

HSBC PRIVATE BANK (UK) LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Registered number: 499482

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HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2008

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

Business development

The Company delivered a solid set of results for 2008, despite the most difficult of financial markets and the widespread recapitalisation throughout the Banking sector. Although profit fell by 6% when compared to 2007, total assets grew by £1.599 billion and the Company remained capitalised at a level significantly higher than the UK Financial Services Authority (FSA) minimum requirements.

The most notable aspect of the financial performance in 2008 was the growth in customer accounts. The majority of the 44% increase in these cash balances occurred in the two months from the middle of September and represented a vote of confidence in the stability and brand of the HSBC Group. Other successes included the continued identification of new lending opportunities which met the rigorous credit quality requirements that the Company employs, although such opportunities were less frequently available than in previous years.

The Company was not completely immune from the global financial turmoil. A sizeable increase in the absolute level of impairment losses did occur in 2008, although it must be noted that the percentage of the loan book requiring provisioning is still low. A flat performance in Assets under Management is also reported, driven by a combination of falling market values, fund redemptions and a deliberate exiting from loss making small accounts.

Although early indications are that financial markets in 2009 will continue to experience turbulence, the Company is well positioned to benefit from any opportunities for business growth that arise.

Profit for the year

Profit for the year in 2008 of £61,141,000 was 6% lower than the equivalent figure in 2007 (£65,037,000). The lower profits resulted from three main factors: an increase in impairment charges against client lending, an impairment loss on Available for sale (AFS) investments and a reduction in trading income. The negative movement in trading income primarily arose from market interest rate changes that proved to be unfavourable to our non qualifying hedge portfolio. It is the intention of the Company to hold the derivatives in this portfolio until maturity.

The impairment loss on AFS investments relates to equity shares in HSBC Holdings plc awarded to staff on a deferred basis. A permanent write down in the value of the equity shares has been required following the downward movement in the capitalisation value of all banking sector equity in the last 12 months. This accounting adjustment does not represent an additional loss to the Company over and above the original purchase value of the shares. Similarly, the loss has no impact on the Company's capital.

Excluding the impact of both impairment losses and trading income reveals growth in the underlying performance of the Company. In particular, net interest income was £28 million or 25% higher due to the higher levels of both client lending and cash deposits.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2008 (continued)

Profit for the year (continued)

Operating expenses increased as investment in staff continued in the first half of 2008, and infrastructure enhancements continued throughout the whole year.

Balance sheet

Total assets of the Company increased by £1,599 million to £8,324 million at 31 December 2008 (31 December 2007: £6,725 million). This increase has arisen from an increase in lending to both customers and banks. Lending to banks is primarily with other parts of the HSBC Group, and has grown as a direct result of the inflow of customer accounts in the second half of the year.

Total equity of the Company increased by £65 million to £479 million at 31 December 2008 (31 December 2007: £414 million) primarily due to the inclusion of 2008 profits.

The Company is required to meet minimum capital requirements set by the Financial Services Authority (see note 21). Within the HSBC Group, HSBC Holdings plc requires its subsidiaries to hold additional capital at a level higher than the regulatory minimum. In March 2008, in order to meet the HSBC Group's additional capital requirements, the Company received a US\$40million subordinated loan (see note 18) from a fellow HSBC Group subsidiary undertaking.

Assets under management

Total Assets under Management (including cash deposits) increased by £2 million to £14,013 million at 31 December 2008 (31 December 2007: £14,011 million), as net new money from customers was almost entirely offset by negative movements in market values and other factors (see Business Development section).

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).

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 24 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 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.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2008 (continued)

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 8.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2008 (2007: £nil).

Subsequent events and future developments

It is the intention of the Directors, that in 2009, the Company will continue to grow its principal business activity. Achievement of this objective will be partly dependent on the impact of the UK and global economy on the Company's clients and any adjustments to the Company's risk appetite.

Directors

The directors who served during the year were as follows:

Name	Appointed	Resigned
L Blinoff		
S T Brown	10 March 2008	
W J R Gething		
R B Janvrin	30 January 2008	
C Kirkby		
N A May	18 February 2008	
C M Meares		
M J Mount		
R K Parmar		
D K Sheehan		
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 and the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

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 2008 (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 does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment.

It is company practice to organise payment to its suppliers through a central accounts payable function 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

It is the intention of the Directors to reappoint KPMG Audit Plc as the Company's auditor for the forthcoming year.

HSBC PRIVATE BANK (UK) LIMITED
Report of the directors for the year ended
31 December 2008 (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 auditor in relation to the financial statements.

The Directors are responsible for preparing the Directors' 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 IFRSs as adopted by the EU and applicable laws.

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 that 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;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 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



P Harvey
Secretary

26 February 2009

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 2008, 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 5.

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 2008 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

8 Salisbury Square
London
EC4Y 8BB

26 February 2009

HSBC PRIVATE BANK (UK) LIMITED
Income statement for the year ended 31 December 2008

	<i>Notes</i>	2008 £'000	Restated 2007 £'000
Interest income		414,713	407,210
Interest expense		(276,042)	(296,490)
Net interest income		<u>138,671</u>	<u>110,720</u>
Fee and commission income		77,914	79,064
Fee and commission expense		(9,147)	(6,573)
Trading income	3	7,744	16,033
Dividend income		85	1,172
Other operating income		2,038	1,689
Total operating income before loan impairment charges and other credit risk provisions		<u>217,305</u>	<u>202,105</u>
Loan impairment credit / (charges) and other credit risk provisions	24(a)	(11,112)	243
Impairment loss on AFS investments		(4,063)	-
Net operating income		<u>202,130</u>	<u>202,348</u>
Employee compensation and benefits	4	(83,387)	(78,884)
General and administrative expenses		(33,719)	(29,224)
Total operating expenses		<u>(117,106)</u>	<u>(108,108)</u>
Profit before tax	5	85,024	94,240
Tax expense	7	(23,883)	(29,203)
Profit for the year	20	<u>61,141</u>	<u>65,037</u>

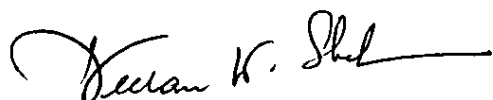
The notes on pages 12 to 46 form part of these financial statements.

