities

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

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:

	2014 Contract Amount	2013 Contract Amount
	£'000	£'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security	**86,533**	109,356
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	**454,323**	382,622

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury, which at 31 December 2014 stood at approximately £16 billion.

In order to repay the loan principle which is not expected to be recovered, the FSCS levies participating financial institutions. In January 2015, the FSCS announced that the expected levy on participating financial institutions for Scheme Year 2015/2016 would be £347 million (2014/2015: £399 million).

The Company could be liable to pay a further proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury.

The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS member of the time.

18 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 2014	Held for trading	Loans and receiva-bles	Available -for-sale se-curities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	-	-	-	1,226	-	1,226
Derivatives	9,337	-	-	-	187	9,524
Loans and advances to banks	-	33,083	-	-	-	33,083
Loans and advances to customers	-	5,699,391	-	-	-	5,699,391
Financial investments	-	-	925,769	-	-	925,769
Other assets	-	-	-	287,011	-	287,011
Accrued income	-	-	-	41,729	-	41,729
Total financial assets	9,337	5,732,474	925,769	329,966	187	6,997,733
Total non financial assets						403,106
Total assets						7,400,839
Liabilities						
Deposits by banks	-	-	-	1,038,647	-	1,038,647
Customer accounts	-	-	-	4,862,634	-	4,862,634
Derivatives	5,610	-	-	-	82,370	87,980
Other financial liabilities	-	-	-	41,142	-	41,142
Accruals and deferred income	-	-	-	36,287	-	36,287
Provisions	-	-	-	2,235	-	2,235
Subordinated liabilities	-	-	-	94,909	-	94,909
Total financial liabilities	5,610	-	-	6,075,854	82,370	6,163,834
Total non financial liabilities						20,574
Total liabilities						6,184,408

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

19 Fair value of financial instruments carried at fair value

Accounting policy

Valuation of financial instruments

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, sometimes the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Company recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value

Critical accounting estimates and judgements

Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable inputs, they rely to a greater extent on management judgement and the fair value derived becomes less reliable. In absence of observable valuation inputs, due to lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument: Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

When applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

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 group 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 best evidence of fair value is a quoted price in an actively traded market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price. In the event that the market for a financial instrument is not active, a valuation technique is used.

Valuation techniques

Valuation techniques incorporate assumptions about factors that other market participants would use in their valuations. A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In option models, the probability of different potential future outcomes must be considered. In addition, the value of some products are dependent on more than one market factor, and in these cases it will typically be necessary to consider how movements in one market factor may affect the other market factors. The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations, prepayment and default rates. For interest rate derivatives with collateralised counterparties and in significant currencies, the Compnay uses a discounting curve that reflects the overnight interest rate ('OIS discounting').

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

	Valuation techniques			
	Level 1 quoted market price £'000	**Level 2 using observable inputs £'000**	**Level 3 With significant unobservable inputs £'000**	**Total £'000**
At 31 December 2014				
Assets				
Derivatives	**-**	**9,524**	**-**	**9,524**
Financial investment available for sale	**925,769**	**-**	**-**	**925,769**
Liabilities				
Derivatives	**-**	**87,980**	**-**	**87,980**

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

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2014 (2013: Nil).

20 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.

	At 31 December 2014				
		Fair values			
		Valuation techniques			
	Carrying amount	Level 1 quoted market price £'000	Level 2 using observable inputs £'000	Level 3 With significant un-observable inputs £'000	Total £'000
Assets					
Loans and advances to customers	5,699,391	-	2,084,323	3,556,881	5,641,204
Liabilities					
Customer accounts	4,862,634	-	4,855,920	-	4,855,920

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

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

21 Derivatives

Accounting policy

Derivatives

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques. Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria presented in Note 23 are met.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income' except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses 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.

When derivatives are designated as hedges, the Company classifies them as hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges').

Hedge accounting

At the inception of a hedging relationship, the Company documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Company requires documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group that contain the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the 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.

Hedge effectiveness testing

To qualify for hedge accounting, the Company requires that at the inception of the hedge and throughout its life each hedge must be expected to be highly effective, both prospectively and retrospectively, on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the income statement in 'Net trading income'.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are economic hedges entered into as part of documented interest rate management strategies for which hedge accounting was not applied. Changes in fair value of non-qualifying hedges do not alter the cash flows expected as part of the documented management strategies for both the non-qualifying hedge instruments and the related assets and liabilities.

