HSBC Private Bank (UK) Limited
Registered No: 499482

Annual Report and Financial Statements for the year ended 31 December 2017

HSBC

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Reports and Financial Statements for the year ended 31 December 2017

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Principal activities
HSBC Private Bank (UK) Limited ('the Entity') is a private company incorporated in England and Wales, United Kingdom. Its trading address is 8 Canada Square, London E14 5HQ.

HSBC Private Bank (UK) Limited 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
As part of the HSBC Group the entity leverages, the strength of HSBC Group and the most suitable products from the marketplace, to provide our clients with solutions to grow, manage and preserve wealth for today and for the future. The Entity continues to simplify and improve the way it conducts its business, including complying with HSBC Global Standards (financial crime compliance measures and controls), customer due diligence and tax transparency standards.

During 2017, the Entity continued to make satisfactory progress delivering on the strategic decisions to reposition the Entity. Over the past year the Entity has continued to grow assets under management and associated revenues in its target client base. In line with strategy this has been driven by an increase in referrals from existing HSBC Group clients. Part of the Entity's repositioning has seen a reduction of assets under management from customers in non-core markets and products.

In line with Group strategy and with Board approval, HSBC Private Bank (UK) Limited transferred 100% of its subsidiary HSBC Private Bank (C.I) Limited to HSBC Bank Plc during the year to support the Group's ring-fenced bank requirements.

Implementation and operationalisation of the ServCo group
HSBC Group has started making changes to its corporate structure to mitigate or remove critical inter-dependencies to further facilitate the resolution of the Group. In particular, to remove operational dependencies (where one subsidiary bank provides critical service to another), the Group is in the process of transferring critical services from subsidiary banks to a separately incorporated group of service companies ('ServCo group').

In 2015 and 2016, to progress implementation, 315 employees performing shared services in the UK were transferred from the Entity 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.

Following the transfer of employees, the ServCo group in the UK has started providing services to the Entity. From 1 July 2016, the Entity recognises a management charge for the services provided by ServCo group instead of staff compensation. The implementation process is expected to complete during 2018.

Performance
The Entity's results for the year under review are as detailed in the income statement shown on page 14 of these financial statements.

Profit for the year in 2017 of £18,552,000 was 65% lower than in 2016 (£54,598,000). Operating income before loan impairment charges and other credit risk provision was £176,302,000 in 2017, 18% lower than 2016 (£214,202,000). Net interest income is lower by £18,737,000 versus 2016 primarily driven by lower interest rates offset by a decrease in liquidity premiums on the deposit portfolio. The reduction in net fee income of £20,406,000 is due to the transfer of the HSBC Global Asset Management's discretionary wealth management business segment out of the entity as part of the strategic restructuring of the group. In addition loan impairments charges were £10,431,000 in 2017 versus a recovery of £5,854,000 in 2016. This was driven by a single loan impairment related to a legacy lending relationship within the portfolio that is being exited. Operating expenses in 2017 were £140,132,000, a 3% decrease versus 2016 (£144,929,000), with a continued reallocation of expenses between employee compensation and administrative expenses driven by the operationalisation of the Servco Group.

Business Position

Assets were £7,011,119,000 in December 2017 versus £6,243,641,000 in December 2016, a 12% increase. This was due to an increase from £855,429,000 as at December 2016 to £2,438,975,000 as at December 2017 of intercompany lending to the Group. Liabilities were £6,407,362,000 as at December 2017 versus £5,530,415,000 as at December 2016, a 16% increase. The primary driver of the liability increase is the 13% growth in customer accounts from £5,368,164,000 in 2016 to £6,045,228,000 in 2017.

Total equity of the Entity decreased by £109,469,000 to £603,757,000 at 31 December 2017 (31 December 2016: £713,226,000) mainly due to the payment of dividends during the year (£128,000,000).

Total Assets under management (including cash deposits) has increased to £9,080,113,000 at 31 December 2017 (31 December 2016: £6,728,816,000). This increase is in line with the Entity's strategy to build a more balanced portfolio of wealth management products.

Key performance indicators

The Directors use Key Performance Indicators ('KPI's) 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

	2017	2016
Profit before tax (£'000)	**25,739**	75,127
Total Risk-Weighted Assets (£'000)	**2,118,847**	2,272,064
Pre-tax return on risk-weighted assets (%)	**1%**	3%
Common equity tier 1 (%)	**28%**	29%
Cost efficiency ratio (%)	**79%**	68%
Ratio of customer advances to customer accounts (%)	**1.04**	1.34

Profit before tax of £25,739,000 in 2017 was 66% lower than in 2016 (£75,127,000). The main drivers being a lower interest rate environment leading to lower net interest income and the single impairment of a legacy lending relationship.

Pre-tax return on average risk-weighted assets is measured as pre-tax profit divided by average risk weighted assets. The reduction from 3% in 2016 to 1% in 2017 was driven by a profit reduction as risk-weighted assets remained stable.

