

HSBC PRIVATE BANK (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2006

Registered number: 499482

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HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006

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.

Business Review

Profit for the year

Profit for the year in 2006 of £54,839,000 was £26,520,000 or 94% higher than the equivalent figure in 2005 (£28,319,000). The Company has achieved this significant increase in profit due to a combination of business growth, and higher trading and other operating income. These increases were partly offset by growth in expenses of £6,508,000.

The expansion of the business has resulted from the continued identification of new lending opportunities which meet the rigorous credit quality requirements that the Company employs, together with an expanding range of wealth management solutions provided to clients. The strong UK economy has also underpinned this growth.

The positive movement in trading income has primarily arisen from market interest rate changes that have proved to be favourable to our non qualifying hedge portfolio. It is the Company's intention to downsize this portfolio and subsequently reduce the volatility that these movements in interest rates bring to the results.

The increase in other operating income has been achieved through the recovery of expenditure from other related party entities.

Operating expenses have increased as investment in both staff and infrastructure continue. In addition, the Company now operates branches in five cities across the UK, which has increased the expenditure base.

Balance sheet

Total assets of the Company increased by £1,262 million to £6,348 million at 31 December 2006 (31 December 2005: £5,086 million). This increase has primarily arisen from an increase in lending to customers as a result of business expansion.

Total equity of the Company increased by £53 million to £351 million at 31 December 2006 (31 December 2005: £298 million) primarily due to the inclusion of 2006 profits.

The Company is required to meet minimum capital requirements set by the Financial Services Authority. During the year, the Company increased the level of subordinated lending (see note 17) from fellow subsidiary undertakings in order to meet the requirements.

Key Performance Indicators

The Directors use key performance indicators 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 risks to which the Company is exposed (see below).

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006 (continued)

Risk Management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under the Companies Act are set out in Note 22 of the Notes to the Financial Statements.

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

In respect of regulatory risk, the financial services industry remains closely regulated, and the UK regulators may take actions that could result in changes in industry practices, sales and pricing. The Company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

Results and dividends

The Company's results for the year under review are as detailed in the income statement shown in these accounts on page 9.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2006 (2005: £nil).

Subsequent events and future developments

It is the intention of the Directors, that in 2007, the Company will continue to grow its principal business activity. This will partly be achieved by the implementation of two key initiatives that are outlined below, but will also be dependent on the continued strength of the UK economy.

During 2006, the Company announced an agreement with SEI, a leading provider of investment processing and operations solutions, under which SEI will provide the support necessary to enhance services to the Company's clients in respect of portfolio administration and reporting services. This capability will be implemented in 2007.

In addition, the Company will continue to expand its branch network, a project that started in 2005. In this regard, an application to the FSA and the Irish regulator has been submitted to open a branch of the Company in Dublin.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006 (continued)

Directors

The directors who served during the year were as follows:

Name	Appointed	Resigned
C C R Bannister		30 November 2006
L Blinoff		
D R Buckley		
D H Burnett		11 January 2006
W J R Gething		
M J Gregson		
C Kirkby		
M S McCombe		
C M Meares		
M J Mount		
R K Parmar		
P A Smith		

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 1985. No payments to Directors under this indemnity have been made.

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		
	1 January 2006 (or appointment date)	31 December 2006
D R Buckley	2,326	1,017
M J Gregson	29,962	-
C Kirkby	23,210	20,656
M S McCombe	23,958	24,994
C M Meares	41,475	43,562
M J Mount	6,519	1,009
R K Parmar	76,480	92,150
P A Smith	824	1,017

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006 (continued)

Directors' Interests (continued)

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

	Granted	Exercised
C Kirkby	-	16,061
M Mount	-	10,800
P A Smith	609	883

All the directors' interests in the share and loan capital of the Company, required to be disclosed under the Companies Act 1985, are set out below:

HSBC Private Bank (UK) Limited

1 January 2006 (or appointment date)	31 December 2006
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Series B Unsecured Loan Notes 2014 of £1 each

W J R Gething	1,025,533	-
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The terms of a number of Employee Benefit Trusts provide that all employees of HSBC Holdings plc and any of its subsidiary undertakings are potential beneficiaries of the Trusts. As potential beneficiaries of the Trusts, each Director of the Company is deemed to have a technical interest in all of the HSBC Holdings plc ordinary shares of US\$0.50 each held by the Trusts. At 31 December 2006 the Trusts held a total of 133,346,569 ordinary shares of US\$0.50 each (1 January 2006: 130,812,676).

Save as disclosed above, none of the Directors at 31 December 2006 had any other interest in the shares of the Company or in the securities of any other Company in the Group of which it is a member, required to be disclosed under the Companies Act 1985.

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.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006 (continued)

Employment policy

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

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.

Disclosure of Information to Auditors

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 234ZA of the UK Companies Act 1985 and should be interpreted in accordance therewith.

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.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2006 (continued)

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The following statement, which should be read in conjunction with the auditors' statement of their responsibilities, is made with a view to distinguishing for the shareholder the respective responsibilities of the directors and of the auditors in relation to the financial statements.