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

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

	2014 £'000	2013 £'000
Exchange rate	**1,183,559**	1,487,114
Interest rate	**89,182**	159,076
Precious metals	**67,629**	-
Total derivatives	**1,340,370**	1,646,190

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

	At 31 December 2014		At 31 December 2013	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Exchange rate	**6,308**	**2,465**	9,514	21,864
Interest rate	**2,673**	**85,261**	5,668	69,708
Precious metals	**543**	**254**	4	715
Total	**9,524**	**87,980**	15,186	92,287

of which the following are third party:

	At 31 December 2014		At 31 December 2013	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Exchange rate	**629**	**678**	7,227	1,071
Interest rate	**407**	**17**	364	134
Precious metals	**-**	**-**	-	4
Total	**1,036**	**695**	7,591	1,209

22 Hedging instruments

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

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

	2014 £'000	2013 £'000
Interest rate contracts:		
- pay fixed swaps	**1,069,985**	1,199,168

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

The Company's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term loans to customers due to movements in market interest rates. 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 £187,000 (2013: £2,609,000) and liabilities of £82,370,000 (2013: £65,203,000).

	2014 £'000	2013 £'000
Gain/(losses) arising from the change in fair value of fair value hedges:		
- on hedging instruments	**(20,116)**	50,675
- on hedged item attributable to the hedged risk	**21,510**	(49,098)
	1,394	1,577

23 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

	Amounts subject to enforceable netting arrangements							Amounts not subject to enforce-able netting arrange-ments	
	Effects of offsetting in the balance sheet			Amounts not offset in the balance sheet					
	Gross amounts £'000	Amounts offset £'000	Amounts reported in the balance sheet £'000	Financial Instru-ments £'000	Non-cash collateral £'000	Cash collateral £'000	Net amount £'000	£'000	Balance Sheet total £'000
Derivatives (Note 21)	9,524	-	9,524	-	-	-	-	-	9,524
Loans and advances to customers at amortised cost	5,752,328	-	5,752,328	-	-	318,777	318,777	-	5,433,551
At 31 December 2014	**5,761,852**	**-**	**5,761,852**	**-**	**-**	**318,777**	**318,777**	**-**	**5,443,075**
Derivatives (Note 21)	15,186		15,186		-	-	-	-	15,186
Loans and advances to customers at amortised cost	6,625,676	-	6,625,676	-	-	452,595	452,595	-	6,173,081
At 31 December 2013	6,640,862	-	6,640,862	-	-	452,595	452,595	-	6,188,267

24 Management of financial risk

All of the Company's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Company as a going concern.

a) Credit risk management

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

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

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

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

I. Maximum exposure to credit risk

Maximum exposure at 31 December

	2014 £'000	2013 £'000
Derivatives	**9,524**	15,186
Loans and advances to banks	**33,083**	772,104
Loans and advances to customers (excluding fair value adjustment to loans hedged by designated swaps)	**5,752,328**	6,703,637
Off-balance sheet:		
- guarantees and assets pledged as collateral security	**86,533**	109,356
- undrawn formal standby facilities, credit lines and other commitments to lend	**454,323**	382,622
	6,335,791	7,982,905

II. Collateral and other credit enhancements

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

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

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

At 31 December	2014 £'000	2013 £'000
Other property*	**2,736,293**	3,086,678
Residential property	**2,319,522**	2,780,537
Cash backed	**311,617**	442,148
Bank guaranteed	**16,010**	24,427
Other**	**247,104**	221,627
Unsecured	**121,782**	148,220
Gross loan and advances to customers	**5,752,328**	6,703,637

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

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

III. Credit quality

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

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

	Strong	Medium	Sub-Standard	Impaired	Impairment Allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2014						
Derivatives	**8,488**	**1,036**	-	-	-	**9,524**
Loans and advances to banks	**32,960**	**123**				**33,083**
Loans and advances to customers	**406,307**	**4,894,404**	**241,916**	**213,629**	**(57,073)**	**5,699,183**
At 31 December 2013						
Derivatives	7,595	7,591	-	-	-	15,186
Loans and advances to banks	772,104	-	-	-	-	772,104
Loans and advances to customers	334,994	5,738,655	384,876	248,701	(81,550)	6,625,676

IV. Impairment allowances

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

	2014 Individually assessed	**2014 Collectively assessed**	2013 Individually assessed	2013 Collectively assessed
	£'000	**£'000**	£'000	£'000
At 1 January	**58,281**	**23,269**	76,250	25,819
Amounts written off	**(16,755)**	-	(34,770)	-
Recoveries of amounts written off in previous years	-	-	311	-
New allowances net of allowance releases	**5,953**	**(12,910)**	15,734	(2,550)
Exchange and other movements	**(765)**	-	756	-
At 31 December	**46,714**	**10,359**	58,281	23,269

In 2014, interest of £226,296 (2013: £711,502) was accrued on loans for which individually assessed impairment provisions existed.

