HSBC PRIVATE BANK (UK) LIMITED
Registered No: 499482

Financial Statements for the year ended 31 December 2015

HSBC

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HSBC PRIVATE BANK (UK) LIMITED

Strategic Report

Principal activities

HSBC Private Bank (UK) Limited (the 'Entity') is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA'). The Entity's principal activity is private banking.

The Entity's products and services include: investment management, incorporating advisory, discretionary and brokerage services; private wealth solutions comprising trust and estate planning; and a full range of private bank services.

Review of the Entity's business

Drawing on the strength of HSBC Group and the most suitable products from the marketplace, we work with our clients to provide solutions to grow, manage and preserve wealth for today and for the future. Since 2011, the Entity has taken significant steps to simplify and improve the way it conducts its business. The Entity continues to embed the highest global standards, including customer due diligence, a tax transparency framework, and financial crime compliance measures.

The Entity aspires to build on HSBC Group's commercial banking heritage and be the leading private bank for high net worth business owners and principals. During 2015 the Entity continued to deliver on strategic decisions as it sought to restructure, simplify and set the foundations for the sustainable growth of its business in future years. The positioning of the Entity over the past years has seen the Entity, in its targeted client base, grow assets under management and associated revenues. This growth is driven by an increase in referral from existing Group clients. In non-core markets the repositioning has seen a reduction of assets under management.

Implementation of the ServCo group

HSBC Group started making changes to its corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, in order to remove operational dependencies (whether one subsidiary bank provides critical services to another), the Group is in the process of transferring critical services from subsidiaries banks to a separately incorporated group of service companies ("ServCo group"). The ServCo group will be separately capitalised and funded to ensure continuity of services in resolution.

In 2015, to progress implementation, approximately 15,000 employees (out of which 265 were Entity employees) performing shared services in the UK were transferred from HSBC Bank plc to the ServCo group, which is a subsidiary of HSBC Holdings plc. There were no changes to employment terms and conditions or pension benefits as a result of these transfers.

Further transfer of employees, critical shared services and assets in the UK and other jurisdictions are planned to occur during 2016.

Performance

The Entity's results for the year under review are as detailed in the income statement shown on page 12 of these accounts.

Profit for the year in 2015 of £72,345,446 was 1% lower than the equivalent figure in 2014 (£73,115,490). Net interest income was broadly in line with 2014.

Loan impairment charges for the year were significantly higher than in prior year due to lower recoveries and higher collective impairment charges.

Total operating expenses remained stable year on year. Employee compensation and benefits, the largest component of operating expenses, was broadly in line with 2014. The main driver for this was headcount, which was unchanged from an average of 678 FTE in 2014 to 677 in 2015.

The outcome of the highlights above has led to a decrease in Profit before Tax from £93,772,490 to £91,286,446 .

Business Position

Total assets of £6,518,245,869 were 11.9% lower than at 31 December 2014, principally due to the sale of all financial investments during the year (2014: £925,769,000).

Total liabilities decreased by £949,670,673 from £6,184,407,769 at 31 December 2014 to £5,234,737,096 at December 2015, primarily due to the maturing of inter-company loans and a reduction of customer accounts.

Total equity of the Entity increased by £67,077,613 to £1,283,508,783 at 31 December 2015 (31 December 2014: £1,216,431,170).

Total Assets under Management decreased by £467,210,598 to £7,895,689,000 at 31 December 2015 (31 December 2014: £8,362,899,598).

Key performance indicators

The Directors use KPIs 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 the risks to which the Entity is exposed.

Financial KPIs

	2015	2014
Profit before tax (£'000)	91,286	93,772
Total Risk-Weighted Assets (£'000)	3,185,879	2,869,631
Pre-tax return on risk-weighted assets	3%	3%
Common equity tier 1	39.47%	41.00%
Cost efficiency	59%	62%
Ratio of customers advances to customer accounts	1.57	1.31

Pre-tax return on risk-weighted assets is measured as pre-tax profit divided by risk weighted assets.

Cost efficiency is measured as total operating expenses divided by operating income before loan impairment and other credit risk provisions.

Core tier 1 capital comprises shareholders' equity and non-controlling interest less regulatory deductions and adjustments. The Entity seeks to maintain a strong capital base to support the development of its business and meet regulatory capital requirements at all times.

Ratio of customers advances to customer accounts comprises loans and advances to customers as a ratio of the total core customer deposits. The lower the percentage, the stronger the funding position.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in note 26 of the financial statements.

The most important non-financial types of risk are operational risk, conduct and regulatory risk, including Financial Crime compliance, reputational risk and cyber risk. The Directors have put in place procedures to monitor and manage these risks.

Operational risk is relevant to every aspect of the Entity's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The Operational Risk Management Framework ('ORMF') is the overarching approach for managing operational risk. The ORMF ensures that operational risks are fully identified and managed effectively and targeted levels of operational risk within the Group's risk appetite are maintained.

Regulators in the UK and other countries have continued to increase their focus on 'conduct' matters relating to fair outcomes for customers and orderly/transparent markets, including, for example, attention to sales processes and incentives, products and investment suitability, product governance, employee activities and accountabilities.

In the UK, the FCA is making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. The FCA is also regulating areas of activity not previously regulated by them, such as consumer credit, and considering competition issues in the markets they regulate. Additionally, the FCA increasingly take actions in response to customer complaints or where they see poor customer outcomes and/or market abuses, either specific to an institution or more generally in relation to a particular product.

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions may significantly alter the competitive landscape.

The Entity maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

Like other public and private organisations, we continue to be a target of cyber attacks which, in some cases, disrupt services including the availability of our external facing websites, comprise organisational and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

The security of our information and technology infrastructure is crucial for maintaining our banking applications and processes and protecting our customers and the HSBC brand.

Signed on behalf of the Board

Director

Dated 4 April 2016

Registered Office
8 Canada Square
London
E14 5HQ

Directors

The Directors who served during the year were as follows:

Name	Appointed	Resigned
J F Trueman	1 April 2013	
R B Janvrin	30 January 2008	2 March 2016
F Morra	21 May 2012	1 September 2015
C D Allen	20 August 2012	
P Tremble	27 March 2012	

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity 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. All Directors have the benefit of Directors' and officers' liability insurance.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015 (2014: £Nil).

Significant events since the end of the financial year

No important events affecting the Entity have occurred since the end of the financial year.

Future developments

No change in the Entity's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

Financial instruments

The financial risk management objectives and policies of the Entity, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in note 26 of the Notes to the Financial Statements.

Employment of disabled persons

The Entity 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 Entity 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 Entity's performance through management channels, oral communication 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 Entity is further encouraged through a profit participation scheme.

Capital management

The Entity defines capital as total shareholders' equity. It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. To achieve this, we manage our capital within the context of an annual capital plan which determines the optimal amount and mix of capital required to support planned business growth and meet local regulatory capital requirements. There were no changes to the Entity's approach to capital management during the year.

The PRA is the supervisor of the Entity. The PRA sets capital requirements and receives information on the capital adequacy of the Entity. The Entity complied with the PRA's capital adequacy requirements throughout 2015. Since 1 January 2014, our capital is calculated under CRD IV and supplemented by the PRA Rulebook to effect the transposition of CRD IV directive requirements. The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Capital Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systemically Important Institutions ('G-SII'/'O-SII') buffer. CRD IV legislation implemented Basel III in the EU, and in the UK, the 'PRA Rulebook' for CRR Firms transposed the various discretions under the CRD IV legislation into UK requirements.

Pillar 3 of Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks and capital, and how these are managed. Separate Pillar 3 disclosures are not required for the Entity as the Entity is included in the consolidated Pillar 3 disclosures of HSBC Bank plc. These disclosures are published as a separate document on HSBC Bank plc's website.

Regulatory capital

Our capital base is divided into two main categories namely Common equity tier 1 and Tier 2, depending on the degree of permanency and loss absorbency exhibited.

- Common equity tier 1 capital is the highest quality form of capital, comprising shareholders' equity. Under CRD IV various capital deductions which are treated differently for the purposes of capital adequacy - these include negative amounts resulting from the calculation of expected loss amounts under IRB.
- Tier 2 comprises subordinated loans.

The calculation of actual capital is shown below (unaudited).

	CRD IV transitional 2015 £'000	CRD IV transitional 2014 £'000
Tier 1 capital		
Shareholders' equity	**1,283,509**	1,216,431
Deductions		
Excess expected losses over impairment allowances	**(25,897)**	(40,489)
Common equity tier 1	**1,257,612**	1,175,942
Deductions		
Unconsolidated investments	**(124,342)**	(145,762)
Tier 1 capital	**1,133,270**	1,030,180
Tier 2 capital		
Total qualifying tier 2 capital before deductions		
Term subordinated debt (note 16)	**17,885**	35,840
Tier 2 capital	**17,885**	35,840
Total regulatory capital	**1,151,155**	1,066,020
Risk-weighted assets		
Credit and counterparty risk	**2,820,623**	2,479,292
Market risk	**1,618**	7,065
Operational risk	**363,638**	383,274
Total	**3,185,879**	2,869,631
Capital ratios		
Common equity tier 1 ratio	**39.47%**	41.00%
Tier 1 ratio	**35.57%**	35.90%
Total capital ratio	**36.13%**	37.15%

The Entity held capital resources above the minimum regulatory requirement throughout the year.

Disclosure of information to auditor

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 Entity'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 Entity'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.

Independent Auditor

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries that took place in 2013, PricewaterhouseCoopers LLP has been appointed as auditors for the HSBC Group entities effective for periods ending on or after 1 January 2015.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on the next page, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing, in accordance with applicable law and regulations, a Strategic Report, a Directors' Report and financial statements for each financial year.

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected to prepare the Entity's financial statements on the same basis.

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 Entity and of the profit or loss of the Entity for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that its financial statements comply with the Companies Act 2006.

