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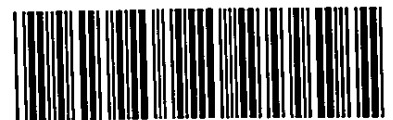
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HSBC LION FUNDING (UK) LIMITED
DIRECTORS' REPORT AND NON-STATUTORY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Registered Number: WK-151961

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HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

Principal activities

The Company's principal activity is to obtain funding for fellow group companies

Business review

During the year the Company continued to manage its financing transactions. The Company has no employees. Services required are provided by fellow HSBC Group companies.

Risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks are set out in Note 12 of the financial statements.

Performance

The Company prepares its non-statutory financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

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

The key performance indicator used by management in assessing the performance of the Company is the monitoring of the net return on each individual underlying transaction. The Company enters into Monthly management accounts are prepared and reviewed by the management of the HSBC business in which this company resides.

Future developments

No new financing transactions are anticipated at this time.

Dividends

The Directors declared and paid dividends of £44,062,996, being £53.34 per "B" preference share, in respect of the year ended 31 December 2008 (period ended 31 December 2007: £22,618,142, being £27.38 per "B" preference share).

Directors

The Directors who served during the year were as follows:

G Owen-Conway
R L H Bencard
K A Singleton

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 Companies Act 1985 and the Companies Act 2006, as if those requirements were to apply. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

HSBC LION FUNDING (UK) LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit plc will therefore continue in office

Supplier payment policy

During the year, the Company received goods and services from group undertakings only

Statement of Directors' responsibilities in relation to non-statutory financial statements

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities, is made with a view to distinguishing for the shareholders the respective responsibilities of the Directors and of the auditors in relation to the non-statutory financial statements

The Directors have accepted responsibility for preparing the Directors' Report and the non-statutory financial statements in accordance with applicable law and regulations, as if those requirements were to apply

The Directors have elected to prepare the non-statutory financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU

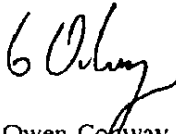
The Directors have elected to prepare the non-statutory financial statements in accordance with the Companies Act 1985, as if those requirements were to apply.

In preparing these non-statutory financial statements, the Directors have

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that are reasonable and prudent,
- stated whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepared the non-statutory financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company. The Directors have also accepted 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


G Owen-Corway
Director
Date 24 July 2009

Registered Office
Walker House, Mary Street
George Town, Grand Cayman
Cayman Islands

REPORT OF KPMG AUDIT PLC TO HSBC LION FUNDING (UK) LIMITED

We have audited the non-statutory financial statements of HSBC Lion Funding (UK) Limited ('the Company') for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Statement of Cash Flows, the Statement of Recognised Income and Expense and the related notes. These non-statutory financial statements have been prepared under the accounting policies set out therein.

Our report has been prepared for the Company, in accordance with the terms of our engagement. It has been released to the Company on the basis that our report shall not be copied, referred to or disclosed, in whole (save for the Company's own internal purposes) or in part, without our prior written consent.

Our report was designed to meet the agreed requirements of the Company determined by the Company's needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

Respective responsibilities of Directors and KPMG Audit Plc

The directors of HSBC Lion Funding (UK) Limited ('the Directors') responsibilities for preparing these non-statutory financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and as if applicable UK law applied to them are set out in the Statement of Directors' Responsibilities on page 2.

Our responsibility is to audit the non-statutory financial statements in accordance with the terms of our engagement letter dated 6 April 2009 and International Standards on Auditing (UK and Ireland).

Under the terms of our engagement we are required to report to you our opinion as to whether the non-statutory financial statements give a true and fair view and are properly prepared in accordance with the Companies Act, as if those requirements were to apply. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information accompanying the non-statutory financial statements and consider whether it is consistent with the audited non-statutory financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the non-statutory financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the non-statutory financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the non-statutory financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the non-statutory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the non-statutory financial statements.

