

HSBC REPUBLIC BANK (UK) LIMITED  
DIRECTORS' REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2002

Registered number: 499482



HSBC Republic Bank (UK) Limited  
**Report of the directors for the year ended  
31 December 2002**

**Principal activities**

The Company is an authorised bank under the Financial Services and Markets Act 2000 and regulated by the Financial Services Authority. The Company's principal activity is private banking. No change in the Company's activities is anticipated.

**Results and dividends**

The Company's results for the year under review are as detailed in the statement of profit and loss shown in these accounts.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2002 (2001: £17,000,000).

**Business review**

On 30 November 2002, under the HSBC Investment Banking Act 2002, the private banking and investment management business of HSBC Investment Bank plc was transferred to HSBC Republic Bank (UK) Limited at net asset value.

**Directors**

The directors who served during the year were as follows:

Name	Appointed	Resigned
C C R Bannister (Chairman)		
M J Gregson (Chief Executive)		
I C Cotterill		
W J R Gething		
C Kirkby		
A A I Kyriazi		
C M Meares	3 May 2002	
M J Mount		
R K Parmar		
S D Pearce	28 October 2002	
P A Smith		
K T J Mead		20 February 2002
S V Oakes	22 February 2002	5 August 2002
W T Robinson		31 March 2002

HSBC Republic Bank (UK) Limited  
**Report of the directors for the year ended**  
**31 December 2002** (continued)

**Directors' Interests**

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

	HSBC Holdings plc	
	Ordinary shares of US\$0.50 each	
	31 December 2002	1 January 2002 (or appointment date)
C C R Bannister	681,327	391,752
M J Gregson	75,478	64,196
I C Cotterill	59,502	44,608
C Kirkby	54,544	44,586
A A I Kyriazi	46,797	32,296
C M Meares	47,760	46,025
M J Mount	17,990	10,402
R K Parmar	78,332	48,189
S D Pearce	64,540	63,337
P A Smith	20,692	19,462

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

	Granted	Exercised
W J R Gething	2,617	-
C Kirkby	14,000	-
C M Meares	10,000	-
P A Smith	7,450	1,143

**Supplier payment policy**

The Company subscribes to the Better Payment Practice Code, the four principles of which are: to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about, the Code is available from: The Department of Trade and Industry, No. 1 Victoria Street, London SW1H 0ET.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc. The payment performance of this unit is incorporated within the results of that company.

HSBC Republic Bank (UK) Limited  
**Report of the directors for the year ended**  
**31 December 2002** (continued)

**Statement of directors' responsibilities in relation to financial statements**

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

By order of the Board



J H McKenzie  
Secretary

3 March 2003

Registered Office:  
8 Canada Square  
London  
E14 5HQ

HSBC Republic Bank (UK) Limited  
**Report of the independent auditors, KPMG Audit Plc,  
to the sole member of HSBC Republic Bank (UK) Limited**

We have audited the financial statements on pages 5 to 31.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 independent auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the 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 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 financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

London

3 March 2003

HSBC Republic Bank (UK) Limited

Profit and loss account for the year ended 31 December 2002

	Notes	Continuing operations		Total 2002 £000	Total 2001* £000
		2002 £000	Acquisitions 2002 £000		
Interest receivable					
- interest receivable and similar income arising from debt securities		2,280	-	2,280	3,345
- other interest receivable and similar income	3	90,828	3,706	94,534	90,939
Interest payable		(62,319)	(2,442)	(64,761)	(62,410)
<b>Net interest income</b>		<b>30,789</b>	<b>1,264</b>	<b>32,053</b>	<b>31,874</b>
Dividend income from subsidiary undertakings		1,170	-	1,170	-
Fees and commissions receivable		7,305	3,230	10,535	7,322
Fees and commissions payable		(89)	(175)	(264)	(238)
Dealing profits	4	451	224	675	421
Other operating income		1,254	48	1,302	3
<b>Operating income</b>		<b>40,880</b>	<b>4,591</b>	<b>45,471</b>	<b>39,382</b>
Administrative expenses	5	(17,389)	(5,212)	(22,601)	(15,698)
Depreciation and amortisation	16	(39)	-	(39)	(9)
<b>Operating profit/(loss) before provisions</b>		<b>23,452</b>	<b>(621)</b>	<b>22,831</b>	<b>23,675</b>
Provisions					
- provisions for bad and doubtful debts	13			(265)	(4,655)
- provisions for contingent liabilities and commitments	22			-	18
<b>Profit on ordinary activities before tax</b>	6			<b>22,566</b>	<b>19,038</b>
Tax (charge)/credit on profit on ordinary activities	8			(10,883)	5,978
<b>Profit on ordinary activities after tax</b>				<b>11,683</b>	<b>25,016</b>
Dividends	9			-	(17,000)
<b>Retained profit for the year</b>	25			<b>11,683</b>	<b>8,016</b>

\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.

**Historical cost profits and losses**

No note of historical cost profits and losses has been presented as there is no material difference between the Company's results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

**Continuing operations**

None of the Company's activities were discontinued during the year.

