

HSBC PRIVATE BANK (UK) LIMITED

Financial Statements
31 December 2010

Registered No 499482

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Financial Statements

31 December 2010

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Director's report for the year ended 31 December 2010

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 strong performance in a challenging economic environment during 2010. The Company was able to continue the growth in its lending operations but the competition for cash deposits in the UK market continues to be a difficult aspect. Overall profit for the year was lower than 2009 but removing the effect of the mark to market on its derivative portfolio shows the company increasing underlying revenue.

The Company continues to control its cost basis efficiently but the effect of the UK Bonus tax and pressures on market remuneration for employees saw costs rise year on year. In addition, the level of impairments increased during the year compared to previous years. The level of impairments during the year was 7.5% of total revenue (2009 8.2%).

As of 31 December 2010 the Company exited the HSBC UK Defined Liquidity Group, of which it had been a member during 2010 for the purposes of liquidity measurement. The Company is addressing the new requirements in conjunction with the FSA.

Although difficult financial markets are likely to continue in 2011, the Company is well positioned to benefit from any opportunities for business growth that arise.

Profit for the year

Profit for the year in 2010 of £49,334,000 was 5.1% lower than the equivalent figure in 2009 (£51,991,000). In comparison to prior year the main highlights on performance were higher net interest income from the Company's loan portfolio offset by an increase in impairment charges against client lending, higher staff costs and lower mark to market on interest rate swaps. Changes in the market value of equity shares in HSBC Holdings plc, awarded to staff on a deferred basis, did not trigger impairment charges in 2010 (2009 £4,274,000).

Operating expenses increased due to the effect of the UK Bonus tax and pressures on market remuneration for employees.

Balance sheet

Total assets of the Company increased by £1,982 million to £9,536 million at 31 December 2010 (31 December 2009 £7,554 million). This primarily resulted from an increase in the loan portfolio and the purchase of liquid assets for the purposes of compliance with the FSA's liquidity requirements. Where the Company may not fund its activities through its customer deposit base it does so through contractual funding arrangements with other HSBC entities.

Total equity of the Company increased by £4 million to £542 million at 31 December 2010 (31 December 2009 £538 million). This included the payment of a dividend payment to the parent company during the year of £36 million.

Assets under management

Total Assets under Management (including cash deposits) increased by £1,394 million to £13,587 million at 31 December 2010 (31 December 2009 £12,193 million), due to new investment inflows from customers and market appreciation of client balances.

Director's report for the year ended 31 December 2010

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 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

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 7

The Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2010, following an interim dividend payment of £36 million (2009: £nil) in relation to 2009

Future developments

It is the intention of the Directors, that in 2011, 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

Director's report for the year ended (continued)

31 December 2010

Directors

The Directors who served during the year were as follows

Name	Appointed	Resigned
S T Brown		
W J R Gething		
R B Janvrin		
C Kirkby		
N A May		30 th July 2010
C M Meares		
M J Mount		
R K Parmer		
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 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.

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 suppliers when agreeing the terms of each transaction, to ensure that 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/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditors

KPMG Audit plc are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continues in force under the Companies Act 2006.

Director's report for the year ended (continued)
31 December 2010

Statement of Directors' responsibilities in respect of the Directors' report and 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 International Financial Reporting Standards ('IFRSs') as adopted by the EU.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006.

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.

On behalf of the Board



S Owen
Secretary

Registered Office
8 Canada Square
London
E14 5HQ

1 March 2011

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

We have audited the financial statements of HSBC Private Bank (UK) Limited for the year ended 31 December 2010 set out on pages 7 to 41. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

1 March 2011

Financial Statements

Income statement for the year ended 31 December 2010

		2010 £'000	2009 £'000
Interest income		198,722	183,328
Interest expense		(49,586)	(59,796)
Net interest income		149,136	123,532
Fee and commission income		71,095	67,514
Fee and commission expense		(10,133)	(9,210)
Trading income	3	5,427	22,553
Dividend income		690	1,356
Other operating income		4,664	3,836
Total Operating income		220,879	209,581
Loan impairment charges and other credit risk provisions		(20,987)	(18,670)
Impairment loss on AFS investments		-	(4,274)
Net operating profit		199,892	186,637
Employee compensation and benefits	4	(92,663)	(85,352)
General and administrative income/(expense)	6	(37,382)	(31,383)
Profit before tax		69,847	69,902
Tax credit/(expense)	7	(20,513)	(17,911)
Profit for the year		49,334	51,991

The accounting policies and notes on pages 11 to 41 form an integral part of these financial statements

Statement of comprehensive income for the year ended 31 December 2010

	2010 £	2009 £
Profit/(loss) for the year	49,334	51,991
Other comprehensive income/(expense)		
Available-for-sale investments		
– valuation (losses) / gains taken to equity	(6,350)	9,584
– tax expense	2,718	(2,876)
Other comprehensive income for the year, net of tax	(3,632)	6,708
Total comprehensive income for the year	45,702	58,699