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

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

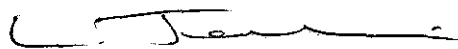
The financial statements are required by law to present fairly the financial position and the performance of the Company. The Companies Act 1985 provides in relation to such financial statements that references in the relevant part of the Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board



L J Jenkinson
Secretary

9 March 2007

Registered Office:
8 Canada Square
London
E14 5HQ

HSBC PRIVATE BANK (UK) LIMITED

INDEPENDENT AUDITORS' 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 2006, which comprise the Income Statement, Balance Sheet, Statement of recognised income and expense and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

HSBC PRIVATE BANK (UK) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HSBC PRIVATE BANK (UK) LIMITED (continued)

Opinion

In our opinion:

- the 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 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit plc
Chartered Accountants
Registered Auditor

1 Canada Square
London
E14 5AG

12 March 2007

HSBC PRIVATE BANK (UK) LIMITED
Income statement for the year ended 31 December 2006

	<i>Notes</i>	2006 £'000	2005 £'000
Interest income		332,778	246,010
Interest expense		<u>(229,744)</u>	<u>(149,573)</u>
Net interest income		<u>103,034</u>	<u>96,437</u>
Fee and commission income		62,382	49,633
Fee and commission expense		(7,165)	(6,070)
Trading income /(losses)	3	12,673	(7,684)
Dividend income		1,625	-
Other operating income		<u>12,810</u>	<u>3,182</u>
Total operating income before loan impairment charges and other credit risk provisions		185,359	135,498
Loan impairment charges and other credit risk provisions	22(a)	<u>(3,061)</u>	<u>(5,188)</u>
Net operating income		<u>182,298</u>	<u>130,310</u>
Employee compensation and benefits	4	(67,945)	(62,608)
General and administrative expenses	5	<u>(29,924)</u>	<u>(28,753)</u>
Total operating expenses		<u>(97,869)</u>	<u>(91,361)</u>
Profit before tax		84,429	38,949
Tax expense	7	<u>(29,590)</u>	<u>(10,630)</u>
Profit for the year	19	<u>54,839</u>	<u>28,319</u>

The notes on pages 13 to 39 form part of these financial statements.

HSBC PRIVATE BANK (UK) LIMITED
Balance sheet at 31 December 2006

	<i>Notes</i>	2006 £'000	2005 £'000
ASSETS			
Cash and balances at central banks		899	953
Derivatives	8	10,782	2,261
Loans and advances to banks		339,940	417,603
Loans and advances to customers	10	5,895,829	4,567,405
Financial investments		12,249	15,027
Shares in Group undertakings	11	15,088	15,088
Property, plant and equipment	12	73	73
Other assets	13	17,462	19,201
Prepayments and accrued income		55,536	48,737
Total assets		6,347,858	5,086,348
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		825,811	557,002
Customer accounts		4,916,046	4,014,280
Derivatives	8	34,876	54,343
Debt securities in issue	14	241	3,165
Other liabilities	15	28,988	23,037
Accruals and deferred income		61,710	50,922
Provisions for liabilities and charges	16	4,143	6,006
Subordinated liabilities	17	124,875	79,184
Total liabilities		5,996,690	4,787,939
Equity			
Called up share capital	18	176,910	176,910
Share premium account		3,277	3,277
Other reserves		4,001	6,081
Retained earnings		166,980	112,141
Total Equity	19	351,168	298,409
Total equity and liabilities		6,347,858	5,086,348

Approved by the Board of Directors and signed on its behalf on 9th March 2007.


M S McCombe
Director

The notes on pages 13 to 39 form part of these financial statements

HSBC PRIVATE BANK (UK) LIMITED**Statement of recognised income and expense for the year ended 31 December 2006**

	2006 £'000	2005 £'000
Available-for-sale investments:		
- valuation gains/ (losses) taken to equity	(2,472)	686
Deferred tax on items taken directly to or transferred from equity	(19)	234
Total income and expense taken to equity during the year	(2,491)	920
Profit for the year	54,839	28,319
Total recognised income and expense for the year	52,348	29,239

The notes on pages 13 to 39 form part of these financial statements.

HSBC PRIVATE BANK (UK) LIMITED**Cash flow statement for the year ended 31 December 2006**

	2006	2005
<i>Notes</i>	£'000	£'000
Cash flows (used in)/ from operating activities		
Profit before tax	84,429	38,949
Adjustments for:		
- non-cash items included in net profit	20 (a) 5,009	6,325
- change in operating assets	20 (b) (1,343,088)	(1,043,099)
- change in operating liabilities	20 (c) 1,153,780	1,032,789
- elimination of exchange differences	24,090	(21,484)
- tax paid	(15,781)	(11,820)
	<hr/>	<hr/>
Net cash (used in)/ from operating activities	(91,561)	1,660
Cash flows used in investing activity		
Purchase of financial investments	(6,947)	(4,179)
Net cash used in investing activity	(6,947)	(4,179)
Cash flows from financing activities		
Issue of ordinary share capital	-	24,660
Subordinated loan capital issued	50,279	15,000
Net cash from financing activities	50,279	39,660
Net increase in cash and cash equivalents	(48,229)	37,141
Cash and cash equivalents at the beginning of the year	409,921	347,204
Exchange differences in respect of cash and cash equivalents	(28,678)	25,576
Cash and cash equivalents at 31 December	20 (d) <u>333,014</u>	<u>409,921</u>

The notes on pages 13 to 39 form part of these financial statements.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 *(continued)*

1. Basis of preparation

The financial statements, including comparatives have been prepared under the historical cost basis as modified by the revaluation of Available-for-sale investments, fair value hedged loans and derivatives, and in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the EU and effective for the year ended 31 December 2006.

These 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 228 of the Companies Act 1985.

The results of the Company are included within the consolidated financial statements of HSBC Holdings plc.

The Company's financial statements are presented in its functional currency, Sterling.

The Company chose not to early adopt the recent "Amendments to IAS1 Presentation of Financial Statements: Capital disclosures". This amendment becomes effective for periods beginning on or after 1 January 2007. This amendment was endorsed by the EU on 11 January 2006.