An explanation for the restatement is provided in note 1.

HSBC PRIVATE BANK (UK) LIMITED
Balance sheet at 31 December 2008

		2008	Restated
	<i>Notes</i>	£'000	2007
			£'000
ASSETS			
Cash and balances at central banks		921	847
Derivatives	9	28,483	18,220
Loans and advances to banks		1,039,400	83,556
Loans and advances to customers	11	7,091,410	6,473,462
Financial investments		19,072	16,973
Shares in Group undertakings	12	15,088	15,088
Property, plant and equipment	13	97	97
Other assets	14	46,201	11,600
Prepayments and accrued income		83,469	105,538
Total assets		8,324,141	6,725,381
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks		5,324	826,524
Customer accounts		7,352,462	5,117,214
Derivatives	9	119,166	44,912
Debt securities in issue	15	13	13
Other liabilities	16	30,924	32,913
Accruals and deferred income		179,421	172,309
Provisions for liabilities and charges	17	2,423	3,539
Subordinated liabilities	18	155,843	114,381
Total liabilities		7,845,576	6,311,805
Equity			
Called up share capital	19	176,910	176,910
Share premium account		3,277	3,277
Other reserves		4,923	1,075
Retained earnings		293,455	232,314
Total Equity	20	478,565	413,576
Total equity and liabilities		8,324,141	6,725,381

Approved by the Board of Directors and signed on its behalf on 26 February 2009.



D K Sheehan
Director

The notes on pages 12 to 46 form part of these financial statements

An explanation for the restatement is provided in note 1.

HSBC PRIVATE BANK (UK) LIMITED**Statement of recognised income and expense for the year ended 31 December 2008**

	2008 £'000	Restated 2007 £'000
Available-for-sale investments:		
- valuation gains/ (losses) taken to equity	(38)	(1,576)
Deferred tax on items taken directly to or transferred from equity	-	(1,731)
Total income and expense taken to equity during the year	(38)	(3,307)
Profit for the year	61,141	65,037
Total recognised income and expense for the year	61,103	61,730

The notes on pages 12 to 46 form part of these financial statements.

An explanation for the restatement is provided in note 1.

HSBC PRIVATE BANK (UK) LIMITED**Cash flow statement for the year ended 31 December 2008**

	<i>Notes</i>	2008 £'000	2007 £'000
Cash flows (used in)/ from operating activities			
Profit before tax		85,024	94,240
Adjustments for:			
- non-cash items included in net profit	22 (a)	23,140	4,897
- change in operating assets	22 (b)	(926,789)	(603,596)
- change in operating liabilities	22 (c)	1,494,098	324,918
- elimination of exchange differences		356	4,628
- tax paid		(27,657)	(31,009)
Net cash (used in) / from operating activities		<u>648,172</u>	<u>(205,922)</u>
Cash flows used in investing activity			
Purchase of financial investments		(8,247)	(8,620)
Purchase of fixed assets		<u>-</u>	<u>(24)</u>
Net cash used in investing activity		<u>(8,247)</u>	<u>(8,644)</u>
Cash flows from financing activities			
Subordinated loan capital (repaid) / issued		<u>19,861</u>	<u>(9,677)</u>
Net cash (used in) / from financing activities		<u>19,861</u>	<u>(9,677)</u>
Net increase / (decrease) in cash and cash equivalents		659,786	(224,243)
Cash and cash equivalents at the beginning of the year		76,065	305,753
Exchange differences in respect of cash and cash equivalents		<u>21,245</u>	<u>(5,445)</u>
Cash and cash equivalents at 31 December	22 (d)	<u>757,096</u>	<u>76,065</u>

The notes on pages 12 to 46 form part of these financial statements.

An explanation for the restatement is provided in note 1.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 *(continued)*

1. Basis of preparation

The financial statements, including comparatives, have been prepared on the going concern basis 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 2008.

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 has adopted the requirements of IFRIC 11, "Group and Treasury Share Transactions", which impacts its accounting for deferred share awards to staff. A restatement of 2007 comparatives for Dividend Income (see Income Statement), Employee Compensation and Benefits (see Income Statement) and Total Equity (see note 20) have been necessary.

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 2008 (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 classified as held for trading;
- Fair value adjustments on loans that are being hedged;
- Foreign exchange income, including interest income on forward foreign exchange contracts.

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.

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. The Company classifies equity shares in HSBC Holdings plc, held in trust on behalf of its employees (see note 4)), as Available-for-sale securities.

Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value. Changes in fair value are recognised in equity through the Available-for-Sale reserve until the securities vest. Permanent impairment in the value of the security are recognised through the Income Statement.

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*

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 2008 *(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.

Deferred tax is calculated using the tax rates expected to apply in the period in which the assets will be realised or the liabilities settled.

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 *Loans and advances to customers*

Loans and advances to customers are measured under the historical cost basis but will be subject to adjustment when hedged by a derivative classified as a fair value hedge.

Where loans and advances to customers are hedged by a derivative classified as a fair value hedge, a fair value adjustment is made to the historical cost.

Changes in the fair value adjustment are recorded as "Trading Income" (note 3).