Financial Statements (continued)

Statement of financial position as at 31 December 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Cash and cash equivalents		522	512
Derivatives	22	72,050	67,217
Loans and advances to banks		62,227	37,969
Loans and advances to customers	8	7,656,626	7,250,580
Financial investments		1,515,758	19,196
Investments in subsidiaries	9	15,088	15,088
Property, plant and equipment	11	23	97
Other assets		79,836	61,322
Prepayments and accrued income		125,191	89,582
Deferred tax assets	10	8,384	12,228
Total assets		<u>9,535,705</u>	<u>7,553,791</u>
LIABILITIES AND EQUITY			
Deposits by banks		3,240,190	1,193,647
Customer accounts		5,403,425	5,462,607
Derivatives	22	102,671	116,000
Debt securities in issue	12	-	13
Other financial liabilities	13	20,448	20,161
Current tax liabilities		5,860	10,453
Accruals and deferred income		69,557	65,221
Non-current liabilities	14	92	92
Subordinated liabilities	15	151,079	147,876
Total liabilities		<u>8,993,322</u>	<u>7,016,070</u>
Equity			
Called up share capital	16	176,910	176,910
Share premium account		3,277	3,277
Other reserves		2,108	9,505
Retained earnings		<u>360,088</u>	<u>348,029</u>
Total shareholders' equity	17	<u>542,383</u>	<u>537,721</u>
Total equity and liabilities		<u>9,535,705</u>	<u>7,553,791</u>

The accounting policies and notes on pages 11 to 41 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 1 March 2011 and were signed on its behalf by



D K Sheehan
Director

Company Registered Number 499482

Financial Statements (continued)**Statement of cash flows for the year ended 31 December 2010**

	<i>Notes</i>	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit before tax		69,847	69,902
Adjustments for			
– Non-cash items included in net profit	19 (a)	15,419	19,320
– Change in operating assets	19 (b)	(478,131)	30,157
– Change in operating liabilities	19 (c)	473,826	(817,580)
– Tax paid		(21,262)	(21,250)
– Elimination of exchange differences		(219)	98,154
Net cash generated from operating activities		59,480	(621,297)
Cash flows from investing activities			
(Purchase) / sale of financial investments		(1,510,223)	-
Net cash from investing activities		(1,510,223)	-
Cash flows from financing activities			
Proceeds from borrowings		1,510,297	-
Dividends paid		(36,000)	-
Net cash from financing activities		1,474,297	-
Net increase in cash and cash equivalents		23,554	(621,297)
Cash and cash equivalents brought forward		29,678	757,096
Effect of exchange rate changes on cash and cash equivalents		3,422	(106,121)
Cash and cash equivalents carried forward	19 (d)	56,654	29,678

The accounting policies and notes on pages 11 to 41 form an integral part of these financial statements

Financial Statements (continued)

Statement of changes in equity for the year ended 31 December 2010

	Called up share capital	Share premium	Retained earnings	Other reserves	Available- for-sale fair value reserve	Total shareholders' equity
	£'000	£'000	£'000	£'000	£'000	£'000
2010						
At 1 January 2010	176,910	3,277	348,029	1,803	7,702	537,721
Profit for the year	-	-	49,334	-	-	49,334
Other comprehensive income (net of tax)	-	-	-	-	(6,350)	(6,350)
Available-for-sale investments	-	-	-	-	(6,350)	(6,350)
Total comprehensive income/(expense) for the year	-	-	49,334	-	(6,350)	42,984
Net impact of equity-settled share-based payments	-	-	(1,275)	(1,047)	-	(2,322)
Dividends to shareholders	-	-	(36,000)	-	-	(36,000)
At 31 December 2010	176,910	3,277	360,088	756	1,352	542,383

	Called up share capital	Share premium	Retained earnings	Other reserves	Available- for-sale fair value reserve	Total shareholders' equity
	£'000	£'000	£'000	£'000	£'000	£'000
2009						
At 1 January 2009	176,910	3,277	294,470	4,243	(1,882)	477,018
Profit for the year	-	-	51,991	-	-	51,991
Other comprehensive income (net of tax)	-	-	-	-	9,584	9,584
Available-for-sale investments	-	-	-	-	9,584	9,584
Total comprehensive income/(expense) for the year	-	-	51,991	-	9,584	61,575
Net impact of equity-settled share-based payments	-	-	1,568	(2,440)	-	(872)
Dividends to shareholders	-	-	-	-	-	-
At 31 December 2009	176,910	3,277	348,029	1,803	7,702	537,721

The accounting policies and notes on pages 11 to 41 form an integral part of these financial statements

Shareholders' equity is wholly attributable to equity shareholders

Notes on the Financial Statements (continued)

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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 2010

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 400 of the Companies Act 2006.

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.

2 Summary of significant 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).

(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, and
- Foreign exchange income, including interest income on forward foreign exchange contracts.