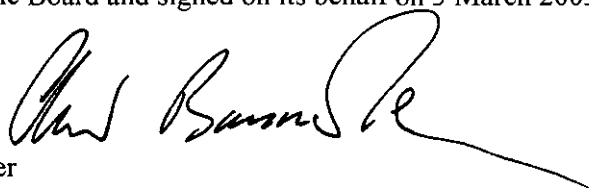
The notes on pages 8 to 31 form part of these financial statements.

HSBC Republic Bank (UK) Limited  
Balance sheet at 31 December 2002

	Notes	2002 £000	2001* £000
<b>Assets</b>			
Cash and balances at central banks		107	11
Loans and advances to banks	11	435,473	219,055
Loans and advances to customers	12	2,142,858	1,169,508
Shares in Group undertakings	15	18,600	18,600
Tangible fixed assets	16	681	16
Other assets	17	5,946	8,026
Prepayments and accrued income		32,494	16,356
Total assets	29	<u>2,636,159</u>	<u>1,431,572</u>
<b>Liabilities</b>			
Deposits by banks	18	147,515	99,812
Customer accounts	19	2,237,288	1,098,730
Debt securities in issue	20	2,669	11,500
Contingent purchase consideration	15	8,600	8,600
Other liabilities	21	41,949	35,763
Accruals and deferred income		24,786	13,256
Provisions for liabilities and charges	22	2,128	3,048
Subordinated liabilities – dated loan capital	23	11,788	13,110
Called up share capital	24	112,250	112,250
Share premium account		3,277	3,277
Profit and loss account	25	43,909	32,226
Shareholder's funds – equity	26	<u>159,436</u>	<u>147,753</u>
Total liabilities	29	<u>2,636,159</u>	<u>1,431,572</u>
<b>Memorandum items</b>			
Contingent liabilities	28		
- guarantees and assets pledged as collateral security		211,360	168,394
Commitments		<u>320,585</u>	<u>354,287</u>

\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.

Approved by the Board and signed on its behalf on 3 March 2003



C C R Bannister  
Director

The notes on pages 8 to 31 form part of these financial statements.

HSBC Republic Bank (UK) Limited  
**Statement of total recognised gains and losses for the year ended  
 31 December 2002**

	2002 £000	2001* £000
Profit for the financial year attributable to shareholders	11,683	25,016
Dividends	<u>-</u>	<u>(17,000)</u>
Total recognised gains and losses for the financial year	11,683	<u>8,016</u>
Prior year adjustment (as explained in note 1)	<u>2,140</u>	
Total gains and losses recognised since last annual report	<u>13,823</u>	

*\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.*

The notes on pages 8 to 31 form part of these financial statements.



HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002**

**1. Basis of preparation**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments, and in accordance with applicable accounting standards.

These financial statements have been prepared in accordance with the special provisions of Part VII Chapter II of the Companies Act 1985 relating to banking companies. The accounts have been prepared in accordance with the Statement of Recommended Accounting Practice ('SORPS') on Advances and Derivatives issued by the British Bankers' Association ('BBA').

The Company has adopted the provisions of the U.K. Financial Reporting Standard ('FRS') FRS 19 'Deferred Tax' with effect from 1 January 2002. This has required a change in the method of accounting for deferred tax. Deferred tax is now recognised in full, subject to recoverability of deferred tax assets. Previously, deferred tax assets and liabilities were recognised only to the extent they were expected to crystallise. As deferred tax liabilities have generally been fully provided, the main impact of the change in method has been the recognition of deferred tax assets previously not recognised.

The change in accounting policy has been reflected by way of a prior period adjustment. The comparative figures have been restated as follows:

**Profit and loss account – tax on profit on ordinary activities**

Figures in £000

Under previous policy	5,736
Adoption of FRS 19	<u>242</u>
Under new policy	<u>5,978</u>

**Balance sheet**

Figures in £000

	Other assets	Profit and loss account
Under previous policy	5,886	30,086
Adoption of FRS 19	<u>2,140</u>	<u>2,140</u>
Under new policy	<u>8,026</u>	<u>32,226</u>

The Company is not required to prepare consolidated financial statements by virtue of the exemption conferred by Section 228 of the Companies Act 1985. The results of the Company are included within the consolidated financial statements of HSBC Holdings plc.

These financial statements present information about the undertaking as an individual undertaking and not about its group.

As the cash flow statement included in the consolidated financial statements for the ultimate parent company complies with the conditions of Financial Reporting Standard 1 ("FRS1") (Revised 1996) "Cash Flow Statements" the Company is exempt under FRS1 from the requirement to prepare a separate cash flow statement.

HSBC Republic Bank (UK) Limited  
Notes to the financial statements for the year ended  
31 December 2002

**1. Basis of preparation (continued)**

The Company has taken advantage of the exemption under Financial Reporting Standard 8 "Related Party Disclosures" not to disclose details of transactions with HSBC Holdings plc or other Group subsidiaries, as it is a wholly owned subsidiary undertaking of HSBC Private Banking Holdings (Suisse) SA, which is wholly owned by HSBC Holdings plc.

**2. Principal accounting policies**

**a** *Income recognition*

Interest income is recognised in the profit and loss account as it accrues, except in the case of doubtful debts (Note 2b).