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 *(continued)*

2. Principal accounting policies *(continued)*

l *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 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 or lower than the original cost, the increase or decrease in market value compared to the original cost is taken to the Available-for-sale reserve.

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 20).

m *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.

n *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);
- Impairment of Available for sale investments (note 2f);
- Provisions for liabilities and charges (note 17b);
- Shares in Group undertakings – where valuation models are used to test that the book value of the asset is recoverable (note 12).

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

2. Principal accounting policies (continued)

o 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) and
- Financial investments (note 2f).

The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are traded on active markets are based on those active quoted prices. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

p Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than one months' maturity from the date of acquisition, and include cash and balances at central banks and loans and advances to banks.

3. Trading income

	2008	2007
	£'000	£'000
Foreign exchange	7,579	4,337
Interest income on forward foreign exchange	1,886	9,511
Change in fair value of hedging instruments	(59,507)	(5,351)
Change in fair value of hedged items	60,226	8,459
Change in fair value of derivatives held for trading (note 9)	(2,440)	(923)
Trading income	<u>7,744</u>	<u>16,033</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

4. Employee compensation and benefits

	2008	Restated
	£'000	2007
		£'000
Staff costs		
- wages and salaries including share-based payments (see below)	73,724	68,785
- social security costs	9,047	8,029
- other pension costs	616	2,070
Employee compensation and benefits	<u>83,387</u>	<u>78,884</u>

The average number of persons employed by the Company during the year was 816 (2007: 760).

	2008	2007
	Number	Number
Average number of staff		
- Directors	11	9
- Other	805	751
Average number of staff	<u>816</u>	<u>760</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. For this reason, 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 2008, of which employees of the Company are members, are disclosed in the statutory accounts of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees. The Company has not been asked to contribute to any deficit in any of the schemes, except through amendments to its regular payments.

In 2008, the pension cost for defined contribution plans which cover 67% of the Company's employees was £1,608,000 (2007: £2,070,000). The other pension cost is stated after a release of £992,000 (2007: nil) of previously accrued pension provision which is no longer required.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 *(continued)*

4. Employee compensation benefits *(continued)*

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.

Included in 'Wages and salaries' is a charge of £8,134,000 (2007: £5,671,000) in respect of equity-settled share-based payment 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 at 31 December 2008 was 2,880,240 (2007: 2,018,104) and included 1,079,240 shares awarded in 2008. The weighted average fair value of shares outstanding, which is based on the closing market price at 31 December 2008, was £6.62 (2007: £8.42).

Share options

The Save-As-You-Earn ("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 "SAYE" share option scheme and HSBC Holdings Group Share Option Plan.

The total number of shares outstanding at 31 December 2008 was 1,210,339 (2007: 1,000,719) and included 568,524 shares granted in 2008. The weighted average fair value of shares outstanding, which is calculated when transactions are contracted was £2.07 (2007: £1.79).

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 2008 (continued)

5. Profit before tax

Profit before tax is stated after the following items of income and expense:

	2008	2007
	£'000	£'000
Net interest income		
- interest earned on derivatives which qualify as fair value hedges	2,404	2,720
Fee and commission income		
- Fees earned on financial assets and liabilities that are not at fair value through profit or loss	38,003	31,247
General and administrative expenses		
Auditors' remuneration:		
- audit of these financial statements pursuant to legislation	76	72
- other services pursuant to such legislation	51	31
- audit of subsidiary financial statements pursuant to legislation	4	4
- tax advisory services provided to the Company	53	-

6. Remuneration of directors

	2008	2007
	£'000	£'000
Directors' emoluments:		
Short term employee benefits	2,742	2,610
Post-employment benefits	158	134
Share-based payment	1,641	1,401
	<u>4,541</u>	<u>4,145</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 £1,111,800 (2007: £1,212,819). The highest paid director is a member of a defined contribution scheme, to which a contribution of £54,000 was made in the year.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

6. Remuneration of directors (continued)

	Number of directors	
	2008	2007
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	<u>4</u>	<u>4</u>
Defined contribution 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>2</u>
The number of directors in respect of whose qualifying services shares were received/receivable under long term incentive schemes	<u>3</u>	<u>5</u>

7. Tax expense

	2008	2007
	£'000	£'000
The charge for taxation comprises:		
United Kingdom corporation tax at 28.5% (2007: 30%)	(26,250)	(27,928)
Prior year United Kingdom corporation tax	717	(430)
Current tax (charge)	<u>(25,533)</u>	<u>(28,358)</u>
Deferred tax – current year	1,012	(327)
Prior year deferred tax	638	153
Changes in taxation rates and laws	-	(671)
Deferred tax (charge) (note 14)	<u>1,650</u>	<u>(845)</u>
Total tax charge	<u>(23,883)</u>	<u>(29,203)</u>

The current tax charge for the period is lower (2007: higher) than the standard rate of UK Corporation tax at 28.5% (2007: 30%). The differences are explained below:

	2008	2007
	£'000	£'000
Taxation at UK corporate tax rate of 28.5% (2007: 30%)	(24,232)	(28,272)
Changes in taxation rates and laws	1	(671)
Disallowable expenses	(1,447)	(360)
Tax free dividends receivable	24	330
Prior period adjustments	1,355	(277)
Differences due to IFRS 2 treatment	416	47
Overall tax charge	<u>(23,883)</u>	<u>(29,203)</u>

A change in the rate of corporation tax from 30% to 28% was enacted in June 2007 and is applicable from April 2008.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

8. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies in note 2 describe how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the Balance Sheet by the class of financial instrument to which they are assigned, and therefore by the measurement basis:

At 31 December 2008

	Held for trading	Loans and receivables	Available -for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Cash and balances at central banks	-	-	-	921	-	921
Derivatives	27,473	-	-	-	1,010	28,483
Loans and advances to banks	-	1,039,400	-	-	-	1,039,400
Loans and advances to customers	-	7,091,410	-	-	-	7,091,410
Financial investments	-	-	19,072	-	-	19,072
Shares in Group Undertakings	-	-	-	15,088	-	15,088
Other assets	-	-	-	35,158	-	35,158
Prepayments and accrued income	-	-	-	83,469	-	83,469
Total financial assets	27,473	8,130,810	19,072	134,636	1,010	8,313,001
Total non-financial assets						11,140
Total assets						8,324,141
LIABILITIES						
Deposits by banks	-	-	-	5,324	-	5,324
Customer accounts	-	-	-	7,352,462	-	7,352,462
Derivatives	35,858	-	-	-	83,308	119,166
Debt securities in issue	-	-	-	13	-	13
Other liabilities	-	-	-	30,924	-	30,924
Accruals	-	-	-	169,239	-	169,239
Subordinated liabilities	-	-	-	155,843	-	155,843
Total financial liabilities	35,858	-	-	7,713,805	83,308	7,832,971
Total non-financial liabilities						12,605
Total liabilities						7,845,576

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

8. Analysis of financial assets and liabilities by measurement basis (continued)

At 31 December 2007 Restated

	Held for trading	Loans and receivables	Available -for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
ASSETS						
Cash and balances at central banks	-	-	-	847	-	847
Derivatives	16,865	-	-	-	1,355	18,220
Loans and advances to banks	-	83,556	-	-	-	83,556
Loans and advances to customers	-	6,473,462	-	-	-	6,473,462
Financial investments	-	-	16,973	-	-	16,973
Shares in Group	-	-	-	15,088	-	15,088
Undertakings	-	-	-	-	-	-
Other assets	-	-	-	2,207	-	2,207
Prepayments and accrued income	-	-	-	105,538	-	105,538
Total financial assets	16,865	6,557,018	16,973	123,680	1,355	6,715,891
Total non-financial assets						9,490
Total assets						6,725,381
LIABILITIES						
Deposits by banks	-	-	-	826,524	-	826,524
Customer accounts	-	-	-	5,117,214	-	5,117,214
Derivatives	20,212	-	-	-	24,700	44,912
Debt securities in issue	-	-	-	13	-	13
Other liabilities	-	-	-	32,913	-	32,913
Accruals	-	-	-	160,040	-	160,040
Subordinated liabilities	-	-	-	114,381	-	114,381
Total financial liabilities	20,212	-	-	6,251,085	24,700	6,295,997
Total non-financial liabilities						15,808
Total liabilities						6,311,805

For all financial instruments, the fair value is equal to the carrying value in the Balance Sheet, except as analysed below:

	2008 £'000	2007 £'000
Loans and advances to customers	7,125,767	6,520,216
Customer accounts	7,362,721	5,117,632

HSBC PRIVATE BANK (UK) LIMITED**Notes to the financial statements for the year ended****31 December 2008 (continued)****9. 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.

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

	2008	2007
	£'000	£'000
Exchange rate	1,180,037	1,316,144
Interest rate	284,825	320,469
Precious metals	-	151,350
Total derivatives	<u>1,464,862</u>	<u>1,787,963</u>

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

	At 31 December 2008		At 31 December 2007	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Exchange rate	24,637	29,789	12,160	15,593
Interest rate	3,846	89,377	3,024	26,283
Precious metals	-	-	3,036	3,036
Total	<u>28,483</u>	<u>119,166</u>	<u>18,220</u>	<u>44,912</u>
Netting	<u>-</u>	<u>90,683</u>	<u>-</u>	<u>26,692</u>

of which the following are third party:

	At 31 December 2008		At 31 December 2007	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Exchange rate	19,862	9,865	8,011	7,520
Interest rate	523	5,513	8	847
Precious metals	-	-	2,573	463
Total	<u>20,385</u>	<u>15,378</u>	<u>10,592</u>	<u>8,830</u>
Netting	<u>5,007</u>	<u>-</u>	<u>1,762</u>	<u>-</u>

HSBC PRIVATE BANK (UK) LIMITED**Notes to the financial statements for the year ended****31 December 2008 (continued)****10. 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:

	2008 £'000	2007 £'000
Interest rate contracts:		
- pay fixed swaps	827,246	858,511

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 2008, were assets of £1,010,000 (2007: £1,355,000) and liabilities of £83,308,000 (2007: £24,700,000).

	2008 £'000	2007 £'000
Gain or losses arising from the change in fair value of fair value hedges:		
- on hedging instruments	(59,507)	(5,351)
- on hedged item attributable to the hedged risk	60,226	8,459
	<u>719</u>	<u>3,108</u>

11. Loans and advances to customers

	2008 £'000	2007 £'000
Gross loans and advances to customers	7,067,251	6,498,207
Provisions	(24,107)	(12,948)
Fair value adjustment to loans hedged by designated swaps	48,266	(11,797)
Loans and advances to customers	<u>7,091,410</u>	<u>6,473,462</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 *(continued)*

12. Shares in Group undertakings

Details of the Company's subsidiary undertakings at 31 December 2008 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. Loan notes issued by the Company in consideration for the acquisition have been only partially redeemed by the holders; details of outstanding loan notes are given in note 15.