(d) Derivatives 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

Notes on the Financial Statements (continued)

basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values 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

(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

Available-for-sale securities, including assets held for liquidity purposes, 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 securities are recognised through the Income Statement

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

(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

(i) 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, calculated using tax rates enacted or substantially enacted by the balance sheet date

Notes on the Financial Statements (continued)

(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).

(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 Capital contribution reserve over the life of the scheme (see note 17).

(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),
- Shares in Group undertakings – where valuation models are used to test that the book value of the asset is recoverable (note 9), and
- Provisions for liabilities and charges (note 14b)

Notes on the Financial Statements (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 month's maturity from the date of acquisition, and include cash and balances at central banks and loans and advances to banks.

Notes on the Financial Statements (continued)

3 Trading income

	2010 £'000	2009 £'000
Foreign exchange	6,502	7,261
Interest expense on forward foreign exchange	(2,376)	(1,615)
Change in fair value of hedging instruments (note 24)	(3,385)	13,266
Change in fair value of hedged items (note 24)	3,489	(11,420)
Change in fair value of derivatives held for trading	1,197	15,061
Trading income	5,427	22,553

4 Employee compensation and benefits

	2010 £'000	2009 £'000
Staff costs		
– Wages and salaries including share-base payments (see below)	79,044	73,767
– Social security costs	9,281	7,995
– Other pension costs	4,338	3,590
	92,663	85,352

	Number	Number
The average number of persons employed by the Company during the year was		
– Directors	10	11
– Other	805	802
Average number of staff	815	813

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 2010, 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 2010, the pension cost for defined contribution plans which cover 70% of the Company's employees was £4,338,000 (2009 £3,590,000).

Notes on the Financial Statements (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 £5,792,000 (2009 £7,591,000) 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 2010 was 3,229,635 (2009 2,707,640). Total shares awarded in 2010 were 679,473. The weighted average fair value of shares outstanding, which is based on the closing market price at 31 December 2010, was £6.51 (2009 £7.09).

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 2010 was 1,453,102 (2009 1,661,505) and included 90,176 shares granted in 2010. The weighted average fair value of shares outstanding, which is calculated when transactions are contracted was £1.43 (2009 £1.46).

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.

Notes on the Financial Statements (continued)

5 Remuneration of Directors

	2010 £'000	2009 £'000
Directors' emoluments		
Short term employee benefits	2,841	2,609
Post-employment benefits	-	96
Share-based payment	683	673
	<u>3,524</u>	<u>3,378</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 received under long term incentive schemes of the highest paid director was £900,000 (2009 £826,000). The highest paid director is a member of a defined contribution scheme, to which a contribution of £16,200 was made in the year.

Retirement Benefits

	2010 No	2009 No
Retirement benefits are accruing to the following number of Directors under		
– Defined contribution schemes	5	4
– Defined benefit schemes	<u>2</u>	<u>4</u>
The number of Directors in respect of whose qualifying service shares received/receivable under long term incentive schemes	5	10
The number of Directors who exercised share options over HSBC Holdings plc ordinary shares	<u>3</u>	<u>1</u>

6 Profit before tax

	2010 £'000	2009 £'000
Profit before tax is stated after the following items of expense		
General and administrative expenses		
Auditors' remuneration		
– Audit of these financial statements pursuant to legislation	92	76
– Other services pursuant to such legislation	16	32
– Audit of subsidiary financial statements pursuant to legislation	-	3
– Tax advisory services provided to the Company	4	5
– Other services provided to the Company	<u>91</u>	<u>-</u>
	<u>203</u>	<u>116</u>

Notes on the Financial Statements (continued)

7 Tax expense

	<i>Notes</i>	2010 £'000	2009 £'000
Current tax			
UK Corporation tax			
– on current year profit		(16,734)	(19,727)
– adjustments in respect of prior years		65	865
Total current tax		(16,669)	(18,862)
Deferred tax	<i>10</i>		
Origination and reversal of temporary differences		(1,176)	1,909
Effect of changes in tax rates		(301)	-
Adjustment in respect of prior years		(2,367)	(958)
Total deferred tax		(3,844)	951
Tax expense		(20,513)	(17,911)

The UK corporation tax rate applying to the Company was 28% (2009 28%)

The following table reconciles the tax expense

	2010 £'000	2009 £'000
Taxation at UK corporation tax rate of 28% (2009 28%)	(19,557)	(19,573)
Adjustments in respect of prior period liabilities	(2,302)	(93)
Amounts not deductible for tax purposes	(1,201)	-
Gains less losses from financial investments	1,362	573
Temporary differences between accounting and tax allocations		
- IFRS 2 adjustment provided	1,486	1,182
- Impact due to changes in tax rates	(301)	-
Overall tax expense	(20,513)	(17,911)

Notes on the Financial Statements (continued)

8 Loans and advances to customers

	2010 £'000	2009 £'000
Gross loans and advances to customers	7,678,915	7,254,697
Provisions (Note 24 (a) V)	(59,081)	(39,962)
Fair value adjustment to loans hedged by designated swaps	36,792	35,845
Loans and advances to customers	<u>7,656,626</u>	<u>7,250,580</u>

9 Shares in Group undertakings

The principal subsidiary undertakings of the Company at 31 December 2010 are as follows

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage	Book Value £'000
Property Vision Holdings Limited	Ordinary Shares	UK	Property advice	100	15,000
HSBC Private Trustee (UK) Limited	Ordinary Shares	UK	Trust services	100	88

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 fully redeemed by the holders in 2010.