Opinion

In our opinion

- the non-statutory financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended,
- the non-statutory statements have been properly prepared in accordance with the UK Companies Act 1985, as if those requirements were to apply, and
- the information given in the Directors' Report is consistent with the non-statutory financial statements.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
LONDON

24 July 2009

HSBC LION FUNDING (UK) LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	28 09 07 to 31 12 07 £
Interest income	3	76,335,140	15,959,549
Administrative expenses		<u>(3,952)</u>	<u>-</u>
PROFIT BEFORE TAX		76,331,188	15,959,549
Tax expense	5	<u>(21,752,302)</u>	<u>(4,787,865)</u>
PROFIT FOR THE YEAR		<u>54,578,886</u>	<u>11,171,684</u>

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31
DECEMBER 2008

I here has been no recognised income or expense other than the profit for the year as shown above

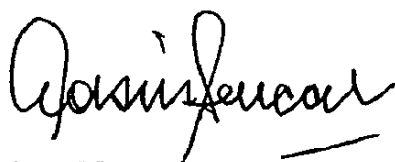
The notes on pages 7 to 16 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

BALANCE SHEET AT 31 DECEMBER 2008

	Notes	2008 £	31 12 2007 £
ASSETS			
CURRENT ASSETS			
Receivables	7	1,087,002,939	1,070,460,930
Cash and cash equivalents	8	<u>103,030</u>	<u>1,461</u>
TOTAL CURRENT ASSETS		<u>1,087,105,969</u>	<u>1,070,462,391</u>
TOTAL ASSETS		<u>1,087,105,969</u>	<u>1,070,462,391</u>
EQUITY AND LIABILITIES			
EQUITY			
Share capital	9,10	8,501	8,501
Share premium account	10	1,065,568,629	1,065,568,629
Retained earnings	10	<u>10,515,890</u>	<u>-</u>
TOTAL EQUITY	10	<u>1,076,093,020</u>	<u>1,065,577,130</u>
CURRENT LIABILITIES			
Group relief payable		<u>11,012,949</u>	<u>4,885,261</u>
TOTAL CURRENT LIABILITIES		<u>11,012,949</u>	<u>4,885,261</u>
TOTAL LIABILITIES		<u>11,012,949</u>	<u>4,885,261</u>
TOTAL EQUITY AND LIABILITIES		<u>1,087,105,969</u>	<u>1,070,462,391</u>

Approved by the board and signed on its behalf on 24 July 2009



R L H Bencard
Director

The notes on pages 7 to 16 form part of the non-statutory financial statements

IISBC LION FUNDING (UK) LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	2008 £	28 09 07 to 31 12 07 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		76,331,188	15,959,549
<i>Adjustments for</i>			
Interest income	3	(76,335,140)	(15,959,549)
Operating loss before changes in working capital and provisions		(3,952)	-
Decrease/(increase) in receivables		2,367	(2,367)
Cash generated from operations		(1,585)	(2,367)
Paid to group undertakings in respect of group relief		(15,624,614)	(7,541,016)
NET CASH FROM OPERATING ACTIVITIES		(15,626,199)	(7,543,383)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		77,612,886	18,491,263
(Increase)/decrease in amounts owed by group undertakings		(17,822,122)	11,671,130
NET CASH FROM INVESTING ACTIVITIES		59,790,764	30,162,393
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	10	(44,062,996)	(22,618,142)
NET CASH FROM FINANCING ACTIVITIES		(44,062,996)	(22,618,142)
Net increase in cash and cash equivalents		101,569	868
Opening cash and cash equivalents		1,461	593
CASH AND CASH EQUIVALENTS AT YEAR END	8	103,030	1,461

The notes on pages 7 to 16 form part of the non-statutory financial statements

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

1 Basis of preparation

HSBC Lion Funding (UK) Limited (the Company), a company incorporated in the Cayman Islands, has prepared its non-statutory financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB') if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2008, there were no unendorsed standards effective for 31 December 2008 affecting these non-statutory 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.