Core tier 1 capital comprises shareholders' equity and non-controlling interest less regulatory deductions and adjustments. The Entity maintains a capital base of 28% in 2017 to support the development of its business and meet regulatory capital requirements at all times.

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

Ratio of customer 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. The reduction from 1.34 in 2016 to 1.04 in 2017 reflects the continued strong growth in customer accounts in line with the continued growth in Assets under management (including cash deposits) as the entity builds a more balanced portfolio of wealth products.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, and liquidity risk. These risks, the exposure to such risks and management of risk are set out in Note 29 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 objective of the Entity's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Entity's risk appetite, as proposed by the Risk Management Committee set by the Board.

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, the Entity continues to be a target of cyber-attacks, which in some cases, the intention of these attacks are to disrupt services including the availability of the Entity's external facing websites, compromise organisations and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

The security of the Entity's information and technology infrastructure is crucial for maintaining the Entity's banking application process and protecting the Entity's customers and the HSBC brand.

On behalf of the Board

C D Allen
Director

20 February 2018

8 Canada Square
London E14 5HQ

Directors

The Directors who served during the Year were as follows:

Name	Appointed
J E Trueman	01 April 2013
C D Allen	20 August 2012
P Tremble	27 March 2012
P W Boyles	18 April 2016
J R Paterson	03 October 2016
D Stewart	02 June 2016

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

A dividend was declared by the Directors during the year ended 31 December 2017 for £128,000,000 (2016: £625,000,000)

Significant events since the end of the financial year

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

Future developments

The Entity's activities are expected to be divisionalised as part of HSBC UK plc in 2019.

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 risk management

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 29 of the Notes on 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 [Audited]

The Entity defines capital as total shareholders' equity. It is Entity's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Entity's approach to capital management during the year.

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.

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.

The PRA is the supervisor of the Entity. The PRA sets capital requirements and receives information on the capital adequacy of the Entity. Noting the exception in January 2017 in respect to large exposure limits, the Entity complied with the PRA's capital adequacy requirements throughout 2017. 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 CRD IV legislation into UK requirements.

Regulatory capital

The Entity's 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. Currently the Entity has no Tier 2 capital.

The calculation of actual capital is shown below:

	2017 £'000	2016 £'000
Tier 1 capital [Audited]		
Shareholders' equity	**603,757**	713,226
Regulatory adjustments to the accounting basis		
Deductions		
- Excess expected losses over impairment allowances	**(18,387)**	(51,639)
Common equity tier 1	**585,370**	661,587
Deductions		
- Unconsolidated investments	**-**	(220,598)
Tier 1 capital	**585,370**	440,989
Total regulatory capital	**585,370**	440,989
Risk-weighted assets [Not audited]		
Credit and counterparty risk	**1,768,503**	1,912,881
Market risk	**3,844**	4,059
Operational risk	**346,500**	355,124
Total	**2,118,847**	2,272,064
Capital ratios (%)		
Common equity tier 1 ratio	**27.63**	29.12
Tier 1 ratio	**27.63**	19.41
Total capital ratio	**27.63**	19.41

Independent Auditors

PricewaterhouseCoopers LLP ('PwC') is external auditors to the Entity. PwC has expressed its willingness to continue in office and the Board recommends PwC be re-appointed as the Entity's auditors.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Entity will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Entity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Entity's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Entity's performance, business model and strategy.

Each of the directors, whose names and functions are listed in Report of the Directors confirm that, to the best of their knowledge:

- the Entity financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Entity; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Entity, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Entity's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Entity's auditors are aware of that information.

On behalf of the Board

C D Allen
Director
20 February 2018
8 Canada Square London E14 5HQ

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Entity's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Entity.

We have provided no non-audit services to the Entity in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality	• Overall materiality: £5.9m, based on 1% of Regulatory Capital 2016: £3.9 based on 5% of Profit before tax.
Audit scope	• The Entity comprises one legal entity in the UK.
Key audit matters	• Impairment of loans and advances to customers. • Litigation provisions relating to film finance transactions. • IT Access management.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We focused on laws and regulations that could give rise to a material misstatement in the Entity's financial statements, including but not limited to, the Companies Act 2006; the Financial Conduct Authority regulations and the Prudential Regulation Authority's regulations. Our tests included, but were not limited to, inspecting correspondence with regulators, discussions with legal counsel and testing of areas of significant risk.