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

**b** *Loans and advances and doubtful debts*

Specific provision is made for doubtful debts as and when they are so considered and, in addition, amounts have been set aside as general provisions for doubtful debts. The specific element relates to individual banking relationships; the general element relates to other exposures not separately identified but known from experience to exist in any portfolio of banking relationships. When there is no longer any realistic prospect of recovery, outstanding debt is written off.

Interest on doubtful debts is not credited to the profit and loss account but is credited to a suspense account, which is netted in the balance sheet against the relevant balances.

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. The asset acquired is recorded at the carrying value of the advance disposed of at the date of the exchange, and provisions are based on any subsequent deterioration in its value.

**c** *Tangible fixed assets*

Tangible fixed assets are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives at rates ranging from 20% to 33% per annum.

**d** *Deferred taxation*

Deferred taxation is recognised in full on timing differences between the accounting and taxation treatment of income and expenditure, subject to recoverability of deferred tax assets. Deferred tax balances are not discounted.

2. Principal accounting policies (continued)

e *Pension and other post-retirement benefits*

The Company operates money purchase and defined benefit pension schemes.

For money purchase schemes, the profit and loss account charge is the contributions payable for the year.

For defined benefit pension schemes annual contributions are made, on the advice of qualified actuaries, for funding of retirement benefits in order to build up reserves for each scheme member during the employee's working life and pay a pension to the employee or dependant after retirement. The costs of providing these benefits are charged to the profit and loss account on a regular basis.

The cost of providing post-retirement health care benefits, which is assessed in accordance with the advice of qualified actuaries, is recognised on a systematic basis over employees' service lives.

f *Foreign currencies*

- i Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.
- ii All trading transactions are translated into sterling at the exchange rate ruling at the time of the transaction.
- iii Other exchange differences are recognised in the profit and loss account.

g *Off-balance-sheet financial instruments*

Off-balance-sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Company in the foreign exchange and interest rate markets.

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

*Trading Transactions*

Trading transactions include transactions undertaken to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked to market value and the net present value of any gain or loss arising is recognised in the profit and loss account as "Dealing profits".

Assets, including gains, resulting from off-balance-sheet exchange rate and interest rate contracts which are marked to market are included in "Other assets". Liabilities, including losses, resulting from such contracts, are included in "Other liabilities".

**2. Principal accounting policies (continued)**

**g Off-balance-sheet financial instruments (continued)**

*Non-Trading Transactions*

Non-trading transactions are those which are held for hedging purposes as part of the Company's risk management strategy against assets, liabilities, positions or cash flows measured on an accruals basis. Non-trading transactions include qualifying hedges and positions that synthetically alter the characteristics of specified financial instruments.

Non-trading transactions are accounted for on an equivalent basis to the underlying assets, liabilities or net positions. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions.

To qualify as a hedge, the derivative must effectively reduce the price or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative must be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. If these criteria are met, the derivative is accounted for on the same basis as the underlying hedged item. Derivatives used for hedging include swaps, forwards and futures.

Interest rate swaps are also used to synthetically alter the interest rate characteristics of financial instruments. In order to qualify for synthetic alteration, a derivative instrument must be linked to specific individual, or pools of similar, assets or liabilities by the notional principal and interest rate risks of the associated instruments, and must achieve a result that is consistent with defined risk management objectives. If these criteria are met, accrual based accounting is applied i.e. income or expense is recognised and accrued to the next settlement date in accordance with the contractual terms of the agreement.

Any profit or loss arising on the termination of a qualifying derivative is deferred and amortised to earnings over the original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the qualifying derivative is immediately marked to market through the profit and loss account.

Derivatives that do not qualify as hedges or synthetic alterations at inception are marked to market through the profit and loss account, with profits and losses included within "Dealing profits".

**3. Other interest receivable and similar income**

Included within other interest receivable and similar income are amounts receivable from fellow group undertakings of £19,526,000 (2001: £19,626,000).

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**4. Dealing profits**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Foreign exchange	<u>675</u>	<u>421</u>

**5. Administrative expenses**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Staff costs		
- wages and salaries	12,201	7,873
- social security costs	1,021	994
- other pension costs	<u>927</u>	<u>600</u>
	14,149	9,467
Other administrative costs	<u>8,452</u>	<u>6,231</u>
	<u>22,601</u>	<u>15,698</u>

The average number of persons employed by the Company during the year was 199 (2001: 120).  
The increase was due to the transfer of business from HSBC Investment Bank plc.

**6. Profit on ordinary activities before tax**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Profit on ordinary activities before tax is stated after:		
<i>Charges</i>		
Auditors' remuneration		
- audit work	35	30
- non-audit work – regulatory work	-	6

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002** (continued)

**7. Remuneration of directors**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Directors' emoluments	1,709	1,650
Compensation paid for loss of office	<u>163</u>	<u>-</u>
	<u>1,872</u>	<u>1,650</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £378,348 (2001: £375,893). The highest paid director is a member of a defined benefit scheme, under which the accrued pension at the year end was £41,500 (2001: £37,920) and an accrued lump sum of £47,992 (2001: £43,526).