13. Property, plant and equipment

	Artworks £'000	Total £'000
Cost at 1 January 2008	97	97
Acquisitions	-	-
Cost at 31 December 2008	<u>97</u>	<u>97</u>
Accumulated depreciation at 1 January 2008	-	-
Disposals	-	-
Accumulated depreciation at 31 December 2008	<u>-</u>	<u>-</u>
Net book value at 31 December 2008	<u>97</u>	<u>97</u>
Net book value at 31 December 2007	<u>97</u>	<u>97</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

14. Other assets

	2008	2007
	£'000	£'000
Deferred tax asset	11,043	9,393
Other	35,158	2,207
Other assets	<u>46,201</u>	<u>11,600</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:

	2008	2007
	£'000	£'000
Property, plant & equipment	160	116
Employee benefits	3,237	1,622
Provision for bad debts	946	-
IFRS transition adjustment and provisions	6,700	7,655
	<u>11,043</u>	<u>9,393</u>

Movement in deferred tax assets in 2008:

	Balance at 1.1.08	Recognised in income	Recognised in equity	Balance at 31.12.08
	£'000	£'000	£'000	£'000
Property, plant & equipment	116	44	-	160
Employee benefits	1,622	1,615	-	3,237
Provision for bad debts	-	946	-	946
IFRS transition adjustment and provisions	7,655	(955)	-	6,700
	<u>9,393</u>	<u>1,650</u>	<u>-</u>	<u>11,043</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

14. Other assets (continued)

Movement in deferred tax assets in 2007:

	Balance at 1.1.07 £'000	Recognised in income £'000	Recognised in equity £'000	Balance at 31.12.07 £'000
Property, plant & equipment	104	12	-	116
Employee benefits	2,571	782	(1,731)	1,622
IFRS transition adjustment and provisions	9,294	(1,639)	-	7,655
	<u>11,969</u>	<u>(845)</u>	<u>(1,731)</u>	<u>9,393</u>

15. Debt securities in issue

	2008 £'000	2007 £'000
Loan notes:		
Loan maturing on 1 February 2014, repayable on demand from 1 February 2005 at the request of the holder	13	13
	<u>13</u>	<u>13</u>

The notes represent 4% loan stock issued in connection with the acquisition of Property Vision Holdings Ltd during 2001 which have not yet been redeemed (note 12).

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

16. Other liabilities

	2008 £'000	Restated 2007 £'000
Share based payment liabilities	11,850	9,649
Current taxation	12,841	14,965
Other liabilities	6,233	8,299
	<u>30,924</u>	<u>32,913</u>

17. Provisions for liabilities and charges

a Deferred taxation

Deferred taxation is provided in accordance with the accounting policy in Note 2i. See note 14 for details of the deferred tax asset.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

17. Provisions for liabilities and charges (continued)

b Other provisions for liabilities and charges

	<i>Restructuring provision</i>	<i>Provisions for contingent liabilities and commitments</i>	<i>Premises- related provisions</i>	<i>Total</i>
	£'000	£'000	£'000	£'000
At 1 January 2008	-	3,204	335	3,539
Additional provisions	-	-	-	-
Provisions utilised	-	(900)	-	(900)
Provisions released	-	(11)	(205)	(216)
At 31 December 2008	-	2,293	130	2,423

	<i>Restructuring provision</i>	<i>Provisions for contingent liabilities and commitments</i>	<i>Premises- related provisions</i>	<i>Total</i>
	£'000	£'000	£'000	£'000
At 1 January 2007	818	2,990	335	4,143
Additional provisions	-	448	-	448
Provisions utilised	-	(109)	-	(109)
Provisions released	(818)	(125)	-	(943)
At 31 December 2007	-	3,204	335	3,539

At 31 December 2008, "Provisions for contingent liabilities and commitments" of £2,293,000 relate to the possible costs of redress arising from the managing of investments in part of the Company unrelated to Private Banking. During 2008, £900,000 of the provision carried forward was utilised (2007: £109,000) and an additional provision of £ nil (2007: £448,000) was raised.

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 dilapidations 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 dilapidations. 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 2008 (continued)

18. Subordinated liabilities

	2008	2007
	£'000	£'000
Loan from fellow subsidiary undertaking:		
Dated subordinated loan capital:		
US\$45,000,000 variable rate subordinated loan maturing 2013	30,851	22,429
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	35,000
US\$30,000,000 variable rate subordinated loan maturing 2016	20,568	14,952
US\$40,000,000 variable rate subordinated loan maturing 2018	27,424	-
	<u>155,843</u>	<u>114,381</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.

19. Called up share capital

	2008	2007
	£'000	£'000
Authorised:		
19,500,000 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:		
17,691,000 ordinary shares of £10 each		
At 1 January and 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 2008 (continued)

20. Reconciliation of movements in shareholder's equity

	2008	Restated
	£'000	2007
		£'000
Called up share capital		
- Balance at the beginning of the year	176,910	176,910
- Shares issued, allotted and fully paid up	-	-
- 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	(1,416)	1,015
- Fair value gains / (losses) taken to equity	(4,101)	(1,576)
- Deferred taxation	-	(855)
- Permanent impairment in AFS investments	4,063	-
- Balance at the end of the year	<u>(1,454)</u>	<u>(1,416)</u>
Capital contribution reserves		
- Balance at the beginning of the year	2,491	2,268
- Compensation expense recognised in Income Statement	8,134	5,671
- Share amortisation transferred to/(from) equity	(4,248)	(4,572)
- Deferred taxation	-	(876)
- Balance at the end of the year	<u>6,377</u>	<u>2,491</u>
Retained earnings		
- Balance at the beginning of the year	232,314	167,277
- Profit for the period attributable to shareholders	61,141	65,037
- Balance at the end of the year	<u>293,455</u>	<u>232,314</u>
Total shareholders' equity at the beginning of the year	413,576	350,747
Net change in shareholders' equity	64,989	62,829
Total shareholders' equity at the end of the year	<u>478,565</u>	<u>413,576</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 Capital contribution 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 Capital contribution reserve over the period to vesting date.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

20. Reconciliation of movements in shareholder's equity (continued)

A restatement of total shareholder's equity previously reported has been necessary following the adoption by the Company of IFRIC 11, "Group and Treasury Share Transactions". The restatement has resulted from the change in treatment from a cash settled to an equity settled transaction, and represents share amortisation transferred between Equity and Other Liabilities. Transfers between separate reserves within Equity have also been necessary.