Notes on the Financial Statements (continued)

10 Deferred tax assets

	2010	2009
	£'000	£'000
At 1 January	12,228	11,043
Income statement credit / (debit)		
- loan impairment allowance	-	(946)
- property plant and equipment	(7)	(15)
- IFRS transitional adjustments and provisions	(1,119)	(964)
- share-based payments	(2,718)	2,876
Recognised directly in equity		
- share-based payments	-	234
At 31 December	<u>8,384</u>	<u>12,228</u>

The amount of deferred taxation accounted for in the Balance Sheet

	2010	2009
	£'000	£'000
Deferred tax assets		
Property, plant and equipment	138	145
Share-based payments	3,629	6,347
IFRS transitional adjustments and provision	<u>4,617</u>	<u>5,736</u>
	<u>8,384</u>	<u>12,228</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.

Notes on the Financial Statements (continued)

11 Property, plant and equipment

	Equipment, fixtures & fittings £	Total £
2010		
Cost or valuation		
At 1 January 2010	97	97-
Additions	-	-
Transfer to other Group undertakings	(74)	(74)
Disposals	-	-
At 31 December 2010	23	23
Accumulated depreciation and impairment		
At 1 January 2010	-	-
Charge for the year	-	-
Movement in impairment provisions	-	-
Disposals	-	-
At 31 December 2010	-	-
Net carrying amount 31 December 2010	23	23
2009		
Cost or valuation		
At 1 January 2009	97	97
Additions	-	-
Disposals	-	-
At 31 December 2009	97	97
Accumulated depreciation and impairment		
At 1 January 2009	-	-
Charge for the year	-	-
Movement in impairment provisions	-	-
Disposals	-	-
At 31 December 2009	-	-
Net carrying amount 31 December 2009	97	97

12 Debt securities in issue

	2010 £'000	2009 £'000
Loan notes maturing on 1 February 2014, repayable on demand from 1 February 2005 at the request of the holder	-	13

The notes represented 4% loan stock issued in connection with the acquisition of Property Vision Holdings Ltd during 2001

Notes on the Financial Statements (continued)

13 Other liabilities

	2010 £'000	2009 £'000
Share-based payment liabilities	12,350	16,108
Other liabilities	8,098	4,053
	<u>20,448</u>	<u>20,161</u>

14 Non-current liabilities

a) Deferred taxation

Deferred taxation is provided in accordance with the accounting policy in Note 21. See note 10 for details of the deferred tax asset.

b) Other provisions

	Provisions for liabilities and charges £'000	Premises related provisions £'000	Total £'000
At 1 January 2010	-	92	92
Utilised	-	-	-
Provision released	-	-	-
At 31 December 2010	<u>-</u>	<u>92</u>	<u>92</u>

	Provisions for liabilities and charges £'000	Premises related provisions £'000	Total £'000
At 1 January 2009	2,293	130	2,423
Utilised	(164)	-	(164)
Provision released	(2,129)	(38)	(2,167)
At 31 December 2009	<u>-</u>	<u>92</u>	<u>92</u>

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.

At 31 December 2008, 'Provisions for liabilities and charges' of £2,293,000 related to the possible cost of redress from the managing of investments in part of the Company unrelated to Private Banking. During 2009, £164,000 (2008: £900,000) was paid out to customers in settlement of successful claims (which were raised prior to 2009). The remaining provision of £2,129,000 was released as all claims have now been resolved and there has been no evidence of any new cases in 2009. As no further liabilities are expected to arise the holding of this provision can no longer be justified.

Notes on the Financial Statements (continued)

15 Subordinated liabilities

	2010 £'000	2009 £'000
Loan from fellow subsidiary undertaking		
Dated subordinated loan capital		
US\$45,000,000 variable rate subordinated loan maturing 2013	28,987	27,734
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	19,325	18,489
US\$40,000,000 variable rate subordinated loan maturing 2018	25,767	24,653
	<u>151,079</u>	<u>147,876</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.