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

Signed on behalf of the Board

Director

Registered Office
8 Canada Square
London
E14 5HQ

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2015;
- the income statement for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 9, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Entity's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

Whether the accounting policies are appropriate to the Entity's circumstances and have

- been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on the financial statements

Our opinion

In our opinion, HSBC Private Bank (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Entity's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other Matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Scott Berryman

Scott Berryman (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

16 April 2016

HSBC PRIVATE BANK (UK) LIMITED

Financial Statements

Income statement for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Interest income		**179,064**	191,490
Interest expense		**(29,200)**	(41,866)
Net interest income	2	**149,864**	149,624
Fee and commission income		**64,554**	63,784
Fee and commission expense		**(11,222)**	(8,228)
Net Fee income	2	**53,332**	55,556
Net trading income		**2,415**	3,236
Gains less losses from financial investments		**9,071**	-
Other operating income		**33,270**	24,260
Net operating income before loan impairment charges and other credit risk provision		**247,952**	232,676
Loan impairment charges and other credit risk provisions	2	**(9,698)**	6,182
Net operating income	2	**238,254**	238,858
Employee compensation and benefits	3	**(88,931)**	(88,107)
General and administrative expense		**(58,037)**	(56,979)
Total operating expenses		**(146,968)**	(145,086)
Operating profit		**91,286**	93,772
Profit before tax		**91,286**	93,772
Tax expense	7	**(18,941)**	(20,656)
Profit for the year		**72,345**	73,116

The notes on pages 17 to 69 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2015

	2015 £'000	2014 £'000
Profit for the year	**72,345**	73,116
Other comprehensive (expense)/income		
Available-for-sale investments		
- fair value (losses)/gains	**(7,537)**	5,231
- income taxes	**1,647**	(1,124)
Other comprehensive (expense)/income for the year, net of tax	**(5,890)**	4,107
Total comprehensive income for the year	**66,455**	77,223

All operations are continuing. There has been no other material comprehensive income or expenses in 2015.

The notes on pages 17 to 69 form an integral part of these financial statements.

Statement of financial position as at 31 December 2015

	Notes	**2015** **£'000**	2014 £'000 (restated*)
Assets			
Cash and balances at central banks		**910**	1,226
Derivatives	23	**5,757**	9,524
Loans and advances to banks		**658,740**	33,083
Loans and advances to customers	9	**5,288,089**	5,699,391
Financial investments	10	**-**	925,769
Prepayments and accrued income		**26,905**	41,729
Investments in subsidiary undertakings	11	**401,360**	401,360
Property, plant and equipment	12	**23**	23
Intangible assets	13	**1,897**	-
Deferred tax asset	8	**1,221**	1,723
Other assets		**133,344**	287,011
Total assets		**6,518,246**	7,400,839
Liabilities and equity			
Liabilities			
Deposits by banks		**441,732**	1,038,647
Customer accounts		**4,618,224**	4,862,634
Derivatives	23	**8,614**	87,980
Accruals, deferred income and other liabilities	14	**63,117**	77,429
Current tax liabilities		**16,662**	20,574*
Provisions	15	**4,159**	2,235
Subordinated liabilities	16	**82,229**	94,909
Total liabilities		**5,234,737**	6,184,408
Equity			
Called up share capital	17	**176,910**	176,910
Share premium account		**404,636**	404,636
Other reserves		**-**	5,890
Retained earnings		**701,963**	628,995*
Total equity		**1,283,509**	1,216,431
Total equity and liabilities		**6,518,246**	7,400,839

The notes on pages 17 to 69 form an integral part of these financial statements.

*Current tax liability and retained earnings shown here do not correspond to the 2014 Financial Statements and reflect adjustments made due to a clerical error. Total liability and total equity have not been revised as these figures were correctly shown in 2014 financial statements.

These financial statements were approved by the Board of Directors on 14 April 2016 and were signed on its behalf by:

Director

Statement of cash flows for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Cash flows from operating activities			
Profit before tax		91,286	93,772
Adjustments for:			
- non cash items included in profit before tax	18	13,035	(3,952)
- change in operating assets	18	569,572	1,090,797
- change in operating liabilities	18	(952,933)	(1,571,342)
- elimination of exchange differences		(3,994)	(3,301)
- tax paid		(20,589)	(24,202)
Net cash used in operating activities		(303,623)	(418,228)
Cash flows from investing activities			
Proceeds from the sale and maturity of financial investments		944,871	54,579
Net cash generated from investing activities		944,871	54,579
Cash flows from financing activities			
Subordinated liabilities repaid		(15,000)	(27,000)
Net cash generated from financing activities		(15,000)	(27,000)
Net increase/(decrease) in cash and cash equivalents		626,248	(390,649)
Cash and cash equivalents brought forward		25,649	419,659
Effect of exchange rate changes on cash and cash equivalents		759	(3,361)
Cash and cash equivalents carried forward	18	652,656	25,649

The notes on pages 17 to 69 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2015

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves Available-for-sale fair value reserve £'000	Total £'000
2015					
At 1 January 2015	176,910	404,636	628,995	5,890	1,216,431
Profit for the year	-	-	72,345	-	72,345
Available-for-sale investments	-	-	-	(5,890)	(5,890)
Total comprehensive income for the year	-	-	72,345	(5,890)	66,455
Net impact of equity-settled share-based payments	-	-	598	-	598
Other movements	-	-	25	-	25
At 31 December 2015	176,910	404,636	701,963	-	1,283,509

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Other reserves Available-for-sale fair value reserve £'000	Total £'000 (restated*)
2014					
At 1 January 2014	176,910	404,636	555,516	1,783	1,138,845
Profit for the year	-	-	73,116	-	73,116*
Available-for-sale investments	-	-	-	4,107	4,107
Total comprehensive income for the year	-	-	73,116	4,107	77,223*
Net impact of equity-settled share-based payments	-	-	59	-	59
Other movements	-	-	304	-	304
At 31 December 2014	176,910	404,636	628,995	5,890	1,216,431

The notes on pages 17 to 69 form an integral part of these financial statements.

*Total profit for the year shown here does not correspond to the 2014 financial statements and reflects an adjustment made due to a clerical error. Total equity has not been revised as this figure was correctly shown in 2014 Financial Statements.

Equity is wholly attributable to equity shareholders of HSBC Private Bank (UK) Limited.

1 Basis of preparation and significant accounting policies

(a) Compliance with International Financial Reporting Standards

International Financial Reporting Standards ('IFRSs') comprise accounting standards issued or adopted by the International Accounting Standards Board ('IASB') as well as interpretations issued or adopted by the IFRS Interpretations Committee ('IFRS IC').

The financial statements of the Entity have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU.

At 31 December 2015, there were no unendorsed standards effective for the year ended 31 December 2015 affecting these financial statements and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Entity. Accordingly, the Entity's financial statements for the year ended 31 December 2015 are prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the year ended 31 December 2015

There were no new standards applied during the year ended 31 December 2015.

(b) Future accounting developments

In addition to completing its projects on revenue recognition and financial instrument accounting, discussed below, the IASB is working on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs through the Annual Improvements to IFRSs 2012-2014 cycle and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. HSBC has not early applied any of the amendments effective after 31 December 2015 and it expects they will have an insignificant effect, when applied, on the Entity's financial statements.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers'. None of these IFRSs have yet been endorsed for use in the EU.

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks.

Transition

The Entity is currently assessing the impact that the rest of IFRS 9 will have on the financial statements through a project which has been in place since 2012, but due to the complexity of the classification and measurement, impairment, and hedge accounting requirements and their inter-relationships, it is not possible at this stage to quantify the potential effect.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Entity has assessed the impact of IFRS 15 and it expects that the standard will have no significant effect, when applied, on the Entity's financial statements.

(c) Presentation of information

The financial statements present information about the Entity as an individual undertaking and not about its group. The Entity is not required to prepare consolidated financial statements by virtue of the exemption conferred by Section 400 of the Companies Act 2006.

The functional currency of the Entity is Sterling, which is also the presentational currency of the financial statements of the Entity.

(d) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2015 Financial Statements. Management's selection of the Entity's accounting policies which contain critical estimates and judgements is listed below; it reflects the materiality of the items to which the policies are applied, the high degree of judgement involved and estimation uncertainty involved:

- Effective interest rate: refer to Note 26;
- Impairment of loans and advances: refer to Note 26;
- Deferred tax assets: refer to Note 8;
- Valuation of financial instruments: refer to Note 21;
- Provisions: refer to Note 15;

(e) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

(f) Foreign exchange

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 at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at 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. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

(g) Loans and advances to banks and customers

These include loans and advances originated by the Entity, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance.

(h) Impairment of loans and advances and available-for-sale financial assets

Critical accounting estimates and judgements

Impairment of loans and advances

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Collective impairment allowances are subject to estimation uncertainty, in part because it is not practicable to identify losses on an individual loan basis due to the large number of individually insignificant loans in the portfolio. The estimation methods include the use of statistical analyses of historical information, supplemented with significant management judgement, to assess whether current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than historical experience.

For individually assessed loans, judgement is required in determining whether there is objective evidence that a loss event has occurred and, if so, the measurement of the impairment allowance. In determining whether there is objective evidence that a loss event has occurred, judgement is exercised in evaluating all relevant information on indicators of impairment, including the consideration of whether payments are contractually past-due and the consideration of other factors indicating deterioration in the financial condition and outlook of borrowers affecting their ability to pay. A higher level of judgement is required for loans to borrowers showing signs of financial difficulty in market sectors experiencing economic stress, particularly where the likelihood of repayment is affected by the prospects for refinancing or the sale of a specified asset. For those loans where objective evidence of impairment exists, management determine the size of the allowance required based on a range of factors such as the realisable value of security, the likely dividend available on liquidation or bankruptcy, the viability of the customer's business model and the capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations.