	31 Dec 2007 £'000	31 Dec 2006 £'000
Total shareholder's equity as previously reported	414,761	351,168
Share amortisation (from)/to Other Liabilities	(1,185)	(421)
Total shareholder's equity restated	<u>413,576</u>	<u>350,747</u>

21. Capital resources

The Company is regulated by the UK Financial Services Authority ("FSA"). The FSA's General Prudential sourcebook ("GENPRU2") provides rules for calculating the actual capital and minimum capital resources requirements of the Company. The Company is expected to maintain capital at above the minimum requirement at all times.

Since 1 January 2008, the FSA's rules on capital have been based on "International Convergence of Capital Measurement and Capital Standards", ("Basel II"), published by the Basel Committee on Banking Supervision in June 2006. Prior to 1 January 2008, the FSA permitted the Company to calculate its actual capital and minimum capital requirement using the "Basel I" rules.

The calculation of actual capital is shown below.

	2008 £'000	Restated 2007 £'000
Total equity (note 20)	478,565	413,576
Subordinated term debt (note 18)	155,843	114,381
Less: Investments in subsidiaries	(15,088)	(15,088)
Less: Expected losses	(20,111)	-
Other	(3,876)	(393)
Total capital	<u>595,333</u>	<u>512,476</u>
Minimum capital requirement	437,448	442,346
Surplus / (Deficit)	<u>157,885</u>	<u>70,130</u>

At 31 December 2008, the Company held surplus capital of £157,885,000 (2007: £70,130,000) and held capital resources above the minimum requirement throughout the year.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

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

	2008	Restated
	£'000	2007
		£'000
(a) Non-cash items included in profit and loss		
Amortisation and items recognised in equity	12,197	5,990
Loan impairment (gains) / losses	11,112	(243)
Loans written off net of recoveries	47	(355)
Provisions for liabilities and charges	(216)	(495)
	<u>23,140</u>	<u>4,897</u>
(b) Change in operating assets		
Change in prepayments and accrued income	22,069	(13,367)
Change in loans and advances to banks	(274,887)	(513)
Change in loans and advances to customers	(629,107)	(586,409)
Change in financial assets designated at fair value	(10,263)	(7,438)
Change in other assets	(34,601)	4,131
	<u>(926,789)</u>	<u>(603,596)</u>
(c) Change in operating liabilities		
Change in accruals and deferred income	7,112	38,138
Change in deposits by banks	(821,200)	74,002
Change in customer accounts	2,235,248	200,340
Change in debt securities in issue	-	(228)
Change in financial liabilities designated at fair value	74,254	10,036
Change in other liabilities	(1,316)	2,630
	<u>1,494,098</u>	<u>324,918</u>
(d) Cash and cash equivalents comprise		
Cash and balances at central banks	921	847
Loans and advances to banks of one month or less	756,175	75,218
	<u>757,096</u>	<u>76,065</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

23. 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>2008 Credit equivalent amount £'000</i>	<i>Risk weighted amount £'000</i>	<i>Contract amount £'000</i>	<i>2007 Credit equivalent amount £'000</i>	<i>Risk weighted amount £'000</i>
Contingent liabilities:						
Guarantees and assets pledged as collateral security	<u>469,263</u>	<u>469,263</u>	<u>286,498</u>	<u>520,206</u>	<u>520,206</u>	<u>363,904</u>
Commitments:						
Undrawn formal standby facilities, credit lines and other commitments to lend:						
- 1 year and under	745,522	-	-	788,079	-	-
- over 1 year	<u>16,269</u>	<u>8,135</u>	<u>7,773</u>	<u>22,263</u>	<u>11,132</u>	<u>9,258</u>
	<u>761,791</u>	<u>8,135</u>	<u>7,773</u>	<u>810,342</u>	<u>11,132</u>	<u>9,258</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. 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, reputational risk and regulatory 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.

HSBC Holdings plc is responsible for the formulation of high-level credit policies. It also reviews the application of the HSBC Group's universal facility grading system. Within the overall framework of the HSBC Group policy, the company has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Company is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

i. Maximum exposure to credit risk

At 31 December	Maximum Exposure 2008 £'000	Maximum Exposure 2007 £'000
Derivatives	28,483	18,220
Loans and advances to banks	1,039,400	83,556
Loans and advances to customers	7,067,251	6,498,207
Off-balance sheet:		
- guarantees and assets pledged as collateral security	469,263	520,206
- undrawn formal standby facilities, credit lines and other commitments to lend	8,135	11,132
	8,612,532	7,131,321

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

a) Credit risk management (continued)

ii. Collateral and other credit enhancements

The company follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. Whilst collateral is an important mitigant to credit risk, it is the company's policy to establish that loans are within the customer's capacity to repay rather than place significant reliance on security. The principal collateral types are as follows:

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

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

	At 31 December 2008 £'000	At 31 December 2007 £'000
Residential property	2,432,451	2,014,136
Other property	2,303,251	2,157,325
Bank guaranteed	780,857	813,561
Cash backed	309,778	498,445
Other	1,240,914	1,014,740
Gross loans and advances to customers	7,067,251	6,498,207

iii. Credit quality

The following table shows the amount of impaired Loans and advances.