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

Standards and Interpretations issued by the IASB and endorsed by the EU

- IFRS 8 'Operating segments' was issued on 30 November 2006 and is effective for periods commencing on or after 1 January 2009. This standard will have no impact on the Company when adopted with effect from 1 January 2009.
- A revised IAS 1 'Presentation of Financial Statements', was issued on 6 September 2007 and is effective for periods commencing on or after 1 January 2009. This revised standard will result in certain presentational changes in the primary financial statements of the Company when adopted with effect from 1 January 2009.
- The IASB issued an amendment to IFRS 2 'Share-based Payment' – 'Vesting Conditions and Cancellations' on 17 January 2008 with effect for periods commencing on or after 1 January 2009. This standard will have no impact on the Company when adopted with effect from 1 January 2009.
- A revised IAS 23 'Borrowing Costs' was issued on 29 March 2007 and is effective for periods commencing on or after 1 January 2009. This standard will have no impact on the Company when adopted with effect from 1 January 2009.
- IFRIC 13 'Customer Loyalty Programmes' was issued on 28 June 2007 and is effective for periods commencing on or after 1 July 2008. This standard will have no impact on the Company when adopted with effect from 1 January 2009.

At 31 December 2008, the Company had adopted all IFRSs and Interpretations that had been issued by the IASB and IFRIC, and endorsed by the EU. Except as stated above, there are currently no IFRSs or Interpretations that have been issued by the IASB and endorsed by the EU which become effective after 31 December 2008 that have not already been adopted by the Company.

The principal currency in which the Company's business is conducted (which is its functional currency) is Sterling. These accounts are therefore presented in that currency.

The accounting policies set out below have been applied consistently to all years presented in these non-statutory financial statements.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

1 Basis of preparation (continued)

General information

HSBC Lion Funding (UK) Limited is a Company domiciled and incorporated in the Cayman Islands

Comparative period

The comparative period information is for the period 28 September 2007 to 31 December 2007, whilst the current period information is for the period 1 January 2008 to 31 December 2008

2 Principal accounting policies

(a) Interest income

Interest income for all interest bearing financial instruments is recognised in 'Interest income' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period.

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. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(b) Income tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

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.

The tax on items recognised directly in equity is transferred to profit or loss when those items are transferred to profit or loss.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

2. Principal accounting policies (continued)

(c) Cash and cash equivalents

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

(d) Cash flow statement

The cash flow statement has been prepared on the basis that movements in balances with group undertakings are shown under the heading of "Investing activities". Such movements arise ultimately from the Company's investing activities, through which the Company will acquire resources intended to generate future income and cash flows.

(e) Loans and receivables

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

(f) Share capital

Shares are 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 proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as a liability in the year in which they are declared.

(g) Determination of fair value

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. Where independent prices are not available, fair values may be determined using valuation techniques with reference to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

2 Principal accounting policies (continued)

(h) Impairment of financial assets

Financial assets, other than those at fair value through the profit and loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the asset the estimated future cash flows of the asset have been impacted.

The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or receivable by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter into bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as economic conditions that correlate with defaults in the group.

3 Interest income

	2008 £	28 09.07 to 31 12 07 £
Interest income from parent entities	15,478,822	3,243,029
Interest income from fellow subsidiaries	60,829,535	12,709,959
Interest income from third parties	26,783	6,561
	<u>76,335,140</u>	<u>15,959,549</u>

4 Profit before tax

Certain expenses, including auditor's remuneration, have been borne by a fellow group undertaking and are therefore not charged in arriving at the profit before tax.

The amount of auditor's remuneration borne by fellow group undertakings on behalf of HSBC Lion Funding (UK) Limited for the year was £5,100 (period to 31 December 2007: £4,300). There were no non-audit fees incurred during the year (period to 31 December 2007: £nil).

The Company had no employees during the year (period to 31 December 2007: nil).