The Company chose not to early adopt the recent "IFRS7 Financial Instruments: Disclosures". This amendment becomes effective for periods beginning on or after 1 January 2007.

2. Principal accounting policies

a *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments except those classified as held-for-trading are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

b *Fee and commission income*

Fee and commission income is accounted for as follows:

- i) if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed;
- ii) if the income is earned as services are provided, it is recognised as revenue as the services are provided; and
- iii) if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate and recorded in 'Interest income' (Note 2a).

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

2. Principal accounting policies (continued)

c *Trading income*

Trading income includes the following:

- All gains and losses from changes in the fair value of derivatives;
- Interest income and expenses arising on derivatives that do not qualify as fair value hedges;
- Fair value adjustments on loans that are being hedged;
- Proprietary trading income.

d *Derivative and hedge accounting*

Derivatives are recognised initially, and are subsequently re-measured, at fair value. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

All gains and losses from changes in the fair value of derivatives that do not qualify as fair value hedging instruments, are recognised in the income statement as "Trading income". Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded as "Trading income" together with changes in the fair value of the asset or liability that is attributable to the hedged risk.

Fair Value Hedge accounting

It is the Company's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks.

To qualify for hedge accounting, at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

2. Principal accounting policies (continued)

e *Impairment of loans and advances to customers*

The Company will recognise losses for impaired loans promptly where there is objective evidence that impairment of a loan or portfolio of loans has occurred. There are two basic categories of impairment losses, those calculated on individual loans and those losses assessed on a collective basis.

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

Where no evidence of loss has been identified, loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

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

f *Financial Investments*

Equity shares intended to be held on a continuing basis are classified as Available-for-sale securities. Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value are recognised in equity until the securities are either sold or impaired. On the sale of Available-for-sale securities, cumulative gains or losses previously recognised in equity are recognised through the income statement and classified as "Gains less losses from financial investments".

g *Shares in Group undertakings*

Investments in subsidiary undertakings are initially stated at cost in the balance sheet of the Company and reviewed for impairment on a periodic basis if events or changes in circumstances indicate that the carrying value may not be recoverable.

h *Property, Plant and Equipment*

Furniture, fittings, motor vehicles and equipment are stated at cost less any impairment losses and 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. Other fixed assets relate to artworks owned by the Company, which are not depreciated.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

2. Principal accounting policies (continued)

i *Income tax*

Income tax on the profit or loss for the year 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 shareholders' equity, in which case it is recognised in shareholders' equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantially 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 amount of assets and liabilities in the balance sheet and the amount 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 it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

j *Foreign currencies*

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

k *Equity compensation plans*

Shares awarded to an employee to join the Company that are made available immediately, with no vesting period attached to the award, are expensed immediately. When an inducement is awarded to an employee on commencement of employment with the Company, and the employee must complete a specified period of service before the inducement vests, the expense is spread over the period to vesting.

Discretionary bonuses awarded in respect of service in the past, are expensed over the vesting period, which is the period from the date the bonus is announced until the award vests.

Where the market value of the shares awarded is higher than the original cost, the increase in market value over the original cost is taken to the Available-for-sale reserve and amortised over the period to the vesting date.

HSBC PRIVATE BANK (UK) LIMITED

Notes to the financial statements for the year ended

31 December 2006 (continued)

2. Principal accounting policies (continued)

k *Equity compensation plans (continued)*

Where employees of the Company have joined a HSBC Holdings plc share option scheme, the fair values of the options are calculated at the start of each scheme and are amortised through the Income statement to the Share Option Reserve over the life of the scheme (see note 19).

l *Accruals and deferred income*

Interest expense that has been recognised in the income statement but has not been paid by the Company, is included in the balance sheet under the heading "Accruals and deferred income". Accruals and deferred income will also include expenditure that the Company is contractually obliged to pay, but for which settlement did not occur prior to the period end.

m *Significant judgements*

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

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

- Impairment of loans and advances to customers (note 2e);
- Provisions for liabilities and charges (note 16b);
- Shares in Group undertakings – where valuation models are used to test that the book value of the asset is recoverable (note 11)

n *Fair value accounting*

Fair value is the amount for which an asset could be exchanged, or a liability settled in an arm's length transaction. A requirement under IFRS is that fair value should be disclosed for all financial assets and liabilities.

In the following cases, the financial assets and liabilities are included in the financial statements at their fair value.

- Derivatives (note 2d);
- Loans and advances to customers, where the loan is hedged by a derivative qualifying as a fair value hedge (note 2d) and
- Financial investments (note 2f).

In determining the fair value of the financial assets and liabilities, the Company applies appropriate yield curves to the distinguishable maturity bandings of the fixed rate financial assets and liabilities being valued. With the exception of loans and advances to customers, the book value of the Company's other financial assets and liabilities are the best approximation to fair value, and therefore a separate fair value is not disclosed.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

3. Trading income

	2006	2005
	£'000	£'000
Foreign exchange	3,655	4,153
Change in fair value of hedging instruments	27,415	(3,290)
Change in fair value of hedged items	(24,996)	3,477
Change in fair value of non qualifying hedging instruments	6,599	(12,024)
Trading income	<u>12,673</u>	<u>(7,684)</u>

4. Employee compensation benefits

	2006	2005
	£'000	£'000
Staff costs		
- wages and salaries	59,275	55,179
- social security costs	7,196	6,178
- other pension costs	1,474	1,251
Employee compensation and benefits	<u>67,945</u>	<u>62,608</u>

The average number of persons employed by the Company during the year was 678 (2005: 637).