The Entity might provide loan forbearance to borrowers experiencing financial difficulties by agreeing to modify the contractual payment terms of loans in order to improve the management of customer relationships, maximise collection opportunities or avoid default or repossession. Where forbearance activities are significant, higher levels of judgment and estimation uncertainty are involved in determining their effects on loan impairment allowances are judgements involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances, calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

Impairment losses on individual loans are calculated by discounting the expected future cash flows of a loan, which includes expected future receipts of contractual interest, at the loan's original effective interest rate and comparing the resultant present value with the loan's current carrying amount. The impairment allowances on individually significant accounts are reviewed at least quarterly and more regularly when circumstances require.

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Entity has incurred as a result of events occurring before the balance sheet data, which the Entity is not able to identify on an individual loan basis, and that can be reliably estimated.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio based on economic and market conditions, customer behaviour, portfolio management information, credit management techniques and collection and recovery experiences in the market. As it is assessed empirically on a periodic basis the estimated period may vary over time as these factors change.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, partial write-off may be earlier.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

Renegotiated loans

Loans subject to collective impairment assessment whose terms have been renegotiated are no longer considered past due, but are treated as up to date loans for measurement purposes once a minimum number of payments required have been received. They are segregated from other parts of the loan portfolio for the purposes of collective impairment assessment, to reflect their risk profile. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition, including write-off.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument. Any new agreements arising due to derecognition events will continue to be disclosed as renegotiated loans.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. If such evidence exists as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event has an impact, which can be reliably measured, on the estimated future cash flows of the financial asset an impairment loss is recognised.

If the available-for-sale financial asset is impaired, the difference between its acquisition cost (net of any principal repayments and amortisation) and its current fair value, less any previous impairment loss recognised in the income statement, is recognised in the income statement.

Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments.

In assessing objective evidence of impairment for available-for-sale debt securities at the reporting date, the Entity considers all available evidence, including observable data or information about events specifically relating to the securities which may result in a shortfall in recovery of future cash flows. Financial difficulties of the issuer, as well as other factors such as information about the issuers' liquidity, business and financial risk exposures, levels of and trends in default for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees may be considered individually, or in combination, to determine if there is objective evidence of impairment.

In assessing objective evidence of impairment for available-for-sale equity securities at the reporting date, the Entity may include specific information about the issuer but may also include information about significant changes in technology, markets, economics or the law that provides evidence that the costs of the equity securities may not be recovered. A significant or prolonged decline in the fair value of the equity below its cost is also objective evidence of impairment.

Once an impairment loss has been recognised, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised in other comprehensive income. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, or the instrument is no longer impaired, the impairment loss is reversed through the income statement.

(i) Operating income

Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income is earned from a diverse range of services provided by the Entity to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed. For example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities;
- income earned from the provision of services is recognised as revenue as the services are provided. For example, asset management, portfolio and other management advisory and service fees; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate. And recorded, for example certain loan commitment fees, in 'Interest income'.

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends.

Dividend income is recognised when the right to receive a payment is established. This is usually the date when the shareholders have approved the dividend for unlisted equity.

2 Operating Profit

Operating profit is stated after the following items of income, expense, gains and losses, and loan impairment charges and other credit risk provisions:

	2015 £'000	2014 £'000
Interest income		
Short-term funds and loans and advances to banks	2,585	1,982
Loans and advances to customers	173,929	184,955
Financial investments	2,550	4,553
	179,064	191,490
Interest recognised on impaired financial assets	432	226
Interest expense		
Deposits by banks	8,632	15,511
Customer accounts	20,568	26,355
Total interest expense	29,200	41,866

	2015 £'000	2014 £'000
Fee and commission income		
Fees earned on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	44,294	46,912
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	20,260	16,872
Fee expense		
Fees payable on financial assets or liabilities not held for trading nor designated at fair value, other than fees included in effective interest rate calculations on these types of assets and liabilities	11,222	8,228
Gains and losses		
Loan impairment charges and other credit risk provisions		
Net impairment charge on loans and advances	9,698	(6,182)

3 Employee compensation and benefits

Total employee compensation

	2015 £'000	2014 £'000
Wages and salaries including share-based payments (see below)	71,583	70,694
Social security costs	8,568	9,962
Post- employment benefits	8,780	7,451
Year ended 31 December	88,931	88,107

Average number of persons employed by the Entity during the year

	2015	2014
Client/Product Services	268	295
Operations and Support	214	182
Head Office Administration	112	102
Asset Management Services	83	99
Year ended 31 December	677	678

During 2015, 265 employees were transferred to the ServCo group. Their remuneration and numbers have been included in the tables above as they have been seconded back to the Entity on an interim basis.

Post-employment benefit plans

The Entity's employees are members of various schemes.

The HSBC Bank (UK) Pension Scheme, which is the principal scheme, covers employees of HSBC Bank plc and other group companies. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit section, which is closed, and a defined contribution section, which was established on 1 July 1996 for new employees.

There is no contractual agreement or stated policy for charging the net defined benefit cost from HSBC Bank plc to the other members of the group pension plan. Instead 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 scheme deficit, except through amendments to its regular payments.

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at 31 December 2015, of which employees of the Company are members, are disclosed in the statutory accounts of HSBC Bank plc.

In 2015, the pension cost for defined contribution plans which cover 70% of the Entity's employees was £6,494,000 (2014: £4,943,000). The Entity expects to make £6,768,787 of contributions to the defined contribution plans during 2016.

4 Share-based payments

Accounting policy

The Entity enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for services provided by employees.

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to 'Retained earnings'.

For cash-settled share based payment arrangements, the services acquired and the liability incurred are measured at the fair value of the liability, and recognised as the employees render services. Until settlement, the fair value of the liability is re-measured over the vesting period with a corresponding credit to 'Retained earnings'.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions of the award. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions.

Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of the award. Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting and recognised immediately for the amount that would otherwise have been recognised for services over the vesting period.
HSBC Holdings plc is the grantor of its equity instrument for all share awards and share options across the Entity. The credit to 'Retained earnings' over the vesting period on expensing an award represents the effective capital contribution from HSBC Holdings plc. To the extent the Entity will be, or has been, required to fund a share-based payment arrangement, this capital contribution is reduced and the fair value of shares expected to be released to employees is recorded within 'Other liabilities'.

Income statement charge

	2015 £'000	2014 £'000
Restricted and performance share awards	3,209	3,851
Savings-related and other share option plans	11	280
Year ended 31 December	**3,220**	4,131

The share-based payment income statement charge is recognised in wages and salaries.

HSBC Share Awards

Award	Policy	Purpose
Restricted share awards (including GPSP awards)	• Vesting of awards generally subject to continued employment with HSBC. • Vesting is generally over three years. GPSP awards vest after five years. • Certain shares subject to a retention requirement post-vesting. In the case of GPSP awards retention applies until cessation of employment. • Awards generally not subject to performance conditions. • Awards granted from 2010 onwards are subject to malus provision prior to vesting.	• Rewards employee performance and potential and supports retention of key employees. • To defer variable pay

Movement on HSBC share awards

	Restricted share awards	
	2015	2014
	Number	Number
Outstanding at 1 January	**730,191**	718,551
Additions during the year	**555,374**	103,526
Released in the year	**(485,963)**	(39,454)
Forfeited in the year	**(1,246)**	(13,258)
Transferred	**(40,076)**	(39,174)
Outstanding at 31 December	**758,280**	730,191
Weighted average fair value of awards granted (£)	**6.14**	6.31

HSBC Share Options

Main plans	Policy	Purpose
Savings-related share option plans	• Two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012. • Eligible employees save up to £500 per month (or for options granted prior to 2013, the equivalent in euros), with the option to use the savings to acquire shares. • Exercisable within six months following either the third or fifth anniversaries of the commencement of a three-year or five-year contract, respectively, (or for options granted prior to 2013, three months following the first anniversary of the commencement of a one-year savings contract). • The exercise price is set at a 20% (2014: 20%) discount to the market value immediately preceding the date of invitation (except for the one-year options granted under the US sub-plan prior to 2013 where a 15% discount was applied).	• To align the interests of all employees with the creation of shareholder value.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model.

The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans:

	Savings-related share option plans		HSBC Holdings Entity share option plan	
	Number	WAEP[1]	Number	WAEP[1]
		£		£
2015				
Outstanding at 1 January	509,110	6.30	-	0.00
Granted during the year	604,941	5.84	-	0.00
Exercised during the year	(203,227)	5.84	-	0.00
Expired during the year	(159,505)	5.86	-	0.00
Outstanding at 31 December	751,319	5.84	-	0.00
Weighted average remaining contractual life (years)		2.34		0.00

1 Weighted average exercise price

	Savings-related share option plans		HSBC Holdings Entity share option plan	
	Number	WAEP[1] £	Number	WAEP[1] £
2014				
Outstanding at 1 January	1,046,827	6.59	315,064	7.59
Granted during the year	65,608	6.05	2,295	7.22
Exercised during the year	(465,786)	6.36	-	-
Expired during the year	(137,539)	6.35	(317,359)	7.22
Outstanding at 31 December	509,110	6.30	-	-
Weighted average remaining contractual life (years)		2.46		-

1 Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transaction are contracted, was £1.15 (2014: £1.11).

5 Remuneration of Directors

The aggregate emoluments of the Directors of the Entity, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

	2015 **£'000**	2014 £'000
Fees[1]	**50**	50
Salaries and other emoluments	**937**	933
Annual incentives[2]	**1,242**	1,193
Year ended 31 December	**2,229**	2,176

1 *Fees included fees paid to non-executive Directors.*

2 *Awards made to executive Directors in respect of 2015 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £265,000 in cash, £367,000 in deferred cash (vesting annually over a three-year period), £243,000 in Restricted Shares and £367,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.*

Awards made to executive Directors in respect of 2014 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £254,792 in cash, £351,676 in deferred cash (vesting annually over a three-year period), £234,451 in Restricted Shares and £351,676 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

One Director exercised share options over HSBC Holdings plc ordinary shares during the year.