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

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Impairment of loans and advances to customers Impairment allowances represent the Entity's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on a collective basis for portfolios of loans of a similar nature and on an individual basis for significant loans. The calculation of both collective and individual impairment allowances is inherently judgemental for any bank. Collective impairment allowances are calculated using models which approximate the impact of current economic and credit conditions on large portfolios of loans. The inputs to these models are based on historical loss experience with judgement applied to determine the assumptions used to calculate impairment. For specific impairments, judgement is required to determine when an impairment event has occurred and then to estimate the expected future cash flows related to that loan. The audit was focused on impairment due to the subjective nature of the impairment calculations and the relative size of the loans carried on the statement of financial position compared to materiality.	Our audit procedures in relation to impairment included: - Understanding and testing the controls around the identification of impaired loans and the review, challenge and approval of key judgements and assumptions; - Testing the controls over the annual loan review process, the compilation and review of the credit watch list, approval of external collateral valuation vendors, approval of significant individual impairments; - Testing a sample of loans as at year end using a risk-based sampling methodology directed at those loans which we consider to represent the highest credit risk; - Testing a sample of loans from the remaining "good book"; - Testing collective impairment modelling policy, methodology and model calculations as a basis for estimating collective provisioning. We are satisfied that our audit procedures have been appropriately planned and performed. We have found management's judgements and assumptions to be reasonable and appropriate.

Litigation provisions relating to film finance transactions

The determination of when and how to recognise litigation provisions is highly judgemental and the exposure of the banking industry to claims is high. In prior years judgement has been required around the exposure to claims made by parties in relation to film financing transactions and these remain open in the financial year ended 31 December 2017.

We have determined this to be an area of audit focus.

Our audit procedures in relation to film finance related provisions included:

- Understanding and testing of controls around identification and assessment of current legal and regulatory related provisions.
- Testing completeness of litigation and regulatory claims through: Inspecting regulatory correspondence. Reviewing a sample of legal expenses to test completeness of litigation. Inspecting minutes of key governance meetings including Board minutes, Audit and Risk Committee minutes.
- Examining the case status for material open legal cases, including inquiring with internal counsel, and in certain instances, obtaining external legal counsel confirmations, in order to understand the legal provision and the basis of material risk positions.

We are satisfied that our audit procedures have been appropriately planned and performed. We have found management's judgements and assumptions to be reasonable and appropriate.

IT Access management

All banks are highly dependent on technology due to the significant number of transactions that are processed daily. The audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems.

It was identified that the entity's controls over individuals' access rights to operating systems, applications, and data used in the financial reporting process required improvement. Access rights are important as they ensure that changes to applications and data are authorised and made in an appropriate manner. Ensuring staff only have appropriate access, and that the access is monitored, are key controls to mitigate the potential for fraud or error as a result of a change to an application or underlying data.

The results of our work show an improvement of controls over infrastructure privileged access for systems relevant to our audit. By the end of the audit period, a number of controls had been implemented and operated effectively in the latter part of the year to address the critical operating system and database related matters previously reported. Management continue to progress the remaining issues including several relating to the management of business application access.

Our audit procedures in relation to IT access management included:

Testing access rights for applications, operating systems and databases relied upon for financial reporting. Specifically, testing that:

- new access requests for joiners are properly reviewed and authorised;
- user access rights are removed on a timely basis when an individual leaves or moves role;
- access rights to applications, operating systems and databases are periodically monitored for appropriateness; and
- Highly privileged access is restricted to appropriate personnel.

Other areas that were independently assessed included password policies, security configurations, controls over changes to applications and databases and that business users, developers and production support did not have access to change applications, the operating system or databases in the production environment.

As a consequence of deficiencies identified, a range of other procedures were performed:

- where inappropriate access was identified, understanding the nature of the access and obtaining additional evidence on the appropriateness of the activities performed;

- performing additional substantive testing on specific year-end reconciliations (i.e. bank account and suspense account reconciliations) and obtaining confirmations with external counterparties;
- obtaining a list of users' access permissions and manually comparing this to other access lists where segregation of duties was deemed to be of higher risk

We are satisfied that our audit procedures have been appropriately planned and performed.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Entity, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The Entity comprises one legal entity in the UK, in establishing the overall approach to the audit a key element of our audit involved assessing controls and processes to be tested in other HSBC Group and shared service centre locations. The HSBC Group engagement team performed audit procedures for our purposes, including the revaluation of trading inventory and testing of IT applications under our instruction.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£5.9m (2016: £3.9).
How we determined it	1% of Regulatory Capital.
Rationale for benchmark applied	We believe that capital resources is the appropriate benchmark considering that the Entity is a wholly owned subsidiary and the principal users of the financial statements.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £292,000 (2016: £196,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Entity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Entity's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Entity and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

In preparing the financial statements, the directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the Entity, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 15 July 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2015 to 31 December 2017.

Matthew Falconer (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
20 February 2018

Income statement for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest income		**122,755**	145,362
Interest expense		**(12,082)**	(15,952)
Net interest income	2	**110,673**	129,410
Fee and commission income		**39,658**	57,018
Fee and commission expense		**(13,232)**	(10,186)
Net fee income	2	**26,426**	46,832
Net trading income		**2,971**	3,839
Other operating income		**36,232**	34,121
Net operating income before loan impairment charges and other credit risk provision		**176,302**	214,202
Loan impairment (charges)/recovery and other credit risk provisions	2	**(10,431)**	5,854
Net operating income	2	**165,871**	220,056
Employee compensation and benefits	3	**(38,441)**	(65,456)
General and administrative expenses		**(101,057)**	(79,422)
Amortisation and impairment of intangible assets	14	**(634)**	(51)
Total operating expenses		**(140,132)**	(144,929)
Operating profit		**25,739**	75,127
Profit before tax		**25,739**	75,127
Tax expense	7	**(7,187)**	(20,529)
Profit for the year		**18,552**	54,598

Statement of comprehensive income for the year ended 31 December 2017

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2016: £nil).