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

	<b>Number of directors</b>	
	<b>2002</b>	<b>2001</b>
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>6</u>	<u>3</u>
The number of directors who exercised share options over HSBC Holdings plc ordinary shares	<u>1</u>	<u>1</u>
The number of directors in respect of whose qualifying services shares were received/receivable under long term incentive schemes	<u>6</u>	<u>6</u>

**8. Tax on profit on ordinary activities**

	<b>2002</b>	<b>2001*</b>
	<b>£000</b>	<b>£000</b>
The (charge)/credit for taxation comprises:		
Current year		
United Kingdom corporation tax at 30% (2001: 30%)	(10,030)	(6,227)
Deferred taxation	<u>(618)</u>	<u>1,285</u>
	(10,648)	(4,942)
Prior year		
United Kingdom corporation tax	<u>(235)</u>	<u>10,920</u>
	<u>(10,883)</u>	<u>5,978</u>

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**8. Tax on profit on ordinary activities (continued)**

Analysis of overall tax charge:

	<b>2002</b>	<b>2001*</b>
	<b>£000</b>	<b>£000</b>
Taxation at UK corporate tax rate of 30%	(6,770)	(5,711)
Timing differences impact on current tax	389	(516)
Tax free gains	351	-
Other items	(4,000)	-
Prior period adjustments	(235)	10,920
Current tax (charge)/credit	(10,265)	4,693
Excess depreciation over capital allowances	(41)	-
Origination and reversal of timing differences	(577)	1,285
Deferred tax (charge)/credit	(618)	1,285
Overall tax (charge)/credit	<u>(10,883)</u>	<u>5,978</u>

*\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.*

**9. Dividends**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Interim	<u>-</u>	<u>17,000</u>

**10. Credit and risk management**

Credit risk is the risk that a customer or counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company. It is managed within limits approved by the board and delegated to individuals as appropriate. Credit & Risk, an independent unit, develops procedures for the control and monitoring of all such risk.

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**11. Loans and advances to banks**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Remaining maturity		
- repayable on demand	10,433	969
- 3 months or less but not repayable on demand	374,984	151,870
- 1 year or less but over 3 months	50,056	16,216
- 5 years or less but over 1 year	-	-
- 5 years or more	-	50,000
	<u>435,473</u>	<u>219,055</u>
Amounts include:		
Due from parent and fellow subsidiary undertakings		
- subordinated	-	50,000
- unsubordinated	434,084	168,124
	<u>434,084</u>	<u>218,124</u>

**12. Loans and advances to customers**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Remaining maturity		
- repayable on demand	736,188	453,061
- 3 months or less but not repayable on demand	175,335	90,537
- 1 year or less but over 3 months	250,009	155,553
- 5 years or less but over 1 year	507,304	219,511
- over 5 years	488,976	264,593
General and specific bad and doubtful debt provisions (Note 13)	<u>(14,954)</u>	<u>(13,747)</u>
	<u>2,142,858</u>	<u>1,169,508</u>
Amounts include:		
Due from parent and fellow subsidiary undertakings		
- unsubordinated	<u>5,827</u>	<u>-</u>



HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**13. Provisions for bad and doubtful debts**

	<i>Specific</i>	<i>2002</i> <i>General</i>	<i>Total</i>	<i>Specific</i>	<i>2001</i> <i>General</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January	6,686	7,061	13,747	2,663	6,254	8,917
Charge to profit and loss account	140	135	275	4,224	807	5,031
Recoveries of advances written off in previous years	(10)	-	(10)	(376)	-	(376)
Net charge for the year	130	135	265	3,848	807	4,655
Transfer from other Group undertakings	8	2,426	2,434	-	-	-
Amounts written off	(1,492)	-	(1,492)	175	-	175
At 31 December	<u>5,332</u>	<u>9,622</u>	<u>14,954</u>	<u>6,686</u>	<u>7,061</u>	<u>13,747</u>

Included in loans and advances to customers are the following movements in the suspended interest account:

	<b>2002</b> <b>£000</b>	<b>2001</b> <b>£000</b>
At 1 January	305	208
Interest suspended in the year	181	217
Suspended interest recovered	(57)	(25)
Transfer from other Group undertakings	5	-
Amounts written off	(42)	(95)
At 31 December	<u>392</u>	<u>305</u>

Total loans and advances to customers, net of suspended interest, on which interest is being suspended at 31 December 2002 amounted to £4,291,000 (2001: £3,109,000) against which there are provisions of £652,000 (2001: £585,000).

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**14. Concentrations of exposure**

Loans and advances to customers are concentrated in the personal loans sector in the United Kingdom.

**15. Shares in group undertakings**

Details of the Company's subsidiary undertakings at 31 December 2002 are as follows:

	<b>Principal activity</b>	<b>Proportion held %</b>	<b>Class of shares held</b>
Montagu Pension Trustees Limited	Pension trustee	100	Ordinary
Property Vision Holdings Limited	Property advice	100	Ordinary

All the Company's subsidiary undertakings are incorporated in England.