Awards were made to 3 Directors under long-term incentive plans in respect of qualifying services rendered in 2015 (2014: 4 Directors). During 2015, nil Directors received shares in respect of awards under long-term incentive plans that vested during the year (2014: nil).

Retirement benefits are accruing to 1 Directors under a defined benefit scheme and are accruing to 3 Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £37,476 (2014:36,103) were made during the year to money purchase arrangements and £29,182 (2014:47,250) to defined benefit schemes in respect of Directors' qualifying services.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent Entity, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2015.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2015	2014
	£'000	£'000
Salaries and other emoluments	**441**	441
Annual incentives[1]	**682**	664
Year ended 31 December	**1,123**	1,105

1 Awards made to the highest paid Director in respect of 2015 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £136,000 in cash, £205,000 in deferred cash (vesting annually over a three-year period), £136,000 in Restricted Shares and £205,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

Awards made to the highest paid Director in respect of 2014 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £132,787 in cash, £199,181 in deferred cash (vesting annually over a three-year period), £132,787 in Restricted Shares and £199,181 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

The highest paid Director received Nil shares, in respect of qualifying services, as the result of awards under long-term incentive plans that vested during the year. The highest paid Director did not exercise share options over HSBC Holdings plc ordinary shares during the year.

Pension contributions of £19,974 were made by the Entity in respect of services by the highest paid Director during the year.

6 Auditors' remuneration

	2015	2014
	£'000	£'000
Audit fees for HSBC Private Bank (UK) Limited statutory audit:		
- Fees relating to current year	**80**	80
Fees for other services provided to the Entity:		
- Other audit-related services pursuant to such legislation	**14**	14
Total fees payable	**94**	94

7 Tax

Accounting policy

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the group intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled based on tax rates and laws enacted, or substantively enacted, by the balance sheet date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the group has a legal right to offset.

Deferred tax relating to share-based payment transactions is recognised directly in equity to the extent that the amount of the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense. Deferred tax relating to fair value remeasurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

Tax charged to the income statement

	2015 £'000	2014 £'000
Current tax		
- for this year	18,379	19,444
- adjustments in respect of prior years	15	49
Total current tax	18,394	19,493
Deferred tax		
Origination and reversal of temporary differences	839	1,073
Effect of changes in tax rates	(292)	42
Adjustments in respect of prior years	-	48
Total deferred tax	547	1,163
Total tax charged to income statement	18,941	20,656

The UK corporation tax rate applying to the Company was 20.25% (2014: 21.50%).

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2017 will reduce from 20% to 19% to be followed by a further 1% reduction to 18% for the year beginning 1 April 2020. These reductions in the corporation tax rate were enacted in the Finance (No 2) Act 2015.

The UK government introduced a surcharge on banking companies in the Finance (No 2) Act 2015 to apply with effect from 1 January 2016. This company meets the definition of a banking company and will therefore be subject to the 8% bank surcharge.

Tax reconciliation

The tax charged to the income statement differs to the tax charge that would apply if all profits had been taxed at the UK Corporation tax rate as follows:

	2015 £'000	Percentage of overall profit before tax	2014 £'000	Percentage of overall profit before tax
Profit before tax	91,286		93,772	
Tax at 20.25%(2014: 21.50%)	18,485	20.25%	20,161	21.50%
Adjustments in respect of prior year	15	0.02%	97	0.10%
Permanent disallowables	74	0.08%	86	0.09%
Adjustment in respect of share-based payments	518	0.57%	270	0.29%
Impact due to changes in tax rates	(151)	0.17%	42	0.04%
Total tax charged to income statement	18,941	20.75%	20,656	22.03%

The effective tax rate for 2015 of 20.75% was higher than UK corporation tax rate of 20.25%.

8 Deferred tax

The following table shows the gross deferred tax assets and liabilities recognised in the statement of financial position and the related amounts recognised in the Income Statement:

	Property, plant and equipment £'000	**Share based payments £'000**	**Other temporary differences £'000**	**Total £'000**
At 1 January 2015	**96**	**716**	**911**	**1,723**
Income statement (expense)/credit	**(8)**	**62**	**(601)**	**(547)**
Equity statement credit	**-**	**45**	**-**	**45**
At 31 December 2015	**88**	**823**	**310**	**1,221**

	Property, plant and equipment £'000	Share based payments £'000	Other temporary differences £'000	Total £'000
At 1 January 2014	88	1,224	1,574	2,886
Income statement credit	8	(508)	(663)	(1,163)
At 31 December 2014	96	716	911	1,723

9 Loans and advances to customers

	2015 £'000	2014 £'000
Gross loans and advances to customers	**5,341,328**	5,752,328
Fair value adjustment to loans hedged by designated swaps	**2,731**	4,136
Impairment allowances (note 26)	**(55,970)**	(57,073)
Loans and advances to customers	**5,288,089**	5,699,391

The following table analyses loans and advances to customers by industry sector:

	2015		2014	
	Gross loans and advances to customers £'000	Gross loan by industry as % of total gross loans %	Gross loans and advances to customers £'000	Gross loan by industry as % of total gross loans %
Personal				
Residential mortgages	2,536,351	48	2,564,411	44
Other personal	648,918	12	506,258	9
Corporate and commercial				
Commercial, industrial and trade	83,987	2	156,105	3
Commercial real state	1,144,970	21	1,685,574	29
Other property-related	754,301	14	762,684	13
Other commercial	107,518	2	32,889	1
Financial	68,014	1	48,543	1
As at 31 December	5,344,059	100	5,756,464	100
Impaired loans (£'000)		216,817		213,833
as a % of total		4%		4%

10 Financial investments

Accounting policy

Treasury bills, debt securities and equity securities intended to be held on a continuing basis, other than those designated at fair value, are classified as available for sale. They are recognised on trade date when the Entity enters into contractual arrangements to purchase those instruments, and are normally derecognised when either the securities are sold or redeemed.

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until they are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

Interest income is recognised over the debt asset's expected life. Premiums and/or discounts arising on the purchase of dated debt securities are included in the interest recognised. Dividends from equity assets are recognised in the income statement when the right to receive payment is established.

The accounting policy relating to impairments of available-for-sale securities is presented in Note 26.

Available-for-sale financial investments include the following:

	2015 £'000	2014 £'000
Financial investments		
- not subject to repledge or resale by counterparties	-	925,769
	-	925,769

	2015 £'000	2014 £'000
Debt securities – available for sale	-	925,769
	-	925,769

11 Investment in subsidiaries

Accounting policy

The Entity classifies investments in entities which it controls as subsidiaries.

The Entity's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through the income statement if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

	Country of incorporation	Interest in Equity Capital	Share Class	No. of shares
HSBC Private Bank (C.I.) Limitied	Guernsey	100%	Ordinary $1.00	8,000,000

12 Property, plant and equipment

Accounting policy

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRSs ('deemed cost'), less impairment losses and depreciation over their estimated useful lives, as follows:
- freehold land is not depreciated
- freehold buildings are depreciated at the greater of 2% per annum on a straight-line basis or over their remaining useful lives; and
- leasehold land and buildings are depreciated over the shorter of their unexpired terms of the leases or their remaining useful lives.

Equipment, fixtures and fittings (including equipment on operating leases where HSBC is the lessor) are stated at cost less impairment losses and depreciation over their useful lives, which are generally between 5 years and 20 years. Property, plant and equipment is subject to an impairment review if their carrying amount may not be recoverable.

There are no changes in cost or depreciation and impairment for property, plant and equipment in 2015 (2014:Nil).

13 Intangible assets

Accounting policy

Intangible assets are stated at cost less amortization and are amortised straight line over their estimated useful lives of five years. Expenditure on internally developed software is recognised as an asset when the Entity is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the cost to complete development. Borrowing costs are not included in the capitalised costs of intangible assets. Assets are subject to regular impairment reviews which compare the carrying value to the expected value in use. Any impairment losses are recognised in the Income Statement. Amortisation does not commence until the asset is brought into operational use.

	Software development costs £'000
Cost	
Additions	1,897
As at 31 December 2015	**1,897**
Accumulated amortisation	
As at 31 December 2015	-
Net book value	
As at 31 December 2015	**1,897**

14 Accruals, deferred income and other financial liabilities

	2015 £'000	2014 £'000
Accruals and deferred income	**35,461**	36,287
Share-based payment liabilities	**4,715**	4,981
Amounts owed to immediate parent undertaking	**9,662**	7,957
Amounts owed to other group companies	**7,247**	12,945
Other liabilities	**6,032**	15,259
	63,117	77,429

15 Provisions

Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefit will be required to settle a current legal or constructive obligation, which has arisen as a result of past event, and for which a reliable estimate can be made.

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations.

Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, for example, the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

	Restructuring provision £'000	**Customer redress provision £'000**	**Other £'000**	**Total £'000**
At 1 January 2015	**-**	**1,460**	**775**	**2,235**
Increase in provision	**2,441**	**-**	**743**	**3,184**
Provision utilised	**-**	**(632)**	**-**	**(632)**
Amounts reversed	**-**	**(628)**	**-**	**(628)**
At 31 December 2015	**2,441**	**200**	**1,518**	**4,159**

	Restructuring provision £'000	Customer redress provision £'000	Other £'000	Total £'000
At 1 January 2014	-	1,460	2,334	3,794
Increase in provision	-	-	775	775
Provision utilised	-	-	(2,039)	(2,039)
Amounts reversed	-	-	(295)	(295)
At 31 December 2014	-	1,460	775	2,235

Restructuring provision

A provision of £2,441,000 (31 December 2014: £Nil) exists for redundancy payments to a number of employees where employment is to be terminated as part of a restructuring programme. The provision reflects the full amount of payments agreed with the individuals affected.