16 Called up share capital

	2010 £'000	2009 £'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		
As at 1 January and 31 December	<u>176,910</u>	<u>176,910</u>

Notes on the Financial Statements (continued)

17 Reconciliation of movements in shareholder's equity

	2010 £'000	2009 £'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	176,910	176,910
Share Premium		
-Balance at the beginning of the year	3,277	3,277
-New share capital subscribed	-	-
-Balance at the end of the year	3,277	3,277
Available-for-sale reserves		
-Balance at the beginning of the year	7,702	(1,882)
-Fair value gains/(losses) taken to equity	(2,274)	5,310
-Permanent impairment/disposal of AFS investments	(4,076)	4,274
-Balance at the end of the year	1,352	7,702
Capital contribution reserves		
-Balance at the beginning of the year	1,803	4,243
-Deferred taxation	-	234
-Other movements	(1,047)	(2,674)
-Balance at the end of the year	756	1,803
Retained earnings		
-Balance at the beginning of the year	348,029	294,470
-Profit for the period attributable to shareholders	49,334	51,991
-Dividends to shareholders	(36,000)	-
-Fair Value gains/(losses) on shares vested	501	2,191
-Dividend income transferred to equity	(1,553)	(623)
-Other movements	(223)	-
-Balance at the end of the year	360,088	348,029
Total shareholders' equity at the beginning of the year	537,721	477,018
Net change in shareholders' equity	4,662	60,703
Total shareholders' equity at the end of the year	542,383	537,721

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

Notes on the Financial Statements (continued)

18 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

The calculation of actual capital is shown below

	2010 £'000	2009 £'000
Total equity (note 17)	542,383	537,721
Subordinated term debt (note 15)	133,774	142,329
Less Investments in subsidiaries	(15,088)	(15,088)
Less Expected losses	(17,115)	(43,129)
Other	(2,777)	(3,812)
Total capital	641,177	618,021
Minimum capital requirements	(403,722)	(417,882)
Surplus	237,455	200,139

At 31 December 2010, the Company held surplus capital of £237,455,000 (2009 £200,139,000) and held capital resources above the minimum requirement throughout the year

Notes on the Financial Statements (continued)

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

	2010 £'000	2009 £'000
a) Non-cash items included in profit and loss		
Amortisation and items recognised in equity	(4,262)	5,450
Loan impairment (gains) / losses	20,987	18,670
Loans written off net of recoveries	(1,306)	(2,633)
Provisions for liabilities and charges	-	(2,167)
	<u>15,419</u>	<u>19,320</u>
b) Change in operating assets		
Change in prepayments and accrued income	(35,609)	(6,113)
Change in loans and advances to banks	2,708	274,422
Change in loans and advances to customers	(425,727)	(175,207)
Change in financial assets designated at fair value	(4,833)	(38,734)
Change in other assets	(14,670)	(24,211)
	<u>(478,131)</u>	<u>30,157</u>
c) Change in operating liabilities		
Change in accruals and deferred income	4,336	(114,200)
Change in deposits by banks	536,246	1,188,323
Change in customer accounts	(59,182)	(1,889,855)
Change in debt securities in issue	(13)	-
Change in financial liabilities designated at fair value	(13,329)	(3,166)
Change in other liabilities	5,768	1,318
	<u>473,826</u>	<u>(817,580)</u>
d) Cash and cash equivalents comprise		
Cash and balances at central banks	522	512
Loans and advances to banks of one month or less	56,132	29,166
	<u>56,654</u>	<u>29,678</u>

Notes on the Financial Statements (continued)

20 Contingent liabilities and contractual commitments

The following table gives the nominal principal 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 are based on "International Convergence of Capital Measurement and Capital Standards", ("Basel II"), published by the Basel Committee on Banking Supervision in June 2006.

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.

	2010 Contract Amount £'000	2010 Risk Weighted Amount (Un-audited) £'000	2009 Contract Amount £'000	2009 Risk Weighted Amount (Un-audited) £'000
Contingent liabilities				
Guarantees and assets pledged as collateral security	252,572	49,118	370,853	74,658
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend	434,157	211,868	513,876	270,299

Notes on the Financial Statements (continued)

21 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 significant 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.

Fair values of the financial investments are determined directly by reference to published price quotations in an active market. 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 2010	Held for trading	Loans and receivables	Available-for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	-	-	-	522	-	522
Derivatives	71,453	-	-	-	597	72,050
Loans and advances to banks	-	62,227	-	-	-	62,227
Loans and advances to customers	-	7,656,626	-	-	-	7,656,626
Financial investments	-	-	1,515,758	-	-	1,515,758
Shares in Group undertakings	-	-	-	15,088	-	15,088
Other assets	-	-	-	79,836	-	79,836
Prepayments and accrued income	-	-	-	125,191	-	125,191
Total financial assets	71,453	7,718,853	1,515,758	220,637	597	9,527,298
Total non financial assets						8,407
Total assets						9,535,705
Liabilities						
Deposits by banks	-	-	-	3,240,190	-	3,240,190
Customer accounts	-	-	-	5,403,425	-	5,403,425
Derivatives	76,753	-	-	-	25,918	102,671
Debt securities in issue	-	-	-	-	-	-
Other financial liabilities	-	-	-	26,308	-	26,308
Accruals	-	-	-	58,080	-	58,080
Subordinated liabilities	-	-	-	151,079	-	151,079
Total financial liabilities	76,753	-	-	8,879,082	25,918	8,981,753
Total non financial liabilities						11,569
Total liabilities						8,993,322