The notes on pages 18 to 64 form an integral part of these financial statements.

Balance sheet as at 31 December 2017

	Note	**2017 £'000**	2016 £'000
Assets			
Cash and balances at central banks		**16,316**	7,563
Derivatives	*25*	**9,626**	12,175
Loans and advances to banks	*10*	**2,438,975**	855,429
Loans and advances to customers	*11*	**4,474,483**	4,565,629
Prepayments and accrued income		**17,228**	17,325
Investments in subsidiaries	*12*	**-**	401,360
Property, plant and equipment	*13*	**23**	23
Intangible assets	*14*	**9,092**	3,174
Deferred tax assets	*8*	**1,399**	1,612
Other assets	*15*	**43,977**	379,351
Total assets		**7,011,119**	6,243,641
Liabilities and equity			
Liabilities			
Deposits by banks		**-**	48,399
Customer accounts	*16*	**6,045,228**	5,368,164
Derivatives	*25*	**8,989**	15,746
Accruals, deferred income and other liabilities	*18*	**343,704**	58,986
Current tax liabilities	*7*	**6,813**	37,276
Provisions	*17*	**2,628**	1,844
Total liabilities		**6,407,362**	5,530,415
Equity			
Called up share capital	*19*	**176,910**	176,910
Share premium account		**404,636**	404,636
Retained earnings		**22,211**	131,680
Total equity		**603,757**	713,226
Total liabilities and equity		**7,011,119**	6,243,641

The notes on pages 18 to 64 form an integral part of these financial statements.

The financial statements on pages 14 to 17 were approved by the Board of Directors on 20 February 2018 and were signed on its behalf by:

C D Allen
Director

Statement of cash flows for the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**25,739**	75,127
Adjustments for:			
Non-cash items included in profit before tax	*20*	**12,268**	(4,689)
Change in operating assets	*20*	**(1,337,370)**	611,447
Change in operating liabilities	*20*	**982,602**	101,679
Elimination of exchange differences		**(2,843)**	(4,127)
Tax paid		**(37,167)**	-
Net cash (used in)/generated from operating activities		**(356,771)**	779,437
Cash flows from investing activities			
Proceeds from disposal of subsidiary		**401,360**	-
Net cash generated from investing activities		**401,360**	-
Cash flows from financing activities			
Subordinated liabilities repaid		**-**	(85,349)
Dividends paid to shareholders		**(128,000)**	(625,000)
Net cash used in financing activities		**(128,000)**	(710,349)
Net (decrease)/increase in cash and cash equivalents		**(83,411)**	69,088
Cash and cash equivalents brought forward		**822,285**	652,656
Effect of exchange rate changes on cash and cash equivalents		**(5,434)**	100,541
Cash and cash equivalents carried forward	*20*	**733,440**	822,285

The notes on pages 18 to 64 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2017

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2017	**176,910**	**404,636**	**131,680**	**713,226**
Profit for the year	**-**	**-**	**18,552**	**18,552**
Total comprehensive income for the year	**-**	**-**	**18,552**	**18,552**
Dividends to shareholders	**-**	**-**	**(128,000)**	**(128,000)**
Net impact of equity-settled share-based payments	**-**	**-**	**(50)**	**(50)**
Other movements	**-**	**-**	**29**	**29**
At 31 December 2017	**176,910**	**404,636**	**22,211**	**603,757**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	176,910	404,636	701,963	1,283,509
Profit for the year	-	-	54,598	54,598
Total comprehensive income for the year	-	-	54,598	54,598
Dividends to shareholders	-	-	(625,000)	(625,000)
Net impact of equity-settled share-based payments	-	-	134	134
Other movements	-	-	(15)	(15)
At 31 December 2016	176,910	404,636	131,680	713,226

The notes on pages 18 to 64 form an integral part of these financial statements.

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

1 Basis of preparation and significant accounting policies

The financial statements of the Entity have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Entity have been prepared in accordance with IFRSs as issued by the IASB, including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

There were no unendorsed standards effective for the year ended 31 December 2017 affecting these financial statements and the Entity's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2017

There were no new standards applied in 2017.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs in the 'Annual Improvements to IFRSs 2014-2016' and in a series of stand-alone amendments which are effective from 1 January 2018, but which have not yet been endorsed for use in the EU. The Entity expects they will have an insignificant effect, when adopted, on the financial statements.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments', IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. IFRS 9, IFRS 15 and IFRS 16 have 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 how these are managed (the Entity's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests will result in no differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39 for the Entity.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment 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, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of 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. IFRS 9 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. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Transition

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. IFRS 9 includes an accounting policy choice to continue IAS 39 hedge accounting, which the Entity has exercised, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial instruments: Disclosures'. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Entity does not intend to restate comparatives.