Customer redress

The entity has recognised £200,000 (2014:£1,460,000) for the cost of providing redress to customers in respect of possible mis-selling of interest rate derivatives. This amount is based on estimated redress payable to customers in respect of historical payments under derivative contracts and expected write-off by the Entity of open derivative contracts balances. Payments of £632,000 have been made to customers so far.

The Entity has undertaken a review of compliance with the fixed-sum unsecured loan agreement requirements of the UK Consumer Credit Act (CCA). £1,465,000 has been recognised as at 31 December 2015 within 'Other Liabilities' (Note 14) for the repayment of interest to customers where annual statements did not remind them of their right to partially prepay the loan, notwithstanding that the customer loan documentation did include this right. Payments of £2,292,000 have been made to customers so far.

16 Subordinated liabilities

	2015 £'000	2014 £'000
£15,000,000 floating (6m GBP LIBOR +0.45%) subordinated notes maturing 30 Nov 2015	-	15,000
£35,000,000 floating (6m GBP LIBOR +0.45%) subordinated notes maturing 22 May 2016	35,000	35,000
$30,000,000 floating (6m USD LIBOR + 0.45%) subordinated notes maturing 30 Oct 2016	20,241	19,247
$40,000,000 floating (6m USD LIBOR +1.50%) subordinated notes maturing 6 Mar 2018	26,988	25,662
	82,229	94,909

The Entity has not had any defaults of principal or interest or other breaches with respect to its subordinated liabilities during the years ended 31 December 2015 and 2014.

Subordinated loan capital is repayable at par on maturity but may be repayable prior to maturity at option of the borrower, generally with the consent of the Financial Conduct Authority.

17 Called up share capital

Accounting policy

Financial instruments issued are generally classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax.

	2015 £'000	2014 £'000
Issued, allotted and fully paid up		
17,691,000 Ordinary shares of £10 each		
As at 1 January and 31 December	176,910	176,910
Authorised:		
19,500,000 Ordinary shares of £10 each		
As at 1 January and 31 December	195,000	195,000

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

Accounting policy

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

	2015 £'000	2014 £'000
a) Non-cash items included in profit and loss		
Depreciation, amortisation and impairment	**4,229**	3,624
Share-based payment expense	**11**	280
Charge/(credit) related impairment losses	**9,698**	(6,182)
Provisions raised	**2,556**	480
Fair value movement and gain on dispoals of available-for-sale assets	**(3,459)**	(2,154)
	13,035	(3,952)

	2015 £'000	2014 £'000
b) Change in operating assets		
Change in prepayments and accrued income	**14,826**	6,379
Change in loans and advances to banks	**1,668**	344,337
Change in loans and advances to customers	**401,298**	951,054
Change in other assets	**151,780**	(210,973)
	569,572	1,090,797

	2015 £'000	2014 £'000
c) Change in operating liabilities		
Change in accruals and deferred income	**(827)**	(4,048)
Change in deposits by banks	**(596,915)**	(1,115,977)
Change in customer accounts	**(263,809)**	(468,508)
Change in other liabilities	**(91,382)**	17,191
	(952,933)	(1,571,342)

	2015 £'000	2014 £'000
d) Cash and cash equivalents comprise		
Cash and balances at central banks	910	1,226
Loans and advances to banks of one month or less	651,746	24,423
	652,656	25,649

	2015 £'000	2014 £'000
e) Interest and dividends		
Interest paid	33,350	44,763
Interest received	208,964	182,066
	242,314	226,829

19 Contingent liabilities and contractual commitments and guarantees

Accounting policy

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security as well as contingent liabilities related to legal proceedings or regulatory matters are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Entity; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

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.

The following table gives the nominal principal amounts of off-balance sheet transactions:

	2015 **Contract amount** **£'000**	2014 Contract amount £'000
Contingent liabilities:		
Guarantees and assets pledged as collateral security	**72,259**	86,533
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	**715,672**	454,323
	715,672	454,323

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers. The compensation paid out to consumers is currently funded through loans from HM Treasury, which at 31 December 2015 stood at approximately £16,000,000,000.

The Entity could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury. The ultimate FSCS levy to the industry as a result of the collapses cannot currently be estimated reliably as it is dependent on various uncertain factors including the potential recoveries of assets by the FSCS and changes in the level of protected deposits and the population of FSCS member of the time.

HSBC PRIVATE BANK (UK) LIMITED

Notes on the Financial Statements (continued)

20 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 following table analyses the carrying amount of financial assets and liability by category as defined in IAS 39 and by balance sheet heading:

At 31 December 2015	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	-	-	-	910	-	910
Derivatives	5,706	-	-	-	51	5,757
Loans and advances to banks	-	658,740	-	-	-	658,740
Loans and advances to customers	-	5,288,089	-	-	-	5,288,089
Other assets	-	-	-	133,344	-	133,344
Accrued income	-	-	-	26,905	-	26,905
Total financial assets	5,706	5,946,829	-	161,159	51	6,113,745
Total non financial assets						404,501
Total assets						6,518,246
Liabilities						
Deposits by banks	-	-	-	441,732	-	441,732
Customer accounts	-	-	-	4,618,224	-	4,618,224
Derivatives	6,977	-	-	-	1,637	8,614
Accruals, deferred income and other liabilities	-	-	-	63,117	-	63,117
Provisions	-	-	-	4,159	-	4,159
Subordinated liabilities	-	-	-	82,229	-	82,229
Total financial liabilities	6,977	-	-	5,209,461	1,637	5,218,075
Total non financial liabilities						16,662
Total liabilities						5,234,737

At 31 December 2014	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	-	-	-	1,226	-	1,226
Derivatives	9,337	-	-	-	187	9,524
Loans and advances to banks	-	33,083	-	-	-	33,083
Loans and advances to customers	-	5,699,391	-	-	-	5,699,391
Financial investments	-	-	925,769	-	-	925,769
Other assets	-	-	-	287,011	-	287,011
Accrued income	-	-	-	41,729	-	41,729
Total financial assets	9,337	5,732,474	925,769	329,966	187	6,997,733
Total non financial assets						403,106
Total assets						7,400,839
Liabilities						
Deposits by banks	-	-	-	1,038,647	-	1,038,647
Customer accounts	-	-	-	4,862,634	-	4,862,634
Derivatives	5,610	-	-	-	82,370	87,980
Accruals, deferred income and other liabilities	-	-	-	77,429	-	77,429
Provisions	-	-	-	2,235	-	2,235
Subordinated liabilities	-	-	-	94,909	-	94,909
Total financial liabilities	5,610	-	-	6,075,854	82,370	6,163,834
Total non financial liabilities						20,574
Total liabilities						6,184,408

21 Fair value of financial instruments carried at fair value

Accounting policy

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, sometimes the fair value will 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, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Entity recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value.

Critical accounting estimates and judgements

Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. In the event that the market for a financial instrument is not active, and the valuation technique uses only observable market data, the reliability of the fair value measurement is high. However, when valuation techniques include one or more significant unobservable inputs, they rely to a greater extent on management judgement and the fair value derived becomes less reliable. In absence of observable valuation inputs, due to lack of or a reduced volume of similar transactions, management judgement is required to assess the price at which an arm's length transaction would occur under normal business conditions, in which case management may rely on historical prices for that particular financial instrument or on recent prices for similar instruments.

The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument; judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument: Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined, or validated, by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Entity will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

The factors that are considered in this regard are, inter alia:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the balance sheet date; and
- the manner in which the data was sourced..

For fair values determined using a valuation model, the control framework may include, as applicable, development or validation by independent support functions of (i) the logic within valuation models; (ii) the inputs to those models; (iii) any adjustments required outside the valuation models; and, where possible, (iv) model outputs. Valuation models are subject to a process of due diligence and calibration before becoming operational and are calibrated against external market data on an ongoing basis.

Determination of fair value

Fair values are determined according to the following hierarchy:

(a) Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.

(b) Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

The following table sets out the financial instruments carried at fair value:

	Fair values			
		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2015				
Assets				
Derivatives	-	5,757	-	5,757
Liabilities				
Derivatives	-	8,614	-	8,614

	Fair values			
		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	£'000
At 31 December 2014				
Assets				
Derivatives	-	9,524	-	9,524
Financial investment available-for-sale	925,769	-	-	925,769
Liabilities				
Derivatives	-	87,980	-	87,980

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2015 (2014: £Nil).

22 Fair value of financial instruments not carried at fair value

For all financial instruments, the fair value is equal to the carrying value in the Balance Sheet, except as analysed below; that is because they are short-term in nature or repriced to current market rates frequently. Fair value is assumed to equal carrying value for all balances repricing in less than six months. Where repricing is greater than six months using discounted cash flow, each loan or deposit is valued using a LIBOR-based discount curve applied to the expected cash flows.

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
		£'000	£'000	£'000	£'000
At 31 December 2015					
Assets					
Loans and advances to customers	5,288,089	-	1,897,786	3,426,305	5,324,091
Loans and advances to banks	658,740	-	658,740	-	658,740
Liabilities					
Deposits by banks	441,732	-	441,732	-	441,732
Customer accounts	4,618,224	-	4,631,472	-	4,631,472
Subordinated liabilities	82,229	-	82,229	-	82,229

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
		£'000	£'000	£'000	£'000
At 31 December 2014					
Assets					
Loans and advances to customers	5,699,391	-	2,084,323	3,556,881	5,641,204
Loans and advances to banks	33,083	-	33,083	-	33,083
Liabilities					
Deposits by banks	1,038,647	-	1,038,647	-	1,038,647
Customer accounts	4,862,634	-	4,855,920	-	4,855,920
Subordinated liabilities	94,909	-	94,909	-	94,909

23 Derivatives

Accounting policy

Derivatives

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques. Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria presented in Note 25 are met.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income' except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities issued by the Entity and designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.
When derivatives are designated as hedges, the Entity classifies them as hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges').