	At 31 December 2008		At 31 December 2007	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Gross loans and advances:				
- neither past due nor impaired	7,019,802	1,039,400	6,483,395	83,556
- impaired	47,449	-	14,812	-
	7,067,251	1,039,400	6,498,207	83,556

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

a) Credit risk management (continued)

iii. Credit quality (continued)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to HSBC group's standard credit grading system. The following information is based on that system:

	At 31 December 2008		At 31 December 2007	
	Loans and advances to customers £'000	Loans and advances to banks £'000	Loans and advances to customers £'000	Loans and advances to banks £'000
Grade 1-3 – satisfactory risk	6,780,614	1,039,400	6,374,064	83,556
Grade 4 – watch list	166,564	-	86,043	-
Grade 5 – sub standard but not impaired	72,624	-	23,288	-
	7,019,802	1,039,400	6,483,395	83,556

Grades 1 and 2 represent facilities demonstrating financial condition, risk factors and capacity to repay that are good to excellent, residential mortgages with low to moderate loan to value ratios, and other retail accounts which are not impaired and are maintained within product guidelines.

Grade 3 represents satisfactory risk and includes facilities that require closer monitoring, mortgages with higher loan to value ratios than grades 1 and 2, and other retail exposures which operate outside product guidelines without being impaired.

Grade 4 and 5 represent facilities that require various degrees of special attention.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

a) Credit risk management (continued)

iv. Loans and advances to customers and banks – net total credit risk

Loans and advances against which the company had legally enforceable rights to offset with financial liabilities were as follows:

	At 31 December 2008			At 31 December 2007		
	Gross Book Value	Amount for which the company has a legally enforceable right to offset	Net total credit risk	Gross Book Value	Amount for which the company has a legally enforceable right to offset	Net total credit risk
	£'000	£'000	£'000	£'000	£'000	£'000
Loans and advances to customers	7,067,251	309,778	6,757,473	6,498,207	498,445	5,999,762
Loans and advances to banks	1,039,400	-	1,039,400	83,556	-	83,556
	8,106,651	309,778	7,796,873	6,581,763	498,445	6,083,318

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

a) Credit risk management (continued)

v. Impairment allowance

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

Year to 31 December 2008			
	Individually assessed £'000	Collectively assessed £'000	Total £'000
At 1 January 2008	9,963	2,985	12,948
Amounts written off	(26)	-	(26)
Recoveries of loans and advances written off in previous years	73	-	73
Charge to income statement	7,733	3,379	11,112
At 31 December 2008	<u>17,743</u>	<u>6,364</u>	<u>24,107</u>

Year to 31 December 2007			
	Individually assessed £'000	Collectively assessed £'000	Total £'000
At 1 January 2007	10,026	3,520	13,546
Amounts written off	(359)	-	(359)
Recoveries of loans and advances written off in previous years	4	-	4
Charge / (credit) to income statement	292	(535)	(243)
At 31 December 2007	<u>9,963</u>	<u>2,985</u>	<u>12,948</u>

In 2008, interest of £69,000 (2007: £435,000) was accrued on loans for which individually assessed impairment provisions existed.

Impairment allowance against loans and advances to customers:

	2008 %	2007 %
Total impairment allowance to gross lending		
Individually assessed impairment	0.25	0.15
Collectively assessed impairment	0.09	0.05
Total	<u>0.34</u>	<u>0.20</u>

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

b) Liquidity risk management

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

Approximately 70% of the bank's asset base is sterling-based with the remainder mostly denominated in Euros and US Dollars. The company funds its sterling asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent company, HSBC Bank plc. Surplus balances in other currencies are usually placed with HSBC Bank plc or other HSBC Group entities.

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

The following is an analysis of discounted 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	921	-	-	-	-	-	921
Derivatives	-	22,059	2,488	1,983	1,953	-	28,483
Loans and advances to banks	(732,943)	1,710,191	76,443	(14,291)	-	-	1,039,400
Loans and advances to customers	946,788	904,894	1,527,747	2,831,232	904,856	(24,107)	7,091,410
Financial investments	-	6,237	264	12,571	-	-	19,072
Shares in Group undertakings	-	-	-	-	-	15,088	15,088
Property, plant and equipment	-	-	-	-	-	97	97
Other assets	-	1,685	-	-	-	44,516	46,201
Prepayments and accrued income	-	63,936	-	-	-	19,533	83,469
Total as at 31 December 2008	214,766	2,709,002	1,606,942	2,831,495	906,809	55,127	8,324,141
Total as at 31 December 2007	809,668	905,538	1,600,637	2,424,875	959,002	25,661	6,725,381
LIABILITIES and EQUITY							
Deposits by banks	324	-	5,000	-	-	-	5,324
Customer accounts	4,265,118	2,687,554	321,905	45,248	32,637	-	7,352,462
Derivatives	-	27,383	2,003	18,105	71,675	-	119,166
Debt securities in issue	13	-	-	-	-	-	13
Other liabilities	-	18,766	-	5,925	-	6,233	30,924
Accruals and deferred income	-	169,239	-	-	-	10,182	179,421
Provisions for liabilities and charges	-	-	-	-	-	2,423	2,423
Subordinated liabilities	-	-	-	-	155,843	-	155,843
Equity	-	-	-	-	-	478,565	478,565
Total as at 31 December 2008	4,265,455	2,902,942	328,908	69,278	260,155	497,403	8,324,141
Total as at 31 December 2007	3,831,842	2,037,057	181,507	54,533	181,574	438,868	6,725,381

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

b) Liquidity risk management (continued)

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

31 December 2008	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits by banks	324	5,285	-	-	-	5,609
Customer accounts	4,263,169	2,707,684	329,745	53,394	41,171	7,395,163
Subordinated liabilities	-	1,497	4,492	54,812	139,403	200,204
Total	4,263,493	2,714,466	334,237	108,206	180,574	7,600,976

31 December 2007	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Deposits by banks	2,220,846	(1,393,408)	90,087	6,060	304	923,889
Customer accounts	1,672,981	3,303,382	101,866	65,729	67,831	5,211,789
Subordinated liabilities	-	1,800	5,401	28,807	135,986	171,994
Total	3,893,827	1,911,774	197,354	100,596	204,121	6,307,672

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 24d) and foreign exchange risk (note 24e) are provided below.

d) Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the company's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBp'). At 31 December 2008 the company's risk as measured by PVBp was US\$10,072 (2007: US\$14,949). PVBp is the change in the present value of future cash flows and not an immediate gain or loss in the Income Statement.