Adoption will reduce net assets at 1 January 2018 by £3,678,000 consisting of impairment reducing loans and advances to customers by £4,934,000 and increasing deferred tax assets by £1,256,000.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The Entity will adopt the standard on its mandatory effective date, and the standard will be applied on a modified retrospective basis, recognising the cumulative effect, if any, of initially applying the standard as an adjustment to the opening balance of retained earnings. The Entity has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the financial statements of the Entity.

(c) Foreign currencies

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

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(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 highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which Director's estimates are based. This would result in materially different conclusions from those reached by management for the purposes of these Financial Statements. Directors' selection of the Entity's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(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.

1.2 Summary of significant accounting policies

(a) Investments in subsidiaries

The Entity classifies investments in entities which it controls as subsidiaries. Where an entity is governed by voting rights, the Entity consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

The Entity's investments in subsidiaries are stated at cost less impairment losses.

(b) Valuation of financial instruments

All financial instruments are initially recognised 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, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Entity recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or HSBC enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Entity manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

(c) Financial instruments measured at amortised cost

Loans and advances to banks and customers, are measured at amortised cost unless in a hedging relationship. The carrying value of these financial instruments at initial recognition includes any directly attributable transaction costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan (as described in note 24) through the recognition of interest income, unless the loan becomes impaired.

Impairment of loans and advances

Losses for impaired loans are recognised when there is objective evidence that impairment of a loan portfolio has occurred. Losses which may arise from future events are not recognised.

Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, the importance of the individual loan relationship and how this is managed. Loans that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the Entity considers on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan is impaired.

The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses are calculated by discounting the expected future cash flows of a loan, which include expected future receipts of contractual interest, at the loan's original effective interest rate or an approximation thereof, and comparing the resultant present value with the loan's current carrying amount.

Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant, which are generally retail lending portfolios.

Incurred but not yet identified impairment

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the Entity has incurred as a result of events occurring before the balance sheet date that the Entity is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available that identifies losses on individual loans within a group, those loans are removed from the group and assessed individually.

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, 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 required payments have been received. Where collectively assessed loan portfolios include significant levels of renegotiated loans, these loans 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.

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 loans that arise following derecognition events will continue to be disclosed as renegotiated loans and are assessed for impairment as above.

Critical accounting estimates and judgements

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. Where changes in economic, regulatory or behavioural conditions result in the most recent trends in portfolio risk factors being not fully reflected in the statistical models, risk factors are taken into account by adjusting the impairment allowances derived solely from historical loss experience.

- Risk factors include loan portfolio growth, product mix, unemployment rates, bankruptcy trends, geographical concentrations, loan product features, economic conditions such as national and local trends in housing markets, the level of interest rates, portfolio seasoning, account management policies and practices, changes in laws and regulations, and other influences on customer payment patterns. Different factors are applied in different regions and countries to reflect local economic conditions, laws and regulations. The methodology and the assumptions used in calculating impairment losses are reviewed regularly in the light of differences between loss estimates and actual loss 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 determines 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 judgement and estimation uncertainty are involved in determining their effects on loan impairment allowances. Judgements are involved in differentiating the credit risk characteristics of forbearance cases, including those which return to performing status following renegotiation. Where collectively assessed loan portfolios include significant levels of loan forbearance, portfolios are segmented to reflect the different credit risk characteristics of forbearance cases, and estimates are made of the incurred losses inherent within each forbearance portfolio segment. Forbearance activities take place in both retail and wholesale loan portfolios.

The exercise of judgement requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions across a large number of geographical areas. Many of the factors have a high degree of interdependency and there is no single factor to which our loan impairment allowances as a whole are sensitive.

(d) Financial instruments measured at fair value

Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value with changes in fair value generally recorded in the income statement. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative, this includes embedded derivatives which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis and are required by IFRSs to be accounted separately from the host contract.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net trading income'. Gains and losses on derivatives managed in conjunction with financial instruments designated at fair value 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 group that are designated at fair value, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Entity uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, 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, in which case it is recognised in the income statement immediately.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(e) Employee compensation and benefits

Share-based payments

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 vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

(f) Tax

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 the tax 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 and on any adjustment to tax payable in respect of previous years. The Entity provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

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 is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(g) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events 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, such as, 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.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

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.

The Entity has issued financial guarantees and similar contracts to other group entities. The group elects to account for certain guarantees as insurance contracts in the bank's financial statements, in which case they are measured and recognised as insurance liabilities. This election is made on a contract by contract basis, and is irrevocable.