	2006	2005
	Number	Number
Average number of staff		
- Directors	11	10
- Other	667	627
Average number of staff	<u>678</u>	<u>637</u>

a) Post-employment benefit plans

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries (including the Company) and certain other employees of the Group. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit scheme ('the principal scheme') which is closed 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.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

4. Employee compensation benefits (continued)

a) Post-employment benefit plans (continued)

The Company has taken advantage of multi-employer plan exemptions and has not disclosed the details of the defined benefit scheme 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 2006, 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.

In 2006, the pension cost for defined contribution plans which cover 64% of the Company's employees was £1,474,000 (2005: £1,251,000).

b) Share-based payments

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

During 2006, £5,673,000 was charged to the income statement in respect of equity-settled share-based payment transactions (2005: £6,312,000). This expense was based on the fair value of the share-based transactions.

Share Awards

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

The total number of shares outstanding as at 31st December 2006 was 1,325,608 (2005: 1,592,928) and included 701,148 shares awarded in 2006. The weighted average fair value of shares outstanding, which is based on the closing market price as at 31st December 2006, was £9.31 (2005: £9.33).

Share Options

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

The total number of shares outstanding as at 31st December 2006 was 878,323 (2005: 1,596,282) and included 139,020 shares granted in 2006. The weighted average fair value of shares outstanding, which is calculated when transactions are contracted was £1.78.

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

HSBC PRIVATE BANK (UK) LIMITED**Notes to the financial statements for the year ended****31 December 2006 (continued)****5. General and administrative expenses**

	2006 £'000	2005 £'000
Auditors' remuneration:		
- audit of these financial statements pursuant to legislation	63	68
- other services pursuant to such legislation	20	213
- audit of subsidiary financial statements pursuant to legislation	3	4

6. Remuneration of directors

	2006 £'000	2005 £'000
Directors' emoluments:		
Short term employee benefits	2,981	2,278
Post-employment benefits	385	305
Share-based payment	2,725	649
	<u>6,091</u>	<u>3,232</u>

The emoluments of certain directors are borne by other companies owned by the ultimate parent company and are not included within the disclosures provided. The emoluments of certain directors that are employed by the Company but are disclosed in the financial statements of any parent of the Company are not disclosed.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £588,497 (2005: £479,438). The highest paid director is a member of a defined benefit scheme, under which the accrued pension at the year end was £35,280 (2005: £71,576) and an accrued lump sum of £329,285 (2005: £1,145,208).

	Number of directors 2006	2005
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>5</u>	<u>5</u>
The number of directors who exercised share options over HSBC Holdings plc ordinary shares	<u>1</u>	<u>3</u>
The number of directors in respect of whose qualifying services shares were received/receivable under long term incentive schemes	<u>8</u>	<u>5</u>

HSBC PRIVATE BANK (UK) LIMITED

Notes to the financial statements for the year ended

31 December 2006 (*continued*)**7. Tax expense**

	2006 £'000	2005 £'000
The charge for taxation comprises:		
United Kingdom corporation tax at 30% (2005: 30%)	(26,948)	(11,515)
Prior year United Kingdom corporation tax	(794)	1,148
Current tax (charge)	<u>(27,742)</u>	<u>(10,367)</u>
Deferred tax – current year	(2,136)	(215)
Prior year deferred tax	288	(48)
Deferred tax (charge)	<u>(1,848)</u>	<u>(263)</u>
Total tax charge	<u>(29,590)</u>	<u>(10,630)</u>
Analysis of United Kingdom corporation tax charge:		
	2006 £'000	2005 £'000
Taxation at UK corporate tax rate of 30% (2005: 30%)	(25,329)	(11,685)
Disallowable expenses	(2,613)	(190)
Tax free dividends receivable	488	-
Prior period adjustments	(506)	1,100
Differences due to IFRS 2 treatment	<u>(1,630)</u>	<u>145</u>
Overall tax charge	<u>(29,590)</u>	<u>(10,630)</u>

8. Derivatives

Derivatives are carried at fair value and shown in the balance sheet as separate totals of assets and liabilities. Asset values represent the cost to the Company of replacing all transactions with a fair value in the Company's favour assuming that all the Company's relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Company's counterparties of replacing all their transactions with the Company with a fair value in their favour if the Company were to default. Changes in the values of derivatives are recognised in 'Trading income', (note 2c).

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.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

8. Derivatives (continued)

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

	2006	2005
	£'000	£'000
Exchange rate	1,183,878	1,128,028
Interest rate	289,752	537,074
Precious Metals	175,101	-
Total derivatives	<u>1,648,731</u>	<u>1,665,102</u>

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

	At 31 December 2006		At 31 December 2005	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Exchange rate	4,583	12,054	396	396
Interest rate	4,952	21,575	1,865	53,947
Precious Metals	1,247	1,247	-	-
Total	<u>10,782</u>	<u>34,876</u>	<u>2,261</u>	<u>54,343</u>
Netting	<u>-</u>	<u>24,094</u>	<u>-</u>	<u>52,082</u>

of which the following are third party:

	At 31 December 2006		At 31 December 2005	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Exchange rate	898	1,874	369	396
Interest rate	62	234	276	133
Precious Metals	551	699	-	-
Total	<u>1,511</u>	<u>2,807</u>	<u>645</u>	<u>529</u>
Netting	<u>-</u>	<u>1,296</u>	<u>116</u>	<u>-</u>

HSBC PRIVATE BANK (UK) LIMITED**Notes to the financial statements for the year ended****31 December 2006 (continued)****9. 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 maturity 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:

	2006 £'000	2005 £'000
Interest rate contracts:		
- pay fixed swaps	654,392	381,483

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

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

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2006, were assets of £2 million (2005: £nil) and liabilities of £20 million (2005: £37 million).