Hedge accounting
At the inception of a hedging relationship, the Entity documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Entity requires documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group that contain the hedged risk. If a hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued: the cumulative adjustment to the carrying amount of the hedged item is amortised to the income statement on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised.

Hedge effectiveness testing

To qualify for hedge accounting, the Entity requires that at the inception of the hedge and throughout its life each hedge must be expected to be highly effective, both prospectively and retrospectively, on an ongoing basis.
The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted to assess hedge effectiveness will depend on its risk management strategy. For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated, with the effectiveness range being defined as 80% to 125%. Hedge ineffectiveness is recognised in the income statement in 'Net trading income'.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are economic hedges entered into as part of documented interest rate management strategies for which hedge accounting was not applied. Changes in fair value of non-qualifying hedges do not alter the cash flows expected as part of the documented management strategies for both the non-qualifying hedge instruments and the related assets and liabilities.

The Entity transacts derivatives primarily to manage and hedge the Entity'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.

Trading derivatives

Derivatives classified as held-for-trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. The held-for-trading category also includes derivatives managed in conjunction with financial instruments designated at fair value.

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

	2015 £'000	2014 £'000
Exchange rate	1,133,056	1,183,559
Interest rate	70,733	89,182
Commodities	54,700	67,629
Total derivatives	1,258,489	1,340,370

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

	At 31 December 2015		At 31 December 2014	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Exchange rate	4,219	4,690	6,308	2,465
Interest rate	1,538	3,328	2,673	85,261
Commodities	-	596	543	254
Total	5,757	8,614	9,524	87,980

24 Hedging instruments

The Entity uses derivatives (interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios. This enables the Entity to mitigate the market risk which would otherwise arise from structural imbalances in the contract rates and other profiles of its assets and liabilities. All derivatives qualifying as hedging instruments are fair value hedges as defined under IAS 39.

Notional contract amounts of derivatives held-for-hedging purposes by product type:

	2015		2014	
	Fair value hedge £'000	Cash Flow £'000	Fair value hedge £'000	Cash Flow £'000
Interest rate contracts:				
- pay fixed swaps	159,697	-	1,069,985	-

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.

Fair value hedges

The Entity'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. 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 over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at the end of the reporting year, were assets of £51,000 (2014: £187,000) and liabilities of £1,637,000 (2014: £82,370,000).

	2015 £'000	2014 £'000
Gains/(losses) arising from the change in fair value of fair value hedges:		
- On hedging instruments	**2,856**	(20,116)
- On hedged item attributable to the hedged risk	**(2,864)**	21,510
Total derivatives	**(8)**	1,394

25 Offsetting of financial assets and financial liabilities

Accounting policy

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets

				Amounts not offset in the balance sheet			
	Gross amounts £'000	Amounts offset £'000	Amounts reported in the balance sheet £'000	Financial Instruments £'000 (restated*)	Non-cash collateral £'000	Cash collateral £'000 (restated*)	Net amount £'000
Financial assets Derivatives (Note 23)	**5,757**	**-**	**5,757**	**-**	**-**	**-**	**5,757**
Customer accounts at amortised cost	**5,341,328**	**-**	**5,341,328**	**216,421**	**-**	**-**	**5,124,907**
At 31 December 2015	**5,347,085**	**-**	**5,347,085**	**216,421**	**-**	**-**	**5,130,664**
Financial assets Derivatives (Note 23)	9,524	-	9,524	-	-	-	9,524
Customer accounts at amortised cost	5,752,328	-	5,752,328	318,777*	-	-*	5,433,551
At 31 December 2014	5,761,852	-	5,761,852	318,777*	-	-*	5,443,075

*2014 amounts not offset in the balance sheet, disclosed in the 2014 Financial Statements as cash collateral, have been restated as Financial Instruments following an internal review.

Financial Liabilities

	Gross amounts £'000	Amounts offset £'000	Amounts reported in the balance sheet £'000	Amounts not offset in the balance sheet: Financial Instruments £'000	Amounts not offset in the balance sheet: Non-cash collateral £'000	Amounts not offset in the balance sheet: Cash collateral £'000	Net amount £'000
Financial liabilities							
Derivatives (Note 23)	**8,614**	**-**	**8,614**	**-**	**-**	**-**	**8,614**
Customer accounts at amortised cost	**4,618,224**	**-**	**4,618,224**	**216,421**	**-**	**-**	**4,401,803**
At 31 December 2015	**4,626,838**	**-**	**4,626,838**	**216,421**	**-**	**-**	**4,410,417**
Financial liabilities							
Derivatives (Note 23)	87,980	-	87,980	-	-	-	87,980
Customer accounts at amortised cost	4,862,634	-	4,862,634	318,777	-	-	4,543,857
At 31 December 2014	4,950,614	-	4,950,614	318,777	-	-	4,631,837

26 Management of financial risk

All of the Entity's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Entity as a going concern.

a) Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Entity fails to meet a payment obligation under a contract.

Within the overall framework of the HSBC Group policy, the Entity 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 Entity 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 identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Entity's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

I. Maximum exposure to credit risk

	2015			2014		
	Maximum exposure £'000	Offset £'000	Exposure to credit risk (net) £'000	Maximum exposure £'000	Offset £'000	Exposure to credit risk (net) £'000
Cash and balances at central banks	910	-	910	1,226	-	1,226
Derivatives	5,757	-	5,757	9,524	-	9,524
Loans and advances at amortised costs	6,000,062	216,421	5,783,641	5,785,411	318,777	5,466,634
Other assets	157,863	-	157,863	300,358	-	300,358
Financial guarantees	72,259	-	72,259	86,533	-	86,533
Loan commitments	715,672	-	715,672	454,323	-	454,323
At at 31 December	6,952,523	216,421	6,736,102	6,637,375	318,777	6,318,598

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 9). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the Entity's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

III. Credit quality

The 5 credit quality classification defined below each encompass a range of more granular, internal credit rating grades, as well as external rating.

	Debt securities and other bills	Lending
Quality classification	**External credit rating**	**Internal credit rating**
Strong	A- and above	CRR1 to CRR2
Good	BBB+ and BBB-	CRR3
Satisfactory	BB+ and B and unrated	CRR4 to CRR5
Sub-standard	B- and below	CRR6 to CRR8
Impaired	Impaired	CRR9 to CRR10

The five classifications below describe the credit quality of the Entity'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.
- Good: exposures require closer monitoring and demonstrate good capacity to meet financial commitments, with low default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- Satisfactory: exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with a moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minor 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 as impaired.

	2015							
	Neither past due nor impaired							
		Medium						
	Strong	Good	Satis-factory	Sub-Standard	Past due not impaired	Impaired	Impairment Allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	910	-	-	-	-	-	-	910
Derivatives	1,668	4,089	-	-	-	-	-	5,757
Loans and advances to banks	658,740	-	-	-	-	-	-	658,740
Loans and advances to customers	580,583	2,446,767	1,890,680	209,212	-	216,817	(55,970)	5,288,089

	2014							
	Neither past due nor impaired							
		Medium						
	Strong	Good	Satis-factory	Sub-Standard	Past due not impaired	Impaired	Impairment Allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	1,226	-	-	-	-	-	-	1,226
Derivatives	8,488	1,036	-	-	-	-	-	9,524
Loans and advances to banks	32,960	123	-	-	-	-	-	33,083
Loans and advances to customers	406,307	2,579,011	2,315,397	241,916	-	213,629	(57,073)	5,699,183
Financial investments	925,769	-	-	-	-	-	-	925,769

IV. Impaired loans and advances

Impaired loans and advances are those that meet any of the following criteria:

- Wholesale loans and advances classified as Customer Risk Rating ('CRR') 9 or CRR 10. These grades are assigned when the bank considers that either the customer is unlikely to pay its credit obligations in full, without recourse to security, or when the customer is more than 90 days past due on any material credit obligation to the Entity.
- Retail loans and advances classified as Expected Loss ('EL') 9 or CRR 10. These grades are assigned to retail loans and advances greater than 90 days past due unless individually they have been assessed as not impaired.

Impaired loans and advances to customers by industry sector:

	2015			2014		
	Individually assessed £'000	**Collectively assessed £'000**	**Total £'000**	Individually assessed £'000	Collectively assessed £'000	Total £'000
Impaired loans & advances to customers						
Personal	**131,238**	**-**	**131,238**	109,844	-	109,844
Corporate and commercial	**85,383**	**-**	**85,383**	103,785	-	103,785
Financial	**196**	**-**	**196**	204	-	204
As at 31 December	**216,817**	**-**	**216,817**	213,833	-	213,833

The existence of collateral has an effect when calculating impairment on individually assessed impaired loans. When we no longer expect to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for impairment. If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for an impairment allowance. No impairment allowance is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

V. Renegotiated loans and forbearance

The Entity may renegotiate the terms and conditions of a loan for a number of reasons, including changing market conditions, customer retention and other reasons not related to the credit condition of a customer. Under certain circumstances, the Entity may renegotiate the terms and conditions of a loan in response to actual or perceived financial difficulties of a customer; this practice of renegotiation for credit purposes is known as forbearance.

A range of forbearance strategies are employed in order to improve the management of customer relationships, maximise collection opportunities and, if possible, avoid default, foreclosure or repossession. The policies and practices are based on criteria which, in the judgement of local management, indicate that repayment is likely to continue.

Forbearance strategies include extended payment terms, a reduction in interest or principal repayments, approved external debt management plans, debt consolidations, the deferral of foreclosure, and other forms of loan modifications and re-ageing. These management policies and practices typically provide the customer with terms and conditions that are more favourable than those provided initially. Such arrangements could include cases where an account is brought up-to-date without full repayment of all arrears.

Loan forbearance is only granted in situations where the customer has showed a willingness to repay the borrowing and is expected to be able to meet the revised obligations. From this point forward, the Entity discloses loan forbearance as 'renegotiated loans', which represent concessions granted which the Entity would not normally consider as a result of financial difficulties of a customer.