(h) Property, plant and equipment

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 the Entity is the lessor) are stated at cost less impairment losses and depreciation over their useful lives, which are generally between 0 years and 20 years. Property, plant and equipment is subject to an impairment review if their carrying amount may not be recoverable.

(i) Intangible assets

Intangible assets are stated at cost less amortisation 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.

(j) Called up share capital

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.

(k) Cash and cash equivalents

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.

(l) Offsetting of financial assets and financial liabilities

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.

(m) Operating income

Interest income and expense

Interest income and expense for all financial instruments excluding 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.

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 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 a transaction); and
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services).

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 approve the dividend for unlisted equity securities.

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:

	2017 £'000	2016 £'000
Interest income		
Short-term funds and loans and advances to banks	**6,358**	7,042
Loans and advances to customers	**116,397**	138,320
Total interest income	**122,755**	145,362
Interest recognised on impaired financial assets	**302**	342
Interest expense		
Deposits by banks	**164**	668
Customer accounts	**11,918**	15,284
Total interest expense	**12,082**	15,952

	2017 £'000	2016 £'000
Fee 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	**9,866**	34,460
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	**29,792**	22,558
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	**13,232**	10,186
Loan impairment charges/(recovery) and other credit risk provisions		
Net impairment charge/(recovery) on loans and advances	**10,431**	(5,854)

3 Employee compensation and benefits

Total employee compensation

	2017 £'000	2016 £'000
Wages and salaries including share-based payments	**31,200**	55,034
Social security costs	**4,076**	6,124
Post-employment benefits	**3,165**	4,298
Year ended 31 December	**38,441**	65,456

Average monthly number of persons employed by the Entity during the year.

	2017	2016
Client/Product services	**265**	244
Operations and support	**6**	116
Head office administration	**10**	60
Asset Management services	**-**	56
Year ended 31 December	**281**	476

All employees were fully transferred to the ServCo group in 2016 and are no longer included in the Entity's head count. Management charge for services provided by ServCo group is included in General and administrative expense.

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 Entity makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Entity's employees. The Entity 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 2017, of which employees of the Entity are members, are disclosed in the statutory accounts of HSBC Bank plc.

In 2017, the pension cost for defined contribution plans which cover 98% of the Entity's employees was £3,165,000 (2016: £5,260,000). The Entity expects to make £3,188,000 of contributions to the defined contribution plans during 2018.

4 Share-based payments

The share-based payment income statement charge is recognised in wages and salaries as follows:

	2017 £'000	2016 £'000
Restricted share awards	332	1,751
Savings-related and other share award option plans	158	128
Year ended 31 December	**490**	1,879

HSBC share award plans

Plans	Policy
Restricted share awards (including annual incentive awards delivered in shares) and GPSP	• An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. • Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. • Deferred share awards generally vest over a period of three years and GPSP awards vest after five years. • Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. • Awards granted from 2010 onwards are subject to malus provision prior to vesting. • Awards granted to Material Risk Takers from 2016 onwards are subject to clawback post vesting.

Movement on HSBC share awards

	2017 Number	2016 Number
Restricted share awards outstanding at 1 Jan	**492,210**	758,280
Additions during the year	219,491	823,087
Released in the year	(301,919)	(717,831)
Forfeited in the year	(48,977)	(48,359)
Transferred during the year	2,434	(322,967)
Restricted share awards outstanding at 31 Dec	**363,239**	492,210
Weighted average fair value of awards granted (£)	5.84	4.22

HSBC share option plans

Plans	**Policy**
Savings-related share option plans ('Sharesave')	• Two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012. • From 2014, eligible employees can save up to £500 per month 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. • The exercise price is set at a 20% (2016: 20%) discount to the market value immediately preceding the date of invitation.

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	
	Number	**WAEP[1]**
		£
Outstanding at 1 Jan 2017	**564,679**	**4.26**
Granted during the year	**138,320**	**5.96**
Exercised during the year	**(53,345)**	**5.08**
Expired during the year	**(48,188)**	**4.11**
Transferred during the year	**(37,722)**	**4.30**
Outstanding at 31 Dec 2017	**563,744**	**4.41**
Weighted average remaining contractual life (years)		**2.32**

1 Weighted average exercise price

	Savings-related share option plans	
	Number	WAEP[1]
		£
Outstanding at 1 Jan 2016	751,319	5.84
Granted during the year	676,640	4.40
Exercised during the year	(45,871)	4.72
Expired during the year	(255,179)	4.33
Transferred during the year	(562,230)	4.27
Outstanding at 31 Dec 2016	564,679	4.26
Weighted average remaining contractual life (years)		2.93

1 Weighted average exercise price

The weighted average fair value of share options outstanding, which is calculated when transactions are contracted, was £0.82 (2016: £0.83).