	<b>Cost £000</b>	<b>Provisions £000</b>	<b>Book value £000</b>
At 1 January and 31 December 2002	<u>18,600</u>	<u>-</u>	<u>18,600</u>

On 26 September 2001, HSBC Republic Bank (UK) Limited, acquired 100 per cent of the share capital of Property Vision Holdings Limited. The total consideration composed loan notes of £11,500,000 and a contingent consideration payable in two tranches. Tranche 1 being payable in February 2005 and tranche 2 being payable in February 2006. The Director's best estimates for these amounts are £4,100,000 and £4,500,000 respectively. The contingent consideration will be dependent upon specified future performance criteria being met.

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**16. Tangible fixed assets**

	<b>Furniture, Fittings and Equipment £000</b>
Cost at 1 January 2002	147
Additions	31
Transfers from other Group undertakings	<u>1,773</u>
<b>Cost at 31 December 2002</b>	<u><b>1,951</b></u>
Accumulated depreciation at 1 January 2002	131
Charge to the profit and loss account	39
Transfers from other Group undertakings	<u>1,100</u>
<b>Accumulated depreciation at 31 December 2002</b>	<u><b>1,270</b></u>
Net book value at 31 December 2002	<u><u><b>681</b></u></u>
Net book value at 31 December 2001	<u><u><b>16</b></u></u>

**17. Other assets**

	<b>2002 £000</b>	<b>2001* £000</b>
Deferred tax asset	3,293	3,183
Dividend receivable	1,170	-
Current taxation	-	2,694
Other	<u>1,483</u>	<u>2,149</u>
Other Assets	<u><u><b>5,946</b></u></u>	<u><u><b>8,026</b></u></u>

Deferred tax asset is in respect of allowable expenditure charged to the profit and loss account but not yet allowed for tax.

*\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.*

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**18. Deposits by banks**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Repayable on demand	26,374	64,814
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	78,152	29,042
- 1 year or less but over 3 months	42,989	5,956
	<u>147,515</u>	<u>99,812</u>
Amounts include:		
Due to fellow subsidiary undertakings	<u>108,405</u>	<u>99,797</u>

**19. Customer accounts**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Repayable on demand	876,516	679,553
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand	1,210,102	396,054
- 1 year or less but over 3 months	94,356	23,073
- 5 years or less but over 1 year	26,730	50
- over 5 years	29,584	-
	<u>2,237,288</u>	<u>1,098,730</u>
Amounts include:		
Due to fellow subsidiary undertakings	<u>42,145</u>	<u>-</u>

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002** (continued)

**20. Debt securities in issue**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Loan notes:		
On demand	<u>2,669</u>	<u>11,500</u>

The notes represent 4% loan stock issued in connection with the acquisition of Property Vision Holdings Ltd during 2001. The notes have a contractual maturity of 30 September 2011, but are repayable on demand at the request of the holder.

**21. Other liabilities**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Interim dividend	-	17,000
Current taxation	13,895	-
Other liabilities	<u>28,054</u>	<u>18,763</u>
	<u>41,949</u>	<u>35,763</u>

**22. Provisions for liabilities and charges**

**a** *Deferred taxation*

Deferred taxation is provided in accordance with the accounting policy in Note 2d.

**b** *Other provisions for liabilities and charges*

	<b>£000</b>
At 1 January 2002	3,048
Additional provisions	2,128
Provisions utilised	<u>(3,048)</u>
At 31 December 2002	<u>2,128</u>

Other provisions for liabilities and charges comprise provisions associated with leasehold properties which will become vacant as a consequence of office moves of London-based staff.

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002** (continued)

**23. Subordinated liabilities**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Loan from immediate parent undertaking:		
Dated subordinated loan capital:		
US\$19,000,000 variable rate subordinated loan maturing 2011	<u>11,788</u>	<u>13,110</u>

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 Services Authority. The interest rate is related to interbank offered rates.

**24. Called up share capital**

	<b>2002</b>	<b>2001</b>
	<b>£000</b>	<b>£000</b>
Authorised		
12,500,000 ordinary shares of £10 each	<u>125,000</u>	<u>125,000</u>
Issued, allotted and fully paid up		
11,225,016 ordinary shares of £10 each	<u>112,250</u>	<u>112,250</u>

**25. Profit and loss account**

	<b>£000</b>
At 1 January 2002*	32,226
Retained profit for the financial year	<u>11,683</u>
At 31 December 2002	<u>43,909</u>

*\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.*

**26. Reconciliation of movements in shareholder's funds**

	<b>2002</b>	<b>2001*</b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year attributable to the shareholder	11,683	25,016
Interim dividend	<u>-</u>	<u>(17,000)</u>
Retained profit for the financial year	11,683	8,016
Opening shareholder's funds	<u>147,753</u>	<u>139,737</u>
Closing shareholder's funds	<u>159,436</u>	<u>147,753</u>

*\* The figures for 2001 have been restated to reflect the adoption of UK Financial Reporting Standard 19 "Deferred Tax" details of which are set out in Note 1.*

**27. Financial instruments**

**a Derivatives**

Off-balance-sheet financial instruments, commonly referred to as derivatives, are contracts the characteristics of which are derived from those of underlying assets, interest and exchange rates or indices. They include forwards, swap and option transactions in the foreign exchange and interest rate markets. Transactions are negotiated directly with customers, with the Company acting as a counterparty.