	2006 £'000	2005 £'000
Gain or losses arising from the change in fair value of fair value hedges:		
- on hedging instruments	27,415	(3,290)
- on hedged item attributable to the hedged risk	(24,996)	3,477
	<u>2,419</u>	<u>187</u>

10. Loans and advances to customers

	2006 £'000	2005 £'000
Loans and advances to customers	5,895,829	4,567,405

The fair value of loans and advances to customers at 31 December 2006 was £5,925,000 (2005: £4,611,000).

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

11. Shares in Group undertakings

Details of the Company's subsidiary undertakings at 31 December 2006 are as follows:

	Principal activity	Proportion held %	Class of shares held	Book value £000
Property Vision Holdings Limited (incorporated in England)	Property advice	100	Ordinary	15,000
HSBC Private Trustee (UK) Limited (incorporated in England)	Trust Services	100	Ordinary	88
				<u>15,088</u>

On 26 September 2001, HSBC Private Bank (UK) Limited, acquired 100 per cent of the share capital of Property Vision Holdings Limited. The total consideration originally 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.

In 2004, the Directors removed the future performance criteria on these two tranches and issued £5,000,000 4% loan notes in August 2004 which consisted of £1,966,000 which was redeemed in February 2005, and £3,034,000 which was redeemed in February 2006 (see note 14).

12. Property, plant and equipment

	Furniture, Fittings, Motor Vehicles and Equipment £000	Other Assets £000	Total £000
Cost at 1 January 2006	-	73	73
Disposals	-	-	-
Cost at 31 December 2006	<u>-</u>	<u>73</u>	<u>73</u>
Accumulated depreciation at 1 January 2006	-	-	-
Disposals	-	-	-
Accumulated depreciation at 31 December 2006	<u>-</u>	<u>-</u>	<u>-</u>
Net book value at 31 December 2006	<u>-</u>	<u>73</u>	<u>73</u>
Net book value at 31 December 2005	<u>-</u>	<u>73</u>	<u>73</u>

HSBC PRIVATE BANK (UK) LIMITED

Notes to the financial statements for the year ended

31 December 2006 (*continued*)**13. Other assets**

	2006 £'000	2005 £'000
Deferred tax asset	11,969	13,835
Other	5,493	5,366
	<hr/>	<hr/>
Other assets	<u>17,462</u>	<u>19,201</u>

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.

Deferred tax assets are attributable to the following:

	2006 £'000	2005 £'000
Property, Plant & Equipment	104	33
Employee Benefits	2,571	3,706
Provisions	9,294	10,096
	<hr/>	<hr/>
	<u>11,969</u>	<u>13,835</u>

Movement in deferred tax assets in 2006:

	Balance at 1.1.06	Recognised in income	Recognised in equity	Balance at 31.12.06
Property, Plant & Equipment	33	71	0	104
Employee Benefits	3,706	(1,116)	(19)	2,571
Provisions	10,096	(802)	0	9,294
	<hr/>	<hr/>	<hr/>	<hr/>
	13,835	(1,847)	(19)	11,969

Movement in deferred tax assets in 2005:

	Balance at 1.1.05	Recognised in income	Recognised in equity	Balance at 31.12.05
Property, Plant & Equipment	50	(17)	0	33
Employee Benefits	3,525	(53)	234	3,706
Provisions	10,289	(193)	0	10,096
	<hr/>	<hr/>	<hr/>	<hr/>
	13,864	(263)	234	13,835

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 *(continued)*

14. Debt securities in issue

	2006 £'000	2005 £'000
Loan notes:		
Loan maturing on 30 September 2011, repayable on demand at the request of the holder	61	61
Loan maturing on 1 February 2014, repayable on demand from 1 February 2005 at the request of the holder	60	70
Loan maturing on 1 February 2014, repayable on demand from 1 February 2006 at the request of the holder	120	3,034
	<u>241</u>	<u>3,165</u>

As described in note 11, the notes represent 4% loan stock issued in connection with the acquisition of Property Vision Holdings Ltd during 2001.

The fair value of debt securities in issue is equal to the book value. All balances are repayable on demand.

15. Other liabilities

	2006 £'000	2005 £'000
Share based payment liabilities	6,657	9,622
Current taxation	17,616	5,655
Other liabilities	4,715	7,760
	<u>28,988</u>	<u>23,037</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

16. Provisions for liabilities and charges

a Deferred taxation

Deferred taxation is provided in accordance with the accounting policy in Note 2i. See note 13 for details of the deferred tax asset.

b Other provisions for liabilities and charges

	Restructuring Provision £000	Provisions for contingent liabilities and commitments £000	Premises-related provisions £000	Total £000
At 1 January 2006	-	2,619	3,387	6,006
Additional provisions	1,000	1,134	-	2,134
Provisions utilised	(182)	(651)	-	(833)
Provisions released	-	(112)	(3,052)	(3,164)
At 31 December 2006	818	2,990	335	4,143

As at 31 December 2006, the "Restructuring Provision" of £818,000 related solely to the possible costs of redundancy in the part of the Company unrelated to Private Banking.

As at 31 December 2006, "Provisions for contingent liabilities and commitments" of £2,990,000 relate solely to the possible costs of redress arising from the managing of investments in part of the Company unrelated to Private Banking. During 2006, £651,000 of the provision carried forward was utilised (2005: £3,703,000) and an additional provision of £1,134,000 was raised. The remaining liabilities are expected to crystallise during 2007.