5 Directors' emoluments

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:

	2017	2016
	£'000	£'000
Fees[1]	**154**	88
Salaries and other emoluments	**1,650**	1,267
Annual incentives[2]	**1,387**	1,087
Year ended 31 Dec	**3,191**	2,442

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

2 *Awards made to executive Directors in respect of 2017 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £241,000 in cash, £392,000 in deferred cash (vesting annually over a three-year period), £223,000 in Restricted Shares and £531,000 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 2016 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £261,000 in cash, £285,000 in deferred cash (vesting annually over a three-year period), £256,000 in Restricted Shares and £285,000 in deferred Restricted Shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

2 Directors exercised share options over HSBC Holdings plc ordinary shares during the year (2016: £nil).

Awards were made to 3 Directors under long-term incentive plans in respect of qualifying services rendered in 2017 (2016: 2 Directors). During 2017, 3 Directors received shares in respect of awards under long-term incentive plans that vested during the year (2016: 2).

Retirement benefits are accruing to nil Directors under a defined benefit scheme and are accruing to 3 Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £38,129 (2016: 55,762) were made during the year to money purchase arrangements and £nil to defined benefit schemes in respect of Directors' qualifying services (2016: £nil).

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.

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

	2017	2016
	£'000	£'000
Salaries and other emoluments	**858**	664
Annual incentives[1]	**762**	606
Year ended 31 Dec	**1,620**	1,270

1 *Awards made to the highest paid Director in respect of 2017 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £122,000 in cash, £229,000 in deferred cash (vesting annually over a three-year period), £122,000 in Restricted Shares and £289,000 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 2016 performance comprise a mixture of cash and HSBC Holdings plc ordinary shares. The amount shown comprised £121,000 in cash, £182,000 in deferred cash (vesting annually over a three-year period), £121,000 in restricted shares and £182,000 in deferred Restricted shares (vesting annually over a three-year period) issued under the HSBC Share Plan.

The highest paid Director received 61,856 (2016: 69,830) 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 exercised 3,361 shares options over HSBC Holdings plc ordinary shares during the Year (2016: £nil).

Pension contributions of £10,810 (2016: £21,553) were made by the Entity in respect of services by the highest paid Director during the Year.

6 Auditors' remuneration

	2017 £'000	2016 £'000
Audit fees for HSBC Private Bank (UK) Limited statutory audit:		
- Fees relating to current year	**92**	80
- Fees relating to previous year	**21**	32
- Fees for audit-related services provided to the Entity	**26**	26
Year ended 31 Dec	**139**	138

7 Tax

Tax expense

	2017 £'000	2016 £'000
Current tax		
UK Corporation tax		
- For this year	**6,944**	20,695
- Adjustments in respect of prior years	**(102)**	(34)
Total current tax	**6,842**	20,661
Deferred tax		
- Origination and reversal of temporary differences	**175**	197
- Effect of changes in tax rates	**78**	24
- Adjustments in respect of prior years	**92**	(353)
Total deferred tax	**345**	(132)
Year ended 31 Dec	**7,187**	20,529

The UK corporation tax rate applying to the Entity was 19.25% (2016: 20.00%).

In the UK Budget on 8 July 2015, The UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned.

The rate of reduction to 17% was enacted during the previous period and has therefore been taken into account in the calculation of the UK related deferred tax balances. These reductions in the corporation tax rate were enacted in the Finance (No2) Act 2016.

The UK Government introduced a surcharge on banking companies in the Finance (No2) Act 2015 to apply with effect from 1 January 2016. This Entity meets the definition of a banking company and will therefore be subject to the 8% bank surcharge. The surcharge has also been taken into account in the calculation of the deferred tax balances in this Entity, therefore deferred tax is recognised at 25%.

In addition to the amount charged in the income statement, the aggregate amount of current and deferred tax relating to items that are credited directly to equity is £262,098.

Tax reconciliation

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

	2017 £'000	%	2016 £'000	%
Profit before tax	**25,739**		75,127	
Tax at 19.25% (2016: 20.00%)	**4,953**	**19.24**	15,025	20.00
Adjustments in respect of prior period liabilities	**(10)**	**(0.04)**	(387)	(0.52)
Permanent disallowables	**337**	**1.31**	47	0.06
Adjustment in respect of share-based payments	**(170)**	**(0.66)**	(79)	(0.11)
Impact due to changes in tax rates	**78**	**0.30**	23	0.03
Banking surcharge	**1,999**	**7.77**	5,900	7.85
Year ended 31 Dec	**7,187**	**27.92**	20,529	27.33

The effective tax rate for 2017 of 27.92% was higher than the UK corporation tax rate of 19.25%.

8 Deferred tax

The following table shows the gross deferred tax assets and liabilities recognised in the Balance Sheet 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 Jan 2017	**40**	**1086**	**486**	**1612**
Income statement (expense)/credit	**160**	**(272)**	**(233)**	**(345)**
Equity statement credit	**-**	**132**	**-**	**132**
At 31 Dec 2017	**200**	**946**	**253**	**1399**

	Property, plant and equipment £'000	Share based payments £'000	Other temporary differences £'000	Total £'000
At 1 Jan 2016	88	823	310	1,221
Income statement (expense)/credit	(48)	4	176	132
Equity statement credit	-	259	-	259
At 31 Dec 2016	40	1,086	486	1,612

9 Dividends

An interim dividend of £128,000,000 was declared and paid by the Directors on 26 June 2017. In the prior year two interim dividends were declared of £300,000,000 and £325,000,000.