The following table shows the Entity's holdings of renegotiated loans and advances to customers by industry sector and credit quality classification:

	At 31 December 2015				At 31 December 2014			
	Neither past due nor impaired £'000	**Past due but not impaired £'000**	**Impaired £'000**	**Total £'000**	Neither past due nor impaired £'000	Past due but not impaired £'000	Impaired £'000	Total £'000
Retail	51,628	-	95,455	147,083	54,334	-	93,083	147,417
Residential Mortgages	34,776	-	66,871	101,647	37,705	-	67,857	105,562
Other personal	16,852	-	28,584	45,436	16,629	-	25,226	41,855
Commercial real estate	101,589	-	59,104	160,693	140,975	-	49,641	190,616
Corporate and commercial	2	-	2,558	2,560	10	-	7,528	7,538
Financials	-	-	193	193	7	-	201	208
Other	-	-	364	364	-	-	388	388
	153,219	-	157,674	310,893	195,326	-	150,841	346,167
Impairment allowance on renegotiated loans			(31,644)					(32,623)
-renegotiated loans and advances as % of total gross loans			6%					6%

VI. Collateral and other credit enhancements

The Entity 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 Entity's practice to lend on the basis of the customer's ability to meet their obligations out of cash from resources rather than rely on the value of security offered.

The principal collateral types are as follows:

- In the personal sector, mortgages over residential properties, cash and securities;
- 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	2015 £'000	2014 £'000
Other property*	1,285,066	2,736,293
Residential property	2,432,792	2,319,522
Lombard	243,138	-
Other**	1,029,102	574,731
Unsecured	351,230	121,782
Gross loan and advances to customers	5,341,328	5,752,328

**Other property is predominantly UK residential investment property and UK commercial investment property.*

***Other collateral includes charges over marketable investments such as stocks, shares and bonds, hold covered guarantees and charges over music rights and other assets.*

Collateral held is analysed separately for commercial real estate, for other corporate and commercial and financial (non-bank) lending and residential mortgage lending.

Commercial real estate loans and advances by level of collateral:

	2015 £'000	2014 £'000
Rated CRR 1 to 7		
Not collateralised	9,557	13,071
Fully collateralised	1,731,986	2,282,078
Partially collateralised	7,061	35,169
-collateral value	5,883	31,590
Rated CRR 8 to 10		
Not collateralised	332	-
Fully collateralised	137,443	103,271
LTV ratio less than 50%	7,260	7,668
51% to 75% LTV	111,028	69,518
76% to 90% LTV	9,656	13,568
91% to 100% LTV	9,499	12,517
Partially collateralised greater than 100% LTV	12,887	14,669
-Collateral value	8,180	9,876
At 31 December	1,899,266	2,448,258

Other corporate, commercial and financial (non-bank) loans and advances by level of collateral rated CRR/ EL 8 to 10 only:

	2015 £'000	2014 £'000
Not collateralised	-	37
Fully collateralised	8,838	16,645
LTV ratio less than 50%	8,406	5,553
51% to 75% LTV	432	5,231
76% to 90% LTV	-	-
91% to 100% LTV	-	5,861
At 31 December	8,838	16,682

Residential mortgage lending

The table below show residential mortgage lending by level of collateral. The LTV ratio is calculated as the gross on-balance sheet carrying amount of the loan and any off- balance sheet loan commitment at the balance sheet date divided by the value of collateral. The value of collateral is determined using professional valuations and house prices indices.

	2015 £'000	2014 £'000
Non-impaired loans and advances		
Fully collateralised	2,337,065	2,425,430
Less than 50% LTV	742,090	796,209
51% to 75% LTV	1,364,975	1,467,389
76% to 90% LTV	182,814	116,161
91% to 100% LTV	47,186	45,671
Partially collateralised		
greater than 100% LTV	104,372	56,580
-Collateral value	75,710	33,682
Impaired loans and advances		
Fully collateralised	83,189	68,229
Less than 50% LTV	5,855	10,012
51% to 75% LTV	55,308	47,563
76% to 90% LTV	6,365	7,115
91% to 100% LTV	15,661	3,539
Partially collateralised		
greater than 100% LTV	11,464	12,515
-Collateral value	7,110	7,726
At 31 December	2,536,090	2,562,754

VII. Impairment of loans and advances

The tables below analyses the loan impairment charges for the year and the impairment allowances recognised for impaired loans and advances that are either individually assessed or collectively assessed, and collectively impairment allowances on loans and advances classified as not impaired.

Movement in impairment allowances on loans and advances to customers

	2015 Individually assessed £'000	2015 Collectively assessed £'000	2014 Individually assessed £'000	2014 Collectively assessed £'000
At 1 January	46,714	10,359	58,281	23,269
Amounts written off	(9,537)	-	(16,755)	-
Recoveries of amounts written off in previous years	(51)	-	-	-
New allowances net of allowance releases	7,244	1,811	5,953	(12,910)
Exchange and other movements	(570)	-	(765)	-
As at 31 December	43,800	12,170	46,714	10,359

The existence of collateral has an effect when calculating impairment on individually assessed impaired loans. When we no longer expect to recover the principal and interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for impairment.

If exposures are secured, the current net realisable value of the collateral will be taken into account when assessing the need for an impairment allowance. No impairment allowance is recognised in cases where all amounts due are expected to be settled in full on realisation of the security.

b) Liquidity risk management

Liquidity risk is the risk that the Entity does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost.

Approximately 84% of the bank's asset base is sterling-based with the remainder mostly denominated in Euros and US Dollars. The Entity funds its sterling asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent Entity, HSBC Bank plc. Surplus balances in other currencies are usually placed with HSBC Bank plc or other HSBC Entity entities.

The Entity is part of the Defined Liquidity Company ('DLG') of HSBC Bank plc. The Entity has therefore no direct obligation to fulfil the liquidity requirement of the PRA. Instead, the liquid assets of the Entity support the wider liquidity buffer of the DLG. The Entity is also part of the internal liquidity control and management structure of HSBC Bank plc.

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 three months. Target and trigger liquidity ratios are set for the Entity by HSBC Bank plc.

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

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Assets							
Cash and balances with central banks	910	-	-	-	-	-	910
Derivatives	293	3,761	164	973	566	-	5,757
Loans and advances to banks	651,748	-	6,992	-	-	-	658,740
Loans and advances to customers	1,263,054	578,763	1,013,600	2,208,019	224,653	-	5,288,089
Other assets	-	133,344	-	-	-	-	133,344
Accrued income and other financial assets	6,153	20,752	-	-	-	-	26,905
Non-financial assets	-	-	-	-	-	404,501	404,501
Total as at 31 December 2015	1,922,158	736,620	1,020,756	2,208,992	225,219	404,501	6,518,246

31 December 2015	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Liabilities and Equity							
Deposits by banks	441,732	-	-	-	-	-	441,732
Customer accounts	4,285,868	123,931	60,895	143,783	3,747	-	4,618,224
Derivatives	1,406	3,749	609	2,236	614	-	8,614
Accruals and other financial liabilities	2,499	43,708	-	-	-	16,910	63,117
Subordinated liabilities	-	-	55,241	26,988	-	-	82,229
Provisions	-	-	-	-	-	4,159	4,159
Non-financial liabilities	-	16,092	-	-	-	570	16,662
Equity	-	-	-	-	-	1,283,509	1,283,509
Total as at 31 December 2015	4,731,505	187,480	116,745	173,007	4,361	1,305,148	6,518,246

31 December 2014	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Assets							
Cash and balances with central banks	1,226	-	-	-	-	-	1,226
Derivatives	3,246	3,421	334	376	2,147	-	9,524
Loans and advances to banks	24,415	-	8,668	-	-	-	33,083
Loans and advances to customers	1,416,898	667,425	1,266,244	2,175,511	254,863	(81,550)	5,699,391
Financial investments	64,180	-	154,502	171,995	535,092	-	925,769
Other assets	-	287,011	-	-	-	-	287,011
Accrued income and other financial assets	-	41,666	73	92	(102)	-	41,729
Non financial assets	-	-	-	-	-	403,106	403,106
Total as at 31 December 2014	1,509,965	999,523	1,429,821	2,347,974	792,000	321,556	7,400,839

31 December 2014	On demand £000's	Due within 3 months £000's	Due between 3-12 months £000's	Due between 1-5 years £000's	Due after 5 years £000's	Undated £000's	Total £000's
Liabilities and Equity							
Deposits by banks	338,647	-	300,000	400,000	-	-	1,038,647
Customer accounts	4,268,898	91,718	339,917	137,945	24,156	-	4,862,634
Derivatives	622	2,359	4,492	4,297	76,210	-	87,980
Accruals and other financial liabilities	52	40,174	31,933	5,267	3	-	77,429
Subordinated liabilities	-	-	15,000	79,909	-	-	94,909
Provisions	-	-	-	-	-	2,235	2,235
Non financial liabilities	-	20,574	-	-	-	-	20,574
Equity	-	-	-	-	-	1,216,431	1,216,431
Total as at 31 December 2014	4,608,219	151,379	707,369	627,418	100,369	2,064,682	7,400,839

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

	On demand £'000	Due within 3 months £'000	Due between 3-12 months £'000	Due between 1-5 years £'000	Due after 5 years £'000	Total £'000
At 31 December 2015						
Deposits by banks	**441,732**	**-**	**-**	**-**	**-**	**441,732**
Customer accounts	**3,864,046**	**581,036**	**66,446**	**164,666**	**2,732**	**4,678,926**
Subordinated liabilities	**-**	**-**	**-**	**83,755**	**-**	**83,755**
	4,305,778	**581,036**	**66,446**	**248,421**	**2,732**	**5,204,413**

	On demand £'000	Due within 3 months £'000	Due between 3-12 months £'000	Due between 1-5 years £'000	Due after 5 years £'000	Total £'000
At 31 December 2014						
Deposits by banks	338,647	-	302,840	404,100	-	1,045,587
Customer accounts	3,519,294	841,437	340,592	158,249	29,900	4,889,472
Subordinated liabilities	-	-	-	97,381	-	97,381
	3,857,941	841,437	643,432	659,730	29,900	6,032,440

c) Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates or equity and commodity prices will impact the Entity's income or the value of its portfolios.