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

5. Income tax

	2008	28 09 07 to 31.12 07
	£	£
(a) Analysis of tax expense for the year		
<i>Current tax expense</i>		
Group relief payable	21,752,302	4,787,865
Total tax expense for the year	21,752,302	4,787,865

The effective tax rate is 28.5% (31 December 2007 30%) which is also the standard rate of corporation tax. Therefore, no reconciliation required.

6. Directors' emoluments

No emoluments were received or are receivable by any of the Directors in respect of their services to the Company during the year (period to 31 December 2007 £nil).

7. Receivables

	2008	31 12 2007
	£	£
<i>Current</i>		
Amounts owed by group undertakings		
- parent entities	261,907,265	244,085,143
- fellow subsidiaries	825,000,000	825,000,000
Interest receivable on loans to group undertakings		
- parent entities	20,823	1,209,550
- fellow subsidiaries	74,851	163,870
Prepayments	-	2,367
	1,087,002,939	1,070,460,930

8. Cash and cash equivalents

	2008	31 12 2007
	£	£
Amounts held with parent undertakings	103,030	1,461

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

9 Share capital

	Authorised		Issued and fully paid up	
	2008	31.12 2007	2008	31 12 2007
	£	£	£	£
240,000 "A" Ordinary shares of £0 001 each	240	240	240	240
826,100 "B" Preference shares of £0 01 each	8,261	8,261	8,261	8,261
	<u>8,501</u>	<u>8,501</u>	<u>8,501</u>	<u>8,501</u>

There are no shares issued and not fully paid

During 2005, 240,000 "A" Ordinary shares of £0 001 each were authorised and 240,000 issued and fully paid up "A" Ordinary shareholders have voting rights and are entitled to a discretionary dividend

During 2005, 826,100 "B" Preference shares of £0 01 were issued at a premium of £999 99 per share The "B" Preference shareholders do not have voting rights and are paid a floating cumulative preferential dividend at 88 1% of LIBOR less 1 87 basis points The "B" preference shares do not have a fixed redemption date and are redeemable at the discretion of the Company Dividends are declared at the discretion of the Company

10 Capital and reserves

Reconciliation of movement in capital and reserves:

	Share capital	Share premium	Retained earnings	Total equity
	£	£	£	£
At 28 September 2007	8,501	1,066,091,499	10,923,588	1,077,023,588
Total recognised income and expense	-	-	11,171,684	11,171,684
Dividends	-	(522,870)	(22,095,272)	(22,618,142)
Balance at 31 December 2007	<u>8,501</u>	<u>1,065,568,629</u>	<u>-</u>	<u>1,065,577,130</u>
Total recognised income and expense	-	-	54,578,886	54,578,886
Dividends	-	-	(44,062,996)	(44,062,996)
Balance at 31 December 2008	<u>8,501</u>	<u>1,065,568,629</u>	<u>10,515,890</u>	<u>1,076,093,020</u>

Capital management

The Company defines capital as total shareholders' equity, excluding the fair value reserve The Company's capital resource policy is to maintain a strong capital base It seeks to maintain at all times a prudent relationship between total capital and the varied risks of its business

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

10 Capital and reserves (continued)

Capital management (continued)

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Dividends

For the year ended 31 December 2008 a total dividend of £44,062,996 was declared and paid, being £53.34 per "B" preference share (period ended 31 December 2007: £22,618,142, being £27.38 per "B" preference share). Subsequent to the year end a dividend of £4,930,133 was declared and paid on 31 March 2009 of which £54,779 related to the year ended 31 December 2008.

11 Analysis of financial assets and financial liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in Note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis. There are no financial liabilities at 31 December 2008 (31 December 2007: £nil).