The 'Premises-related provisions' relate to discounted future costs associated with vacant and sub-let short leasehold properties, and to discount future costs to make good dilapidation's upon the expiry of leases. The provisions cover rent voids while finding new tenants, shortfalls in expected rent receivable compared to rent payable and costs of refurbishing the building to attract tenants or make good dilapidation's. Uncertainties relate to movements in market rents, the delay in finding new tenants, timing of rental reviews and the estimation of costs of refurbishment.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

17. Subordinated liabilities

	2006 £'000	2005 £'000
Loan from fellow subsidiary undertaking:		
Dated subordinated loan capital:		
US\$19,000,000 variable rate subordinated loan maturing 2011	9,677	11,039
US\$45,000,000 variable rate subordinated loan maturing 2013	22,919	26,145
GB£27,000,000 variable rate subordinated loan maturing 2014	27,000	27,000
GB£15,000,000 variable rate subordinated loan maturing 2015	15,000	15,000
GB£35,000,000 variable rate subordinated loan maturing 2016	35,000	-
US\$30,000,000 variable rate subordinated loan maturing 2016	15,279	-
	<u>124,875</u>	<u>79,184</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.

The fair value of subordinated liabilities is equal to the book value. All subordinated liabilities are variable rate liabilities.

18. Called up share capital

	2006 £000	2005 £000
Authorised:		
Ordinary shares of £10 each		
As at 1 January and 31 December	<u>195,000</u>	<u>195,000</u>
Issued, allotted and fully paid up:		
Ordinary shares of £10 each		
At 1 January	176,910	152,250
Increase during the year	-	24,660
At 31 December	<u>176,910</u>	<u>176,910</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

19. Reconciliation of movements in shareholder's funds

	2006 £000	2005 £000
Called up share capital		
- Balance at the beginning of the year	176,910	152,250
- Shares issued, allotted and fully paid up	-	24,660
- Balance at the end of the year	<u>176,910</u>	<u>176,910</u>
Share premium		
- Balance at the beginning of the year	3,277	3,277
- New share capital subscribed	-	-
- Balance at the end of the year	<u>3,277</u>	<u>3,277</u>
Available-for-sale reserves		
- Balance at the beginning of the year	3,493	2,860
- Fair value gains / (losses) taken to equity	(2,472)	686
- Deferred taxation	(6)	(53)
- Balance at the end of the year	<u>1,015</u>	<u>3,493</u>
Share option reserves		
- Balance at the beginning of the year	2,588	1,560
- Fair value gains / (losses) taken to equity	411	741
- Deferred taxation	(13)	287
- Balance at the end of the year	<u>2,986</u>	<u>2,588</u>
Retained earnings		
- Balance at the beginning of the year	112,141	83,822
- Profit for the period attributable to shareholders	54,839	28,319
- Balance at the end of the year	<u>166,980</u>	<u>112,141</u>
Total shareholders' equity at the beginning of the year	298,409	243,769
Net change in shareholders' equity	52,759	54,640
Total shareholders' equity at the end of the year	<u>351,168</u>	<u>298,409</u>

The Share premium account represents the difference between the proceeds received from the issue of shares and the nominal value of those shares.

The Available-for-sale reserve contains fair value and associated deferred tax adjustments in respect of Available-for-sale ("AFS") investments, (being primarily shares held in respect of equity compensation schemes). When the share awards vest, the reserve is derecognised.

The Share option reserve contains fair value and associated deferred tax adjustments in respect of HSBC share option schemes, where employees of the Company participate. Fair value is calculated at the date of the award and taken to the Share Option Reserve over the period to vesting date.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

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

	2006	2005
	£000	£000
(a) Non-cash items included in profit and loss		
Depreciation and amortisation	4,867	5,840
Loan impairment losses	3,061	5,188
Loans written off net of recoveries	(238)	(60)
Provisions for liabilities and charges	1,134	282
Provisions utilised	(3,815)	(4,925)
	<u>5,009</u>	<u>6,325</u>
(b) Change in operating assets		
Change in prepayments and accrued income	(6,799)	(5,918)
Change in loans and advances to banks	810	15,736
Change in loans and advances to customers	(1,331,247)	(1,039,051)
Change in financial assets designated at fair value	(8,521)	(2,261)
Change in other assets	2,669	(11,605)
	<u>(1,343,088)</u>	<u>(1,043,099)</u>
(c) Change in operating liabilities		
Change in accruals and deferred income	10,788	(3,167)
Change in deposits by banks	268,809	150,932
Change in customer accounts	901,766	857,707
Change in debt securities in issue	(2,924)	(2,006)
Change in financial liabilities designated at fair value	(19,467)	32,910
Change in other liabilities	(5,192)	(3,587)
	<u>1,153,780</u>	<u>1,032,789</u>
(d) Cash and cash equivalents comprise		
Cash and balances at central banks	899	953
Loans and advances to banks of one month or less	332,115	408,968
	<u>333,014</u>	<u>409,921</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

21. 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.

	<i>Contract Amount £000</i>	<i>2006 Credit equivalent amount £000</i>	<i>Risk weighted amount £000</i>	<i>Contract amount £000</i>	<i>2005 Credit equivalent amount £000</i>	<i>Risk weighted amount £000</i>
Contingent liabilities:						
Guarantees and assets pledged as collateral security	<u>370,320</u>	<u>370,320</u>	<u>238,176</u>	<u>332,369</u>	<u>332,369</u>	<u>177,518</u>
Commitments:						
Undrawn formal standby facilities, credit lines and other commitments to lend:						
- 1 year and under	788,029	-	-	478,143	-	-
- over 1 year	<u>12,033</u>	<u>6,017</u>	<u>4,989</u>	<u>17,198</u>	<u>8,599</u>	<u>5,645</u>
	<u>800,062</u>	<u>6,017</u>	<u>4,989</u>	<u>495,341</u>	<u>8,599</u>	<u>5,645</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 *(continued)*

22. Risk management

All of the Company's activities involve analysis, evaluation and management of some degree of risk or combination of risks. The most important types of risk are credit risk, liquidity risk, market risk, operational risk and reputational risk. The management of all risks which are significant to the Company is discussed below.

a) Credit 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.