The Entity's objective is to manage and control market rate exposures while maintaining a market profile consistent with its risk appetite.

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

Disclosures on market price risk, foreign exchange risk and interest rate risk are provided below.

Market price risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the Entity's income or the value of its portfolios.

The Entity uses Value at risk ('VAR') to monitor and limit market risk exposures. VAR is a technique that estimates the potential losses on risk positions in a portfolio as a result of movement in market rates and prices over a specified time horizon and to a given level of confidence. The VAR model is based predominantly on historical simulation. This model derives plausible future scenarios from past series of recorded market rates and prices, taking into account inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

VAR measures in the table below are calculated to a 99% confidence level and use a one-day holding period.

	2015 £'000	2014 £'000
Value at Risk		
At 31 December	**45**	1,663
Average	**333**	2,133
Minimum	**45**	1,663
Maximum	**1,116**	2,883

The nature of VAR models means that an increase in observed market volatility will lead to an increase in VAR without any changes in the underlying positions. Although a valuable guide to risk, VAR should always be viewed in the context of limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of one-day holding period assumes that all positions can be liquidated or the risks offset in one day;
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.

Foreign exchange risk

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

	2015 £'000	2014 £'000
Sterling	**279,143**	662,466
Euro	**(102,735)**	119,146
US dollars	**(119,637)**	(634,834)
Others, each less than £50 million	**(56,771)**	(146,778)
Total	**0**	0

Interest rate risk

Interest rate risk is managed internally by monitoring the sensitivity of the fair value of the Entity's assets and liabilities to a 0.01% shift in yield curves (the present value of a basis point or 'PVBP'). At 31 December 2015 the Entity's risk as measured by PVBP was £25,402 (2014: £35,632). PVBP is the change in the present value of future cash flows and not recognised as an immediate gain or loss in the Income Statement.

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 2015. 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 2015	Not more than 3 months £'000	Between 3 and 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Loans & advances to banks	651,748	-	6,992	-	-	-	658,740
Loans & advances to Customers	2,735,401	2,149,107	107,394	344,665	6,272	(54,750)	5,288,089
Other assets	137,395	-	-	-	-	434,022	571,417
Total Assets	3,524,544	2,149,107	114,386	344,665	6,272	379,272	6,518,246
Liabilities							
Deposits by banks	441,732	-	-	-	-	-	441,732
Customer accounts	4,409,796	40,983	19,912	143,783	2,013	1,737	4,618,224
Other liabilities	-	-	-	-	-	92,552	92,552
Subordinated liabilities	-	-	55,241	26,988	-	-	82,229
Shareholders' equity	-	-	-	-	-	1,283,509	1,283,509
Total equity and liabilities	4,851,528	40,983	75,153	170,771	2,013	1,377,798	6,518,246
Notional value:							
Interest rate swaps	217,316	-	(24,189)	(169,776)	(23,351)	-	-
Interest rate sensitivity gap	(1,109,668)	2,108,124	15,044	4,118	(19,092)	-	-
Cumulative interest rate sensitivity gap	(1,109,668)	998,456	1,013,500	1,017,618	998,526	-	-

31 December 2014	Not more than 3 months £'000	Between 3 and 6 months £'000	Between 6 months and 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Non-interest bearing £'000	Total £'000
Assets							
Loans & advances to banks	24,415	8,668	-	-	-	-	33,083
Loans & advances to Customers	3,488,888	1,772,049	117,899	359,319	15,336	(54,100)	5,699,391
Other assets	65,406	287,011	154,502	171,995	535,092	454,359	1,668,365
Total Assets	3,578,709	2,067,728	272,401	531,314	550,428	400,259	7,400,839
Liabilities							
Deposits by banks	338,647	-	300,000	400,000	-	-	1,038,647
Customer accounts	4,360,618	260,946	78,970	137,944	21,616	2,540	4,862,634
Other liabilities	-	-	-	-	-	188,218	188,218
Subordinated liabilities	-	-	15,000	79,909	-	-	94,909
Shareholders' equity	-	-	-	-	-	1,216,431	1,216,431
Total equity and liabilities	4,699,265	260,946	393,970	617,853	21,616	1,407,189	7,400,839
Notional value:							
Interest rate swaps	1,137,681	(17,217)	(198,748)	(415,369)	(506,347)	-	-
Interest rate sensitivity gap	17,125	1,789,565	(320,317)	(501,908)	22,465	-	-
Cumulative interest rate sensitivity gap	17,125	1,806,690	1,486,373	984,465	1,006,930	-	-

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.

27 Legal proceedings and regulatory matters

The Entity is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the Entity considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 15. Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

In August 2013, a claim was filed in the High Court of Zimbabwe against the Entity and HSBC Bank plc. The claimant alleged that the HSBC parties caused it loss by making a regulatory notification in relation to one of the Company's customer's accounts and by failing to respond to enquiries following the filing of the notification. A claim against the Entity relating to the same facts was dismissed by the High Court of England and Wales in 2012. The proceedings in the High Court of Zimbabwe are ongoing.

In March 2014, a claim was filed in the High Court of England and Wales against the Entity, HSBC Private Bank (Monaco) SA and HSBC Holdings plc. The claimant alleged that the Entity and HSBC Holdings plc had failed to properly investigate the claimant's complaints in respect of an alleged misselling of certain products by HSBC Private Bank (Monaco) SA. The court has dismissed the claim against HSBC Private Bank (Monaco) SA on jurisdictional grounds. The proceedings against the Entity and HSBC Holdings plc are ongoing.

In September 2014, a claim was filed in the High Court of England and Wales against the Entity, HSBC Bank plc and 13 other non-HSBC parties. The claimant alleged that the HSBC parties had misrepresented the identity of an HSBC customer with whom they claim to have entered into certain business arrangements. Previous proceedings commenced separately by the claimant directly against the HSBC customer were dismissed in February 2014. The proceedings against the HSBC entities are ongoing.

Between March 2015 and November 2015, a number of claims were filed in the High Court of England and Wales against the Entity (in four separate sets of proceedings) alleging breaches of duty by the Company in the provision of historic services relating to the participation by the claimants in certain film finance transactions. These proceedings are at an early stage.

Based on the facts currently known, it is not practicable at this time for HSBC to predict the resolution of these lawsuits, including the timing or any possible impact on HSBC, which could be significant.

28 Related party transactions

a) Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity and includes members of the Board of Directors.

Compensation of Key Management Personnel

The following represents the compensation for Directors and other Key Management Personnel of the Entity in exchange for services rendered to the Entity for the period they served during the year.

	2015	2014
	£'000	£'000
Short-term employee benefits	**937**	933
Post-employment benefits	**67**	83
Other long-term benefits	**170**	170
Share-based payments	**573**	498

Shareholdings and options of Directors and other key Management Personnel

	Balance at 31 December 2015	Balance at 31 December 2014
Number of HSBC Holdings plc shares held by Directors and other key management personnel beneficially	103,458	88,772

Transactions, arrangements and agreements including Directors and other Key Management Personnel.

There are no transactions which fall to be disclosed under IAS24 'Related Party Disclosures' between the Entity and the Key Management Personnel.

b) Transactions with other related parties

Transactions detailed below include amounts due to/from HSBC Bank plc.

	2015		2014	
	Highest balance during the year[1] £'000	Balance at 31 December[1] £'000	Highest balance during the year[1] £'000	Balance at 31 December[1] £'000
Assets				
Derivatives	18,639	1,668	18,433	7,945
Loans and advances to banks	760,618	379,737	278,212	14,680
Other assets	151,644	83,872	233,414	224,889
Liabilities				
Deposits by banks	-	-	350,014	338,647
Derivatives	95,502	7,852	98,414	87,031
Other liabilities	9,662	9,662	10,987	7,957

	2015 £'000	2014 £'000
Income statement		
Interest income	2,163	1,878
Interest expense	593	1,322
Fee income	184	-
Fee expense	2,550	1,996
General and administrative expenses	26,230	26,952

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

Transactions detailed below include amounts due to/from HSBC Bank (C.I) Ltd.

	2015		2014	
	Highest balance during the year[1] £'000	**Balance at 31 December £'000**	Highest balance during the year[1] £'000	Balance at 31 December £'000
Assets				
Other assets	**33,350**	**5,293**	5,456	5,456
Liabilities				
Deposits by banks	**985,970**	**441,732**	725,068	700,000

	2015 £'000	2014 £'000
Income statement		
Interest income	**422**	101
Interest expense	**6,819**	5,399
Fee income	**4,045**	5,156
Fee expense	**381**	2,865
Other operating income	**596**	-
General and administrative expenses	**30**	234

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

Transactions detailed below include amounts due to/from Other Group Companies.

	2015		2014	
	Highest balance during the year[1] £'000	**Balance at 31 December £'000**	Highest balance during the year[1] £'000	Balance at 31 December £'000
Assets				
Loans and advances to banks	**367,008**	**271,965**	39,158	9,620
Other assets	**41,381**	**38,793**	9,620	29,557
Liabilities				
Subordinated amounts due	**97,332**	**82,229**	119,514	94,909
Other liabilities	**16,135**	**7,247**	12,276	12,945

1 The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

	2015 £'000	2014 £'000
Income statement		
Interest expense	**1,209**	8,790
Fee income	**7,190**	7,387
Other operating income	**27,617**	25,356
General and administrative expenses	**12,048**	12,330

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.

29 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Bank plc. All companies are registered in England and Wales.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square
London
E14 5HQ
www.hsbc.com

30 Events after the balance sheet date

There are no significant events after the balance sheet date.