Notes on the Financial Statements (continued)

At 31 December 2009	Held for trading	Loans and receivables	Available-for-sale securities	Financial assets and liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	-	-	-	512	-	512
Derivatives	67,217	-	-	-	-	67,217
Loans and advances to banks	-	37,969	-	-	-	37,969
Loans and advances to customers	-	7,250,580	-	-	-	7,250,580
Financial investments	-	-	19,196	-	-	19,196
Shares in Group undertakings	-	-	-	15,088	-	15,088
Other assets	-	-	-	61,322	-	61,322
Prepayments and accrued income	-	-	-	89,582	-	89,582
Total financial assets	67,217	7,288,549	19,196	166,504	-	7,541,466
Total non financial assets						12,325
Total assets						7,553,791
Liabilities						
Deposits by banks	-	-	-	1,193,647	-	1,193,647
Customer accounts	-	-	-	5,462,607	-	5,462,607
Derivatives	62,060	-	-	-	53,940	116,000
Debt securities in issue	-	-	-	13	-	13
Other financial liabilities	-	-	-	30,614	-	30,614
Accruals	-	-	-	54,746	-	54,746
Subordinated liabilities	-	-	-	147,876	-	147,876
Total financial liabilities	62,060	-	-	6,889,503	53,940	7,005,503
Total non financial liabilities						10,567
Total liabilities						7,016,070

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

	2010 £'000	2009 £'000
Loans and advances to customers	7,717,698	7,287,626
Customer accounts	5,449,808	5,845,924

Notes on the Financial Statements (continued)

22 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

	2010 £'000	2009 £'000
Exchange rate	1,687,607	1,693,686
Interest rate	1,285,683	529,187
Precious metals	28,382	86,548
Total derivatives	3,001,672	2,309,421

Fair values of derivative open positions by type of product contract

	At 31 December 2010		At 31 December 2009	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Exchange rate	24,679	26,258	47,720	39,101
Interest rate	47,301	76,343	18,334	75,736
Precious metals	70	70	1,163	1,163
Total	72,050	102,671	67,217	116,000
Netting	-	30,621	-	48,783

of which the following are third party

	At 31 December 2010		At 31 December 2009	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Exchange rate	23,611	576	30,706	8,122
Interest rate	738	4,180	569	4,367
Precious metals	10	60	347	816
Total	24,359	4,816	31,622	13,305
Netting	19,543	-	18,317	-

Notes on the Financial Statements (continued)

23 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

	2010 £'000	2009 £'000
Interest rate contracts		
- pay fixed swaps	398,573	550,672

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 the end of the reporting period, were assets of £597,000 (2009: £nil) and liabilities of £25,918,000 (2009: £53,940,000).

	2010 £'000	2009 £'000
Gain or losses arising from the change in fair value of fair value hedges		
- on hedging instruments	(3,385)	13,266
- on hedged item attributable to the hedged risk	3,489	(11,420)
	104	1,846

Notes on the Financial Statements (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.

The Company employs a sophisticated and granular methodology, based on probability of default and loss estimates, compliant with an internal ratings-based ("IRB") approach required to support the Basel II framework for calculating the Company's minimum capital requirement.

I Maximum exposure to credit risk

Maximum exposure at 31 December

	2010 £'000	2009 £'000
Derivatives	72,050	67,217
Loans and advances to banks	62,227	37,969
Loans and advances to customers	7,678,915	7,254,697
Off-balance sheet		
- guarantees and assets pledged as collateral security	252,572	370,853
- undrawn formal standby facilities, credit lines and other commitments to lend	434,157	513,876
	<u>8,499,921</u>	<u>8,244,612</u>

II. Collateral and other credit enhancements

The Company follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. Whilst collateral is important in mitigating credit risk, it is the Company's 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

Notes on the Financial Statements (continued)

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

At 31 December	2010 £'000	2009 £'000
Residential property	2,862,752	2,650,196
Other property	2,130,368	2,221,213
Bank guaranteed	153,423	596,793
Cash backed	680,455	331,344
Other	1,851,917	1,455,151
Gross loan and advances to customers	<u>7,678,915</u>	<u>7,254,697</u>

III Credit quality

The following table shows the amount of impaired Loans and advances

At 31 December	Loans and advances to banks	Loans and advances to banks	Loans and advances to customers	Loans and advances to customers
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Gross loans and advances				
Neither past due nor impaired	62,227	37,969	7,447,249	7,161,516
Impaired	-	-	231,666	93,181
	<u>62,227</u>	<u>37,969</u>	<u>7,678,915</u>	<u>7,254,697</u>