V. Renegotiated loans and forbearance

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

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

Forbearance strategies include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosure, and other forms of loan modifications and re-ageing. These management policies and practices typically provide the customer with terms and conditions that are more favourable than those provided initially. Such arrangements could include cases where an account is brought up-to-date without full repayment of all arrears.

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

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

	At 31 December 2014				At 31 December 2013			
	Neither past due nor impaired	**Past due but not impaired**	**Impaired**	**Total**	Neither past due nor impaired	Past due but not impaired	Impaired	Total
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Retail	**54,334**	**-**	**93,083**	**147,417**	117,211	-	79,507	196,718
Residential Mortgages	**37,705**	**-**	**67,857**	**105,562**	99,901	-	48,095	147,996
Other personal	**16,629**	**-**	**25,226**	**41,855**	17,310	-	31,412	48,722
Commercial real estate	**140,975**	**-**	**49,641**	**190,616**	146,455	-	82,243	228,698
Corporate and commercial	**10**	**-**	**7,528**	**7,538**	36	-	10,218	10,254
Financials	**7**	**-**	**201**	**208**	7	-	228	235
Other	**-**	**-**	**388**	**388**	-	-	1,415	1,415
	195,326	**-**	**150,841**	**346,167**	263,709	-	173,611	437,320

Comparatives figures for Past due not impaired and Impaired have been reclassified to be consistent with current year presentation.

b) Liquidity risk management

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

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

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

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

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

31 December 2014:	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	1,226	-	-	-	-	-	1,226
Derivatives	3,246	3,421	334	376	2,147	-	9,524
Loans and advances to banks	24,415	-	8,668	-	-	-	33,083
Loans and advances to customers	1,416,898	667,425	1,266,244	2,175,511	254,863	(81,550)	5,699,391
Financial investments	64,180	-	154,502	171,995	535,092	-	925,769
Other assets	-	287,011	-	-	-	-	287,011
Prepayments and accrued income	-	41,666	73	92	(102)	-	41,729
Investments in subsidiaries	-	-	-	-	-	401,360	401,360
Property, plant and equipment	-	-	-	-	-	23	23
Deferred tax assets	-	-	-	-	-	1,723	1,723
Total as at 31 December 2014	1,509,965	999,523	1,429,821	2,347,974	792,000	321,556	7,400,839

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities and Equity							
Deposit by banks	338,647	-	300,000	400,000	-	-	1,038,647
Customer accounts	4,268,898	91,718	339,917	137,945	24,156	-	4,862,634
Derivatives	622	2,359	4,492	4,297	76,210	-	87,980
Other liabilities	28	8,270	30,276	2,568	-	-	41,142
Current tax liabilities	-	20,574	-	-	-	-	20,574
Accruals and deferred income	24	31,904	1,657	2,699	3	-	36,287
Provisions for liabilities and charges	-	-	-	-	-	2,235	2,235
Subordinated liabilities	-	-	15,000	79,909	-	-	94,909
Equity	-	-	-	-	-	1,216,431	1,216,431
Total as at 31 December 2014	4,608,219	151,379	707,369	627,418	100,369	1,218,666	7,400,839

31 December 2013:

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

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

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

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2014						
Deposit by banks	338,647	-	302,840	404,100	-	1,045,587
Customer accounts	3,519,294	841,437	340,592	158,249	29,900	4,889,472
Subordinated liabilities	-	-	-	97,381	-	97,381
	3,857,941	841,437	643,432	659,730	29,900	6,032,440

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

c) Market risk management

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

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

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

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

Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the Company's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBP'). At 31 December 2014 the Company's risk as measured by PVBP was £35,632 (2013: £34,276). 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 23) at 31 December 2014 was £1,576 (31 December 2013: £5,299).

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 2014. 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 2014:

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans & advances to banks	24,415	8,668	-	-	-	-	33,083
Loans & advances to Customers	3,488,888	1,772,049	117,899	359,319	15,336	(54,100)	5,699,391
Other assets	65,406	287,011	154,502	171,995	535,092	454,359	1,668,365
Total Assets	3,578,709	2,067,728	272,401	531,314	550,428	400,259	7,400,839
Liabilities							
Deposits by banks	338,647	-	300,000	400,000	-	-	1,038,647
Customer accounts	4,360,618	260,946	78,970	137,944	21,616	2,540	4,862,634
Other liabilities	-	-	-	-	-	188,218	188,218
Subordinated liabilities	-	-	15,000	79,909	-	-	94,909
Shareholders' equity	-	-	-	-	-	1,216,431	1,216,431
Total equity and liabilities	4,699,265	260,946	393,970	617,853	21,616	1,407,189	7,400,839
Notional value:							
Interest rate swaps	1,137,681	(17,217)	(198,748)	(415,369)	(506,347)	-	-
Interest rate sensitivity gap	17,125	(1,789,565)	(320,317)	(501,908)	22,465	-	-
Cumulative interest rate sensitivity gap	17,125	1,806,690	1,486,373	984,465	1,006,930	-	-