Users of derivatives typically want to convert an unwanted risk generated by their business to a more acceptable risk, or cash. Derivatives provide an effective tool for companies to manage the financial risks associated with their business and, as a consequence, there has been a significant growth in derivatives transactions in recent years.

Derivative instruments are subject to both market risk and credit risk.

The market risk associated with derivatives can be significant since large positions can be accumulated with a substantially smaller initial outlay than is required in cash markets. The Company does not actively trade in derivative contracts. Derivative contracts are entered into for risk management purposes only.

Unlike assets recorded on the balance sheet, where the credit risk is typically the full amount of the principal value, together with any unrealised interest accrued or mark to market gain, the credit risk relative to a derivative is principally the replacement cost of any contract with a positive mark-to-market gain. Credit risk on contracts having a negative mark-to-market value is restricted to the potential future change in value. Credit risk on derivatives is, therefore, small in relation to a comparable balance sheet risk.

The following table summarises the contract amount and replacement cost of derivatives used for risk management purposes by product type. The replacement cost shown is the positive mark to market gain and represents the accounting loss the Company would incur if the counterparty to a derivative contract failed to perform according to the terms of the contract and the collateral, if any, for the amount due proved to be of no value.

	<b>2002</b>		<b>2001</b>	
	<b>Contract Amount £000</b>	<b>Replacement Cost £000</b>	<b>Contract amount £000</b>	<b>Replacement Cost £000</b>
Spot and forward foreign exchange contracts	418,188	411	83,959	45
Interest rate swaps	575,443	379	371,450	694
Interest rate futures, forward rate agreements and options purchased	12,015	226	6,740	122
Interest rate options written	12,015	-	6,740	-
Total interest rate contracts	599,473	605	384,930	816

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**27. Financial instruments (continued)**

**a Derivatives (continued)**

The table below summarises the carrying value and mark-to-market value of derivative contracts held for risk management purposes. Mark-to-market values for asset and liabilities arising from derivatives held for non-trading purposes are determined by reference to market rates prevailing on the date of valuation or by discounting future cash flows. Mark-to-market assets and liabilities are not netted, except where a legal right of set-off exists.

	2002		2001	
	Carrying Value £000	Mark-to-Market Values £000	Carrying Value £000	Mark-to-Market Values £000
Exchange rate - assets	-	411	-	45
- liabilities	-	(741)	-	(109)
Interest rate - assets	114	605	(77)	816
- liabilities	(14,025)	(45,329)	(8,657)	(16,011)

**Concentrations of credit risk**

Concentrations of credit risk exist if a number of counterparties are engaged in similar activities or activities in the same region or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The following table analyses the replacement cost of all third party exchange rate and interest rate contracts with positive mark-to-market gains, by maturity and by category of counterparty at 31 December 2002 and 31 December 2001.

	Residual maturity		2002 Total £000	2001 Total £000
	Less than 1 year £000	1 – 5 years £000		
Other sectors	210	214	424	133
Total 2002	210	214	424	
Total 2001	15	118		133



HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**27. Financial instruments (continued)**

The following maturity profile shows the notional principal values of all third party foreign exchange and interest rate contracts outstanding as at 31 December 2002.

	<b>Residual maturity</b>		<b>2002 Total £000</b>	<b>2001 Total £000</b>
	<b>Less than 1 year £000</b>	<b>1 – 5 years £000</b>		
Foreign exchange contracts	14,581	-	14,581	11,431
Interest rate options	1,540	10,475	12,015	6,740
Total 2002	16,121	10,475	26,596	
Total 2001	11,431	6,740		18,171

All contracts are with other sectors.

**b Gains and losses on hedges**

Unrecognised gains and losses

Gains and losses on instruments used for hedging are recognised in line with the underlying items which are being hedged. The unrecognised gains on instruments used for hedging as at 31 December 2002 were £902,000 (2001: £938,000) and the unrecognised losses were £32,045,000 (2001: £7,463,000).

Unrecognised gains of £1,070,000 and unrecognised losses of £5,606,000 are expected to be recognised in 2003.

Of the gains and losses included in the profit and loss account in 2002, £329,000 gains and £1,494,000 were unrecognised at 1 January 2002.

**28. Memorandum items**

The following table gives the nominal principal amounts, credit equivalent amounts and risk-weighted amounts of off-balance sheet transactions. The risk-weighted amounts are assessed in accordance with the Financial Services Authority's guidelines, which implement the 1988 Basel Capital Accord on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments.

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.