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

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

At 31 December 2010

	Strong	Medium	Sub-Standard	Impaired	Impairment Allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Derivatives	47,691	24,359	-	-	-	72,050
Loans and advances to banks	62,227	-	-	-	-	62,227
Loans and advances to customers	634,276	6,415,439	434,326	231,666	(59,081)	7,656,626

At 31 December 2009

Derivatives	35,595	31,622	-	-	-	67,217
Loans and advances to banks	37,969	-	-	-	-	37,969
Loans and advances to customers	817,804	5,884,271	495,286	93,181	(39,962)	7,250,580

Notes on the Financial Statements (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

	2010			2009		
	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	7,678,915	335,226	7,343,689	7,254,697	331,344	6,923,353
Loans and advances to banks	62,227	-	62,227	37,969	-	37,969
	<u>7,741,142</u>	<u>335,226</u>	<u>7,405,916</u>	<u>7,292,666</u>	<u>331,344</u>	<u>6,961,322</u>

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

	2010 Individually assessed	2010 Collectively assessed	2009 Individually assessed	2009 Collectively assessed
	£	£	£	£
At 1 January	28,908	11,054	17,743	6,364
Amounts written off	(1,330)	-	(2,638)	-
Recoveries of amounts written off in previous years	24	-	5	-
Charge to income statement	16,244	4,743	13,980	4,690
Exchange and other movements	(562)	-	(182)	-
At 31 December	<u>43,284</u>	<u>15,797</u>	<u>28,908</u>	<u>11,054</u>

In 2010, interest of £2,157,000 (2009 £308,000) was accrued on loans for which individually assessed impairment provisions existed

Impairment allowance against loans and advances to customers

	2010 %	2009 %
Individually assessed impairment	0.56	0.40
Collectively assessed impairment	0.21	0.15
Total	<u>0.77</u>	<u>0.55</u>

Notes on the Financial Statements (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 90% 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. In order to adhere to the FSA's requirements on liquidity the Company maintains the requisite liquid assets buffer.

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

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

	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	522						522
Derivatives		22,992	1,843	16,953	30,262		72,050
Loans and advances to banks	56,132		6,095				62,227
Loans and advances to customers	1,096,839	1,386,565	1,533,630	3,212,407	486,266	(59,081)	7,656,626
Financial investments		1,513,784	390	3		1,581	1,515,758
Shares in Group undertakings						15,088	15,088
Property, plant and equipment						23	23
Other assets		1,160				87,060	88,220
Prepayments and accrued income		112,363				12,828	125,191
Total as at 31 December 2010	1,153,493	3,036,864	1,541,958	3,229,363	516,528	57,499	9,535,705
Total as at 31 December 2009	816,885	1,322,060	1,693,540	2,925,598	734,735	60,973	7,553,791
	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
Liabilities and Equity							
Deposits by banks	(77,576)	726,636	1,200,000	1,391,130			3,240,190
Customer accounts	3,794,741	1,153,294	45,703	166,939	242,748		5,403,425
Derivatives		24,829	2,967	33,131	41,744		102,671
Debt securities in issue							-
Other liabilities		5,860				20,448	26,308
Accruals and deferred income		58,110				11,447	69,557
Provisions for liabilities and charges						92	92
Subordinated liabilities				70,987	80,092		151,079
Equity						542,383	542,383
Total as at 31 December 2010	3,717,165	1,968,729	1,248,670	1,662,187	364,584	574,370	9,535,705
Total as at 31 December 2009	4,100,025	2,074,586	382,719	133,549	294,463	568,449	7,553,791

Notes on the Financial Statements (continued)

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

	On Demand	Due within 3 months	Due between 3- 12 months	Due between 1-5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2010						
Deposit by banks	(75,160)	887,488	1,218,933	1,469,160		3,500,421
Customer accounts	3,794,798	1,160,618	51,764	195,864	263,192	5,466,236
Subordinated liabilities		504	1,512	79,050	83,298	164,364
	<u>3,719,638</u>	<u>2,048,610</u>	<u>1,272,209</u>	<u>1,744,074</u>	<u>346,490</u>	<u>9,131,020</u>
	On demand	Due within 3 months	Due between 3- 12 months	Due between 1-5 years	Due after 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2009						
Deposit by banks	349,491	787,767	380,050	24,516		1,541,824
Customer accounts	3,758,615	1,457,320	50,126	63,939	171,764	5,501,764
Subordinated liabilities	-	493	1,479	62,624	96,869	161,465
	<u>4,108,106</u>	<u>2,245,580</u>	<u>431,655</u>	<u>151,079</u>	<u>268,633</u>	<u>7,205,053</u>

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 2010 the Company's risk as measured by PVBp was US\$47,542 (2009 US\$9,603). 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 23) at 31 December 2010 was US\$30,886 (2009 US\$20,800). The year end exchange rate was US\$1.5524 = GB£1.