31 December 2013:

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans & advances to banks	752,189	10,960	1,935	-	-	7,020	772,104
Loans & advances to Customers	5,779,786	90,210	158,786	470,108	84,157	42,629	6,625,676
Other assets	58,898	-	-	385,091	518,427	543,652	1,506,068
Total Assets	6,590,873	101,170	160,721	855,199	602,584	593,301	8,903,848
Liabilities							
Deposits by banks	2,040,000	-	-	-	-	114,624	2,154,624
Customer accounts	4,551,781	244,278	270,474	211,222	30,733	-	5,308,488
Other liabilities	-	-	-	-	-	182,546	182,546
Subordinated liabilities	24,197	95,148	-	-	-	-	119,345
Shareholders' equity	-	-	-	-	-	1,138,845	1,138,845
Total equity and liabilities	6,615,978	339,426	270,474	211,222	30,733	1,436,015	8,903,848
Notional value:							
Interest rate swaps	1,228,087	(31,090)	(110,686)	(606,135)	(480,176)	-	-
Interest rate sensitivity gap	1,202,982	(269,346)	(220,439)	37,842	91,674	-	-
Cumulative interest rate sensitivity gap	1,202,982	933,636	713,197	751,039	842,713	-	-

A positive interest rate sensitivity gap exists where more assets than liabilities re-price during a given period. Although a positive gap position tends to benefit net interest income in a rising interest rate environment, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted date and variations in interest rates within re-pricing periods and among currencies. Similarly, a negative interest rate sensitivity gap exists where more liabilities than assets re-price during a given period. In this case, a negative gap position tends to benefit net interest income in a declining interest rate environment, but again the actual effect will depend on the same factors as for positive interest rate gaps, as described above.

Market price risk

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

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

Value at Risk	2014 £'000	2013 £'000
At 31 December	1,663	2,876
Average	2,133	3,501
Minimum	1,663	2,871
Maximum	2,883	4,079

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.

	2014 £'000	2013 £'000
Denominated in sterling	6,592,370	7,788,494
Denominated in currencies other than sterling	808,469	1,115,354
Total assets	7,400,839	8,903,848
Denominated in sterling	5,929,905	7,190,764
Denominated in currencies other than sterling	1,470,934	1,713,084
Total equity and liabilities	7,400,839	8,903,848

25 Legal proceedings and regulatory matters

The Company 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 Company considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 13. 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 2014 (see Note 13). 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.

Three unrelated claims are currently outstanding against the Company in the civil courts in England and overseas. Whilst the damages sought have not been clearly particularised in all instances the aggregate amount claimed is thought to be about £20 million. The proceedings include a claim relating to alleged failings on the part of the Company to properly investigate a complaint about another HSBC Group Company, a claim concerning an alleged misrepresentation by the Bank about the identity of a client and a claim alleging interference by the Company in the relationship between a third party and a foreign central bank.

26 Related party transactions

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

	2014 Number of Directors	**2014 £'000**	2013 Number of Directors	2013 £'000
Loans (including housing loans) to, and guarantees on behalf of	-	-	-	-

The maximum amount of loans for Directors outstanding during the year was £Nil (2013: £Nil).

b) Compensation to the Board of Directors, as executives of the Company, is disclosed in note 4 to the accounts.

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

31 December 2014:

	HSBC Bank plc	**HSBC Bank (C.I) Ltd**	**Other Group Companies**
	£'000	**£'000**	**£'000**
Assets:			
Derivatives	**7,945**	**-**	**-**
Loans and advances to banks	**14,680**	**-**	**9,620**
Liabilities:			
Deposits by banks	**338,647**	**700,000**	**-**
Derivatives	**87,031**	**-**	**-**
Subordinated liabilities	**-**	**-**	**94,909**
Income Statement:			
Interest income	**1,878**	**101**	**-**
Interest expense	**1,322**	**5,399**	**8,790**
Fee income	**-**	**5,156**	**7,387**
Fee expense	**1,996**	**2,865**	**-**
Other operating income	**-**	**-**	**25,356**
General and administrative expenses	**26,952**	**234**	**12,330**
Off Balance Sheet:			
Contract amount of derivatives	**2,225,695**	**-**	**-**

31 December 2013:

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

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.

27 Parent undertakings

The parent of the Company is HSBC Bank plc and the ultimate parent Company is HSBC Holdings plc, both incorporated in England.

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

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

28 Events after the balance sheet date

There are no significant events after the balance sheet date.