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**28. Memorandum items (continued)**

	2002			2001		
	<i>Contract</i>	<i>Credit</i>	<i>Risk</i>	<i>Contract</i>	<i>Credit</i>	<i>Risk</i>
	<i>Amount</i>	<i>equivalent</i>	<i>weighted</i>	<i>amount</i>	<i>equivalent</i>	<i>weighted</i>
	<i>£000</i>	<i>amount</i>	<i>amount</i>	<i>amount</i>	<i>amount</i>	<i>amount</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Contingent liabilities:						
Guarantees and assets pledged as collateral security	<u>211,360</u>	<u>211,360</u>	<u>101,141</u>	<u>168,394</u>	<u>168,394</u>	<u>58,309</u>
Commitments:						
Undrawn formal standby facilities, credit lines and other commitments to lend:						
- 1 year and under	305,999	-	-	341,336	-	-
- over 1 year	<u>14,586</u>	<u>6,730</u>	<u>6,730</u>	<u>12,951</u>	<u>5,358</u>	<u>5,358</u>
	<u>320,585</u>	<u>6,730</u>	<u>6,730</u>	<u>354,287</u>	<u>5,358</u>	<u>5,358</u>

**29. Market risk management**

Market risk is the risk that interest rates, foreign exchange rates or equity and commodity prices will move and result in profits or losses to the Company. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis).

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

**a Interest rate sensitivity gap table**

In accordance with FRS13, the table below discloses the mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rate on a contractual basis or, if earlier, the dates on which the instruments mature. Actual reset dates may differ from contractual dates owing to prepayments and the exercise of options. In addition, contractual terms may not be representative of the behaviour of assets and liabilities. For these reasons, the Company manages its interest rate risk on a different basis from that presented below.

HSBC Republic Bank (UK) Limited  
Notes to the financial statements for the year ended  
31 December 2002 (continued)

29. Market risk management (continued)

a Interest rate sensitivity gap table (continued)

31 December 2002:

	<i>Not more than three Months</i>	<i>More than three months but not more than six months</i>	<i>More than six months but not more than one year</i>	<i>More than one year but not more than five years</i>	<i>More than five years</i>	<i>Non- interest bearing</i>	<i>Total</i>
	£000	£000	£000	£000	£000	£000	£000
<b>Assets</b>							
Loans & advances to banks	389,846	50,056	-	(4,441)	(121)	133	435,473
Loans & advances to customers	1,632,784	58,073	13,738	135,404	304,426	(1,567)	2,142,858
Other assets	-	-	-	-	-	57,828	57,828
<b>Total assets</b>	<u>2,022,630</u>	<u>108,129</u>	<u>13,738</u>	<u>130,963</u>	<u>304,305</u>	<u>56,394</u>	<u>2,636,159</u>
<b>Liabilities</b>							
Deposits by banks	104,526	42,989	-	-	-	-	147,515
Customer accounts	2,048,064	87,793	7,102	25,912	29,584	38,833	2,237,288
Debt securities in issue	2,669	-	-	-	-	-	2,669
Other liabilities	-	-	-	-	-	77,463	77,463
Loan capital and other Subordinated Liabilities	11,788	-	-	-	-	-	11,788
Minority interests & Shareholders' funds	-	-	-	-	-	159,436	159,436
<b>Total liabilities</b>	<u>2,167,047</u>	<u>130,782</u>	<u>7,102</u>	<u>25,912</u>	<u>29,584</u>	<u>275,732</u>	<u>2,636,159</u>
<b>Off balance sheet Items</b>	<u>356,244</u>	<u>13,996</u>	<u>(6,840)</u>	<u>(94,705)</u>	<u>(268,695)</u>	<u>-</u>	<u>-</u>
<b>Interest rate sensitivity gap</b>	<u>211,827</u>	<u>(8,657)</u>	<u>(204)</u>	<u>10,346</u>	<u>6,026</u>	<u>(219,338)</u>	<u>-</u>
<b>Cumulative interest rate sensitivity gap</b>	<u>211,827</u>	<u>203,170</u>	<u>202,966</u>	<u>213,312</u>	<u>219,338</u>	<u>-</u>	<u>-</u>

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended  
31 December 2002 (continued)**

**29. Market risk management (continued)**

**a Interest rate sensitivity gap table (continued)**

**31 December 2001:**

	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
<b>Assets</b>							
Loans & advances to banks	151,864	50,000	15,482	-	-	1,709	219,055
Loans & advances to customers	905,470	6,692	11,293	45,886	204,789	(4,622)	1,169,508
Other assets	-	-	-	-	-	43,009	43,009
<b>Total assets</b>	<u>1,057,334</u>	<u>56,692</u>	<u>26,775</u>	<u>45,886</u>	<u>204,789</u>	<u>40,096</u>	<u>1,431,572</u>
<b>Liabilities</b>							
Deposits by banks	89,077	-	6,048	-	-	4,687	99,812
Customer accounts	1,075,607	21,300	1,773	50	-	-	1,098,730
Debt securities in issue	-	-	-	-	11,500	-	11,500
Other liabilities	-	-	-	-	-	60,667	60,667
Loan capital and other Subordinated Liabilities	13,110	-	-	-	-	-	13,110
Minority interests & Shareholders' funds	-	-	-	-	-	147,753	147,753
<b>Total liabilities</b>	<u>1,177,794</u>	<u>21,300</u>	<u>7,821</u>	<u>50</u>	<u>11,500</u>	<u>213,107</u>	<u>1,431,572</u>
<b>Off balance sheet Items</b>	<u>236,248</u>	<u>(500)</u>	<u>4,762</u>	<u>(37,134)</u>	<u>(203,376)</u>	<u>-</u>	<u>-</u>
<b>Interest rate sensitivity gap</b>	<u>115,788</u>	<u>34,892</u>	<u>23,716</u>	<u>8,702</u>	<u>(10,087)</u>	<u>(173,011)</u>	<u>-</u>
<b>Cumulative interest rate sensitivity gap</b>	<u>115,788</u>	<u>150,680</u>	<u>174,396</u>	<u>183,098</u>	<u>173,011</u>	<u>-</u>	<u>-</u>

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002** (continued)

**29. Market risk management** *(continued)*

**a** *Interest rate sensitivity gap table (continued)*

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.