Notes on the Financial Statements (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 2010. 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 2010:

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans & advances to banks	56,132	-	-	-	-	6,095	62,227
Loans & advances to customers							
-Fair value risk	1,827	18,722	8,359	296,025	110,432	-	435,365
-Cash flow risk	6,553,288	87,249	27,236	66,557	5,799	57,301	6,797,430
-Neither	-	-	14,708	204,985	204,138	-	423,831
Other assets	1,509,509	-	-	-	-	307,343	1,816,852
Total assets	8,120,756	105,971	50,303	567,567	320,369	370,739	9,535,705
Liabilities							
Deposits by banks	2,050,580	1,200,000	-	(10,390)	-	-	3,240,190
Customer accounts	4,948,035	32,848	12,855	166,939	242,748	-	5,403,425
Debt securities in issue	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	198,628	198,628
Loan capital and subordinated liabilities	25,767	125,312	-	-	-	-	151,079
Shareholders' equity	-	-	-	-	-	542,383	542,383
Total equity and liabilities	7,024,382	1,358,160	12,855	156,549	242,748	741,011	9,535,705
Notional value:							
Interest rate swaps	666,787	(182,986)	(17,749)	(379,336)	(86,716)	-	-
Interest rate sensitivity gap	1,763,161	(1,435,175)	19,699	31,682	(9,095)	(370,272)	-
Cumulative interest rate sensitivity gap	1,763,161	327,986	347,685	379,367	370,272	-	-

Notes on the Financial Statements (continued)

31 December 2009:

	Not more than three months	More than three months but not more than six months	More than six months but not more than one year	More than one year but not more than five years	More than five years	Non- interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans & advances to banks	32,248	-	-	-	-	5,721	37,969
Loans & advances to customers							
-Fair value risk	-	5,194	1,149	256,913	323,191	-	586,447
-Cash flow risk	6,171,542	99,618	28,521	53,738	6,481	60,580	6,420,480
-Neither	-	-	-	72,389	171,264	-	243,653
Other assets	-	-	-	-	-	265,242	265,242
Total assets	6,203,790	104,812	29,670	383,040	500,936	331,543	7,553,791
Liabilities							
Deposits by banks	880,657	308,000	15,979	(10,989)	-	-	1,193,647
Customer accounts	5,210,282	26,103	21,512	53,071	151,639	-	5,462,607
Debt securities in issue	13	-	-	-	-	-	13
Other liabilities	-	-	-	-	-	211,927	211,927
Loan capital and subordinated liabilities	24,653	123,223	-	-	-	-	147,876
Shareholders' equity	-	-	-	-	-	537,721	537,721
Total equity and liabilities	6,115,605	457,326	37,491	42,082	151,639	749,648	7,553,791
Notional value							
Interest rate swaps	511,769	78,306	1,488	(286,362)	(305,201)	-	-
Interest rate sensitivity gap	599,954	(274,208)	(6,333)	54,596	44,096	(418,105)	-
Cumulative interest rate sensitivity gap	599,954	325,746	319,413	374,009	418,105	-	-

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.

Notes on the Financial Statements (continued)

e) Foreign exchange risks

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

	2010 £'000	2009 £'000
Denominated in sterling	8,595,318	6,581,552
Denominated in currencies other than sterling	940,387	972,239
Total assets	9,535,705	7,553,791
Denominated in sterling	7,631,101	5,814,200
Denominated in currencies other than sterling	1,904,604	1,739,591
Total equity and liabilities	9,535,705	7,553,791

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.

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 2010 (2009 nil)

Notes on the Financial Statements (continued)

26 Related party transactions

a) Transactions, arrangements and agreement involving Directors and connected persons and Companies controlled by them				
	2010 Number of Directors	2010 £'000	2009 Number of Directors	2009 £'000
Loans (including housing loans) to, and guarantees on behalf of	2	258	2	217

The maximum amount of loans for Directors outstanding during the year was £277,000 (2009 £284,000)

- b) Compensation to the Board of Directors, as executives of the Company, are disclosed in note 5 to the accounts
- c) Summary of aggregate balances of transactions with other related parties of HSBC Private Bank (UK) Limited

	2010 £'000	2009 £'000
ASSETS		restated
Derivatives	47,691	35,595
Loans and advances to banks	55,145	13,676
LIABILITIES		
Deposits by banks	3,240,190	1,193,647
Derivatives	97,855	102,695
Subordinated liabilities	151,079	147,876
INCOME STATEMENT		
Interest income	3,653	10,275
Interest expense	9,007	10,216
Fee income	15,892	19,188
Fee expense	7,701	7,529
General and administrative expenses	15,210	13,231
OFF BALANCE SHEET		
Contract amount of derivatives	2,976,406	2,262,851

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.

Notes on the Financial Statements (continued)

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 group financial statements of HSBC Private Banking Holdings (Suisse) S A and HSBC Holdings plc may be obtained from

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