The PVBp of Interest Rate Swaps which have not qualified as Fair Value Hedges for the purposes of IAS39 (note 10) at 31 December 2008 was US\$23,332 (2007: US\$43,867).

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

d) Interest rate risk (continued)

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 2008. 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 2008:

	<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:	941,971	21,000	54,948	16,040	-	5,441	1,039,400
Loans & advances to customers:							
- Fair value risk	-	-	4,883	223,049	575,701	-	803,633
- Cash flow risk	5,986,426	59,119	35,074	29,889	1,060	30,127	6,141,695
- Neither	-	-	2,000	53,283	90,799	-	146,082
Other assets	-	-	-	-	-	193,331	193,331
Total assets	6,928,397	80,119	96,905	322,261	667,560	228,899	8,324,141
Liabilities							
Deposits by banks	324	5,000	-	-	-	-	5,324
Customer accounts	6,952,672	218,279	103,626	45,248	32,637	-	7,352,462
Debt securities in issue	13	-	-	-	-	-	13
Other liabilities	-	-	-	-	-	331,934	331,934
Loan capital and other Subordinated liabilities	27,424	128,419	-	-	-	-	155,843
Shareholders' equity	-	-	-	-	-	478,565	478,565
Total equity and liabilities	6,980,433	351,698	103,626	45,248	32,637	810,499	8,324,141
Notional value:							
Interest rate swaps	701,478	119,027	10,239	(240,409)	(590,335)	-	-
Interest rate sensitivity gap	649,442	(152,552)	3,518	36,604	44,588	(581,600)	-
Cumulative interest rate sensitivity gap	649,442	496,890	500,408	537,012	581,600	-	-

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. Risk management (continued)

d) Interest rate risk (continued)

31 December 2007:

	<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:	77,706	-	-	-	-	5,850	83,556
Loans & advances to customers:							
- Fair value risk	-	-	5,500	189,640	663,370	-	858,510
- Cash flow risk	5,406,486	38,828	18,492	49,753	4,238	8,927	5,526,724
- Neither	-	-	5,943	36,740	45,545	-	88,228
Other assets	-	-	-	-	-	168,363	168,363
Total assets	5,484,192	38,828	29,935	276,133	713,153	183,140	6,725,381
Liabilities							
Deposits by banks	778,187	107,427	(23,929)	(28,806)	(6,355)	-	826,524
Customer accounts	4,931,394	59,534	35,053	46,672	44,561	-	5,117,214
Debt securities in issue	13	-	-	-	-	-	13
Other liabilities	-	-	-	-	-	253,673	253,673
Loan capital and other Subordinated liabilities	-	114,381	-	-	-	-	114,381
Shareholders' equity	-	-	-	-	-	413,576	413,576
Total equity and liabilities	5,709,594	281,342	11,124	17,866	38,206	667,249	6,725,381
Notional value:							
Interest rate swaps	821,978	111,146	(43,935)	(213,343)	(675,846)	-	-
Interest rate sensitivity gap	596,576	(131,368)	(25,124)	44,924	(899)	(484,109)	-
Cumulative interest rate sensitivity gap	596,576	465,208	440,084	485,008	484,109	-	-

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 (continued)

24. 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.

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.

	2008	2007
	£000	£000
Denominated in sterling	5,756,328	5,905,211
Denominated in currencies other than sterling	<u>2,567,813</u>	<u>820,170</u>
Total assets	<u>8,324,141</u>	<u>6,725,381</u>
Denominated in sterling	5,757,885	5,622,027
Denominated in currencies other than sterling	<u>2,566,256</u>	<u>1,103,354</u>
Total equity and liabilities	<u>8,324,141</u>	<u>6,725,381</u>

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.

HSBC PRIVATE BANK (UK) LIMITED
Notes to the financial statements for the year ended
31 December 2008 *(continued)*

24. Risk management *(continued)*

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.

h) Regulatory risk management

Regulatory risk is the risk that the company's 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.

25. Capital commitments

There are no capital commitments at 31 December 2008 (2007: nil).

26. Related party transactions

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

	2008		2007	
	Number of Directors	£'000	Number of Directors	£'000
Loans (including housing loans) to, and guarantees on behalf of	2	201	2	138

The maximum amount of loans for directors outstanding during the year was £293,000 (2007: £238,000).

b) 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 2008 (continued)

26. Related party transactions (continued)

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

Parent undertakings

	2008	2007
	£'000	£'000
ASSETS:		
Derivatives	8,098	7,628
Loans and advances to banks	1,021,732	15,768
LIABILITIES:		
Deposits by banks	-	779,572
Derivatives	103,788	36,082
Subordinated liabilities	155,843	114,381
INCOME STATEMENT:		
Interest income	1,925	12,733
Interest expense	49,844	46,217
Fee income	10,067	5,749
Fee expense	6,063	5,774
General and administrative expenses	20,935	15,682
OFF BALANCE SHEET:		
Contract amount of derivatives	1,784,911	1,992,880

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

27. Parent undertakings

The 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