As at 31 December 2008.	Loans and receivables	Financial assets at amortised cost	Total
Assets	£	£	£
Amounts owed by group undertakings	1,086,907,265	-	1,086,907,265
Interest receivable on loans to group undertakings	95,674	-	95,674
Cash and cash equivalents	-	103,030	103,030
Total financial assets	1,087,002,939	103,030	1,087,105,969
Total non-financial assets			-
Total assets			1,087,105,969
As at 31 December 2007:	Loans and receivables	Financial assets at amortised cost	Total
Assets	£	£	£
Amounts owed by group undertakings	1,069,085,143	-	1,069,085,143
Interest receivable on loans to group undertakings	1,373,420	-	1,373,420
Cash and cash equivalents	-	1,461	1,461
Total financial assets	1,070,458,563	1,461	1,070,460,024
Total non-financial assets			2,367
Total assets			1,070,462,391

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2008 (continued)

12 Risk management

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk and market risk. Market risk includes foreign exchange and interest rate risk.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

The Company participates in transactions to which other HSBC group companies are also party. The HSBC business in which these companies reside (the "Business") has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from the Business' perspective – this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant company. As part of that process, the Business' management will review the monthly management accounts of the Business. There were no changes in the Company's approach to risk management during the year.

Credit risk management

Credit risk is the risk that financial loss arises from the failure of a counterparty to meet its obligations under a contract, and arises principally from amounts owed by group undertakings.

The Business manages credit risk for this entity as described above for risks generally.

The Company's exposure to credit risk is minimised because amounts receivable from fellow group undertakings form all of the Company's financial assets. Such group undertakings are wholly owned subsidiaries of HSBC Holdings plc, and are part of the Business described above. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. The Company considers the amounts due to be fully recoverable.

There has been no significant change in the credit quality of financial assets during the year.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates, will affect the Company's income. The company is not exposed to foreign exchange rate risk.

Interest on the amounts owed by group undertakings is receivable at floating rates with reference to LIBOR. Amounts with group undertakings have a maturity of less than one year. Management keeps the interest rate exposure under review and, where deemed appropriate, will eliminate this wholly or partly through interest rate swaps.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 (continued)

12 Risk management (continued)

Sensitivity analysis interest rate risk

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis for 31 December 2007.

	Profit or loss	
	100 bps increase	100 bps decrease
As at 31 December 2008:	£	£
Financial assets		
Loans and receivables	10,781,613	(10,781,613)
Total increase / (decrease)	10,781,613	(10,781,613)

	Profit or loss	
	100 bps increase	100 bps decrease
As at 31 December 2007:	£	£
Financial assets		
Loans and receivables	502,799	(502,799)
Total increase / (decrease)	502,799	(502,799)

13 Fair value of financial assets and liabilities

For all financial instruments their fair value is equal to their carrying value in the balance sheet at reporting date.

The methods used to determine fair values for financial instruments for the purpose of measurement and disclosure are set out in Note 2.

14 Related party transactions

The ultimate parent company, and the parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the Company is a member, is HSBC Holdings plc.

HSBC Rose Funding (UK) Holdings, its immediate parent company, is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party.

HSBC LION FUNDING (UK) LIMITED

NOTES TO THE NON-STATUTORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31
DECEMBER 2008 (continued)

14 Related party transactions (continued)

Copies of the financial statements of HSBC Holdings plc may be obtained from

HSBC Holdings plc
8 Canada Square
London
E14 5HQ
www.hsbc.com

Particulars of transactions, arrangements and agreements involving related parties not otherwise disclosed elsewhere in the financial statements are as follows

Parent

At 31 December 2008 £1,100,000 (31 December 2007 £1,100,000) of "B" Preference shares were owned by the parent company. Dividends paid during the year were £58,673 (period to 31 December 2007: £10,864,921)

Fellow subsidiary

At 31 December 2008 £825,000,000 (31 December 2007 £825,000,000) of "B" Preference shares were owned by a fellow subsidiary. Dividends paid during the year were £44,004,323 (period to 31 December 2007: £11,753,223)

15 Contingent liabilities

There were no contingent liabilities at 31 December 2008 (31 December 2007: £nil)

16 Subsequent events

There are no subsequent events requiring disclosure in the non-statutory financial statements

17 Accounting estimates and judgements

The results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. The significant accounting policies used in the preparation of the financial statements are as described in detail in Note 2