**b** *Assets and liabilities denominated in foreign currency*

	<b>2002</b> <b>£000</b>	<b>2001</b> <b>£000</b>
Denominated in sterling	1,811,049	1,249,323
Denominated in currencies other than sterling	<u>825,110</u>	<u>182,249</u>
Total assets	<u><u>2,636,159</u></u>	<u><u>1,431,572</u></u>
Denominated in sterling	1,796,039	1,249,599
Denominated in currencies other than sterling	<u>840,120</u>	<u>181,973</u>
Total liabilities	<u><u>2,636,159</u></u>	<u><u>1,431,572</u></u>

**30. Capital commitments**

There are no capital commitments at 31 December 2002 (2001: nil).

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**31. Related party transactions**

Particulars of transactions, arrangements and agreements entered into by the Company with directors and connected persons and companies controlled by them and with officers of the Company disclosed pursuant to section 232 of the Companies Act 1985 are as follows:

	2002		2001	
	Number	£000	Number	£000
Loans (including housing loans) to, and guarantees on behalf of:				
Directors and connected persons and companies controlled by them:	<u>6</u>	<u>1,915</u>	<u>3</u>	<u>1,057</u>
Officers:	<u>-</u>	<u>-</u>	<u>2</u>	<u>290</u>

Particulars of directors' transactions are recorded in a register held at the registered office of the Company.

Transactions or balances with entities, which form part of the HSBC Group, are not disclosed in accordance with the exemption contained in FRS 8 "Related Party Disclosures" described in Note 1.

**32. Retirement benefits**

FRS 17 'Retirement benefits' was issued in November 2000 but will not be mandatory until the year ended 31 December 2003. Prior to this, phased transitional disclosures are required from 31 December 2001.

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries and certain other employees of the Group. This scheme, assets of which are held in a separate trust fund, comprises a defined benefit scheme ('the principal scheme') and a defined contribution scheme, which was established on 1 July 1996 for new employees. Individual subsidiaries within the Group, whose employees participate in the principal scheme, are not able to identify their share of the underlying assets and liabilities of the principal scheme and account for the principal scheme as a defined contribution scheme.

The latest actuarial valuation of the principal scheme was made at 31 December 1999 by C G Singer, Fellow of the Institute of Actuaries, of Watson Wyatt and Partners. This valuation was updated, using approximation techniques, for the purposes of estimating the Scheme's liabilities as at 31 December 2002 for the figures below.

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002 (continued)**

**32. Retirement benefits (continued)**

The assets of the principal scheme and the expected rates of return are:

	Expected rate of return at 31 December 2002 %	Value at 31 December 2002 £m
Equities	8.5	3,525
Bonds	5.0	1,261
Property	7.0	707
Other	3.75	<u>257</u>
Total market value of assets		5,750
Present value of scheme liabilities		<u>(7,503)</u>
Deficit in the scheme		(1,753)
Related deferred tax asset		<u>526</u>
Net pension liability		<u>(1,227)</u>

At 31 December 2002 the financial assumptions used to calculate principal scheme liabilities under FRS 17 are:

	%
Discount rate	5.6
Inflation assumption	2.25
Rate of increase for pensions in payment and deferred pensions	2.25
Rate of pay increase	2.75

	Expected rate of return at 31 December 2001 %	Value at 31 December 2001 £m
Equities	7.1	5,141
Bonds	5.1	917
Other	4.0	<u>597</u>
Total market value of assets		6,655
Present value of scheme liabilities		<u>(7,408)</u>
Deficit in the scheme		(753)
Related deferred tax asset		<u>226</u>
Net pension liability		<u>(527)</u>

HSBC Republic Bank (UK) Limited  
**Notes to the financial statements for the year ended**  
**31 December 2002** (continued)

**32. Retirement benefits** *(continued)*

At 31 December 2001 the financial assumptions used to calculate principal scheme liabilities under FRS 17 were:

	%
Discount rate	5.6
Inflation assumption	2.25
Rate of increase for pensions in payment and deferred pensions	2.25
Rate of pay increase	2.75

Money purchase scheme

As at 31 December 2002 there were no outstanding or prepaid contributions (2001: nil).

**33. Segmental analysis**

The Company's main activity is private banking, which is carried out solely in the United Kingdom.

**34. Parent undertakings**

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

HSBC Bank plc is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling part, as defined under FRS 8.

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

HSBC Bank plc  
 8 Canada Square  
 London  
 E14 5HQ

HSBC Holdings plc  
 8 Canada Square  
 London  
 E14 5HQ  
[www.hsbc.com](http://www.hsbc.com)