The following is an analysis of the movement in individually and collectively assessed impairment provisions during 2006:

	Year to 31 December 2006		
	Individually assessed £'000	Collectively assessed £'000	Total £'000
At 1 January 2006	7,694	3,034	10,728
Amounts written off	(360)	-	(360)
Recoveries of loans and advances written off in previous years	117	-	117
Charge to income statement	2,575	486	3,061
At 31 December 2006	<u>10,026</u>	<u>3,520</u>	<u>13,546</u>

In 2006, interest of £942,000 (2005: £661,000) was accrued on loans for which individually assessed impairment provisions existed.

Loans and advances to customers are concentrated in the Personal sector. The Directors have determined that further segmentation is not meaningful.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

22. Risk management (continued)

b) Liquidity risk management

The objective of liquidity management is to ensure that all commitments, both contractual and those determined on the basis of behavioural patterns, which are required to be funded, can be met out of readily available and secure sources of funding. The Company monitors liquidity on a daily basis within limits set and approved by its ultimate parent company.

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

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS							
Cash and balances with central banks	899	-	-	-	-	-	899
Derivatives	-	2,827	2,971	1,732	3,252	-	10,782
Loans and advances to banks	45,645	288,315	5,980	-	-	-	339,940
Loans and advances to customers	453,875	1,870,682	1,057,791	1,581,286	945,741	(13,546)	5,895,829
Financial investments	-	2,859	12	9,378	-	-	12,249
Shares in Group undertakings	-	-	-	-	-	15,088	15,088
Property, plant and equipment	-	-	-	-	-	73	73
Other assets	-	5,433	-	-	-	12,029	17,462
Prepayments and accrued income	-	48,343	-	-	-	7,193	55,536
Total as at 31 December 2006	500,419	2,218,459	1,066,754	1,592,396	948,993	20,837	6,347,858
Total as at 31 December 2005	149,895	1,358,338	1,193,289	1,477,517	882,380	24,929	5,086,348
LIABILITIES							
Deposits by banks	1,383,325	(663,196)	108,009	(1,972)	(355)	-	825,811
Customer accounts	1,958,269	2,744,376	102,367	54,089	56,945	-	4,916,046
Derivatives	-	7,898	5,350	365	21,263	-	34,876
Debt securities in issue	241	-	-	-	-	-	241
Equity	-	-	-	-	-	351,168	351,168
Other liabilities	-	20,505	-	3,768	-	4,715	28,988
Accruals and deferred income	-	47,906	-	-	-	14,622	62,528
Provisions for liabilities and charges	-	-	-	-	-	-	-
- deferred tax	-	-	-	-	-	-	-
- other provisions	-	-	-	-	-	3,325	3,325
Subordinated liabilities	-	-	-	9,677	115,198	-	124,875
Total as at 31 December 2006	3,341,835	2,157,489	215,726	65,927	193,051	373,830	6,347,858
Total as at 31 December 2005	2,453,363	2,229,548	(24,169)	(92,449)	195,656	324,399	5,086,348

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 *(continued)*

22. Risk management *(continued)*

c) 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 HSBC Group Executive Committee. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

Separate disclosures on interest rate risk (note 22d) and foreign exchange risk (note 22e) are provided below.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

22. Risk management (continued)

d) Interest rate risk

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 2006. 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 2006:

	<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
Assets							
Loans & advances to banks:	277,625	-	-	-	-	62,315	339,940
Loans & advances to Customers:							
- Fair value risk	-	-	-	34,000	620,392	-	654,392
- Cash flow risk	4,972,315	31,387	16,955	32,239	2,558	14,019	5,069,473
- Neither	-	-	3,452	109,398	59,114	-	171,964
Other assets						112,089	112,089
Total assets	<u>5,249,940</u>	<u>31,387</u>	<u>20,407</u>	<u>175,637</u>	<u>682,064</u>	<u>188,423</u>	<u>6,347,858</u>
Liabilities							
Deposits by banks	899,216	(5,641)	(11,813)	(52,628)	(6,965)	3,642	825,811
Customer accounts	4,700,149	68,526	33,841	54,089	56,945	2,496	4,916,046
Debt securities in issue	241	-	-	-	-	-	241
Other liabilities	-	-	-	-	-	129,718	129,718
Loan capital and other Subordinated Liabilities	9,677	115,197	-	-	-	-	124,874
Minority interests & Shareholders' funds	-	-	-	-	-	351,168	351,168
Total liabilities	<u>5,609,283</u>	<u>178,082</u>	<u>22,028</u>	<u>1,461</u>	<u>49,980</u>	<u>487,024</u>	<u>6,347,858</u>
Notional value:							
Interest rate swaps	<u>739,628</u>	<u>129,158</u>	<u>(2,589)</u>	<u>(133,261)</u>	<u>(732,936)</u>	<u>-</u>	<u>-</u>
Interest rate sensitivity gap	<u>380,285</u>	<u>(17,537)</u>	<u>(4,210)</u>	<u>40,915</u>	<u>(100,852)</u>	<u>(298,601)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>380,285</u>	<u>362,748</u>	<u>358,538</u>	<u>399,453</u>	<u>298,601</u>	<u>-</u>	<u>-</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

22. Risk management (continued)

d) Interest rate risk (continued)

31 December 2005:

	<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
Assets							
Loans & advances to banks:	368,786	5,149	-	-	-	43,668	417,603
Loans & advances to Customers:							
- Fair value risk	-	-	-	-	381,483	-	381,483
- Cash flow risk	3,701,726	79,860	12,081	17,395	7,353	8,432	3,826,847
- Neither	-	-	4,405	60,935	293,735	-	359,075
Other assets	-	-	-	-	-	101,340	101,340
Total assets	<u>4,070,512</u>	<u>85,009</u>	<u>16,486</u>	<u>78,330</u>	<u>682,571</u>	<u>153,440</u>	<u>5,086,348</u>
Liabilities							
Deposits by banks	604,356	48,549	(23,887)	(64,253)	(11,010)	3,247	557,002
Customer accounts	3,826,166	30,311	25,701	66,413	64,889	800	4,014,280
Debt securities in issue	3,165	-	-	-	-	-	3,165
Other liabilities	-	-	-	-	-	134,308	134,308
Loan capital and other Subordinated Liabilities	11,039	68,145	-	-	-	-	79,184
Minority interests & Shareholders' funds	-	-	-	-	-	298,409	298,409
Total liabilities	<u>4,444,726</u>	<u>147,005</u>	<u>1,814</u>	<u>2,160</u>	<u>53,879</u>	<u>436,764</u>	<u>5,086,348</u>
Notional value:							
Interest rate swaps	<u>626,994</u>	<u>65,673</u>	<u>(3,817)</u>	<u>(79,897)</u>	<u>(608,953)</u>	-	-
Interest rate sensitivity gap	<u>252,780</u>	<u>3,677</u>	<u>10,855</u>	<u>(3,727)</u>	<u>19,739</u>	<u>(283,324)</u>	-
Cumulative interest rate sensitivity gap	<u>252,780</u>	<u>256,457</u>	<u>267,312</u>	<u>263,585</u>	<u>283,324</u>	-	-

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 *(continued)*

22. Risk management *(continued)*

d) Interest rate risk *(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.

The table below discloses the effective interest rate of the Company's asset and liabilities in 2006. The effective interest rate is the interest rate necessary to discount the estimated stream of principal and interest rate cash flows through the expected life of the financial assets and liabilities.

	%
Loans and advances to banks	4.96
Loans and advances to customers	5.69
Deposits by banks	2.75
Customer accounts	4.31
Subordinated liabilities	5.22

e) Foreign exchange risk

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

	2006 £000	2005 £000
Denominated in sterling	5,153,244	4,465,587
Denominated in currencies other than sterling	<u>1,194,614</u>	<u>620,761</u>
Total assets	<u>6,347,858</u>	<u>5,086,348</u>
Denominated in sterling	4,994,716	4,322,504
Denominated in currencies other than sterling	<u>1,353,142</u>	<u>763,844</u>
Total liabilities	<u>6,347,858</u>	<u>5,086,348</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

22. Risk management (continued)

f) Operational risk management

Operational risk is the risk of loss arising through fraud, unauthorised activities, error, omission, inefficiency, systems failure or from external events. It is inherent to every business organisation and covers a wide spectrum of issues.

The Company manages this risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensures that the Company stays in line with best practice and takes account of lessons learned from publicised operational failures within the financial services industry.

g) Reputational risk management

The safeguarding of the Company's reputation is of paramount importance to its continued prosperity and is the responsibility of every member of staff. Management has established an internal control structure to minimise the risk of operational and financial failure, and to ensure that a full appraisal of reputational implications is made before strategic decisions are taken. The Group internal audit function monitors compliance with policies and standards.

23. Capital commitments

There are no capital commitments at 31 December 2006 (2005: nil).

24. Related party transactions

- (i) Transactions, arrangements and agreements involving Directors and connected persons and companies controlled by them.

	2006		2005	
	Number of Directors	£000	Number of Directors	£000
Loans (including housing loans) to, and guarantees on behalf of	<u>3</u>	<u>199</u>	<u>2</u>	<u>230</u>

The maximum amount of loans for directors outstanding during the year was £430,000 (2005: £483,000).

- (ii) Compensation to the Board of Directors, as executives of the Company, are disclosed in note 6 to the accounts.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2006 (continued)

24. Related party transactions (continued)

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

Parent undertakings

	2006	2005
	£'000	£'000
ASSETS:		
Derivatives	9,271	1,474
Loans and advances to banks	288,167	384,807
LIABILITIES:		
Deposits by banks	789,756	507,773
Derivatives	32,069	53,814
Subordinated liabilities	124,875	79,184
INCOME STATEMENT:		
Interest income	12,672	9,692
Interest expense	26,519	25,577
Fee expense	3,790	1,355
General and administrative expenses	4,632	10,143
OFF BALANCE SHEET:		
Derivatives	1,957,733	1,591,453

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.

25. 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 Private Banking Holdings (Suisse) S.A.

HSBC Private Banking Holdings (Suisse) S.A. is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party.

Copies of the financial statements of HSBC Private Banking Holdings (Suisse) S.A. and HSBC Holdings plc may be obtained from:

HSBC Private Banking Holdings (Suisse) S.A.	HSBC Holdings plc
2 Quai du General-Guisan	8 Canada Square
Geneva	London
Switzerland	E14 5HQ
	www.hsbc.com