10 Loans and advances to banks

	2017 £'000	2016 £'000
Nostro balances with parent and fellow subsidiaries	**340,272**	37,586
Loans and advances held with parent	**2,098,703**	817,843
Loans and advances to banks	**2,438,975**	855,429

11 Loans and advances to customers

	2017 £'000	2016 £'000
Gross loans and advances to customers	**4,522,444**	4,606,671
Fair value adjustment to loans hedged by designated swaps	**1,542**	2,780
Impairment allowances (Note 29)	**(49,503)**	(43,822)
Loans and advances to customers	**4,474,483**	4,565,629

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

	2017		2016	
	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	**2,365,926**	**52.2**	2,390,284	51.9
- Other personal	**699,428**	**15.5**	549,939	11.9
Corporate and commercial				
- Commercial, industrial and trade	**66,348**	**1.5**	77,961	1.7
- Commercial real state	**652,139**	**14.4**	793,158	17.2
- Other property-related	**556,749**	**12.3**	643,728	14.0
- Other commercial	**139,336**	**3.1**	110,975	2.4
Financial	**44,060**	**1.0**	43,406	0.9
At 31 Dec	**4,523,986**	**100.0**	4,609,451	100.0
Impaired loans (£'000)	**242,862**		300,246	
as a % of total (%)		**5.4**		6.5

12 Investment in subsidiaries

100% Share ownership of HSBC Private Bank (C.I) Limited was transferred to HSBC Bank PLC, its parent undertaking, on 16 May 2017 at cost price of £401,359,503. No gain or loss originated from the transaction. The Entity had no further investment in subsidiaries.

13 Property, plant and equipment

There are no changes in cost or depreciation and impairment for property, plant and equipment in 2017 (2016: £nil)

14 Intangible assets

	Software Development Costs 2017 £'000	Software Development Costs 2016 £'000
Cost		
At 1 January	3,225	1,897
Additions	6,552	1,328
Impairment	(80)	-
As at 31 December	9,697	3,225
Accumulated amortisation		
At 1 January 2017	(51)	-
Charge for the Year	(554)	(51)
As at 31 December	(605)	(51)
Net book value		
At 1 January	3,174	1,897
As at 31 December	9,092	3,174

15 Other assets

Amounts due from fellow subsidiary undertakings are unsecured and repayable on demand.

	2017 £'000	2016 £'000
Amounts due from parent	5,061	-
Amounts due from fellow subsidiaries	35,269	377,811
Other assets	3,647	1,540
At 31 Dec	43,977	379,351

16 Customer accounts

Customer accounts increased by 13% from £5,368,164,000 in December 2016 to £6,045,228,000 in December 2017. The increase was mainly driven by higher average new deposits of £1,801,000 compared to prior year (2016: £1,378,000).

17 Provisions

	Restructuring provision £'000	**Legal provision £'000**	**Customer redress provision £'000**	**Other £'000**	**Total £'000**
At 1 Jan 2017	**583**	**-**	**-**	**1,261**	**1,844**
Increase in provision	**-**	**1,600**	**-**	**-**	**1,600**
Provision utilised	**(336)**	-	-	-	**(336)**
Unused amounts reversed	**(247)**	-	-	**(233)**	**(480)**
At 31 Dec 2017	-	**1,600**	-	**1,028**	**2,628**

	Restructuring provision £'000	Legal Provision £'000	Customer redress provision £'000	Other £'000	Total £'000
At 1 Jan 2016	2,441	-	200	1,518	4,159
Increase in provision	1,613	-	-	-	1,613
Provision utilised	(3,271)	-	-	-	(3,271)
Unused amounts reversed	(200)	-	(200)	(257)	(657)
At 31 Dec 2016	583	-	-	1,261	1,844

Legal Provision

The Entity has raised a provision of £1,600,000 for potential liabilities expected in 2018 relating to its administration of certain film finance related services.

18 Accruals, deferred income and other financial liabilities

	2017 £'000	2016 £'000
Accruals and deferred income	**24,742**	27,444
Share-based payment liabilities	**3,037**	4,877
Amounts owed to immediate parent undertaking	**273,277**	8,473
Amounts owed to other group companies	**38,636**	15,797
Other liabilities	**4,012**	2,395
At 31 Dec	**343,704**	58,986

19 Called up share capital

	2017 £'000	2016 £'000
Issued, allotted and fully paid up		
17,961,000 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

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

	2017 £'000	2016 £'000
a) Non-cash items included in profit and loss		
Depreciation, amortisation and impairment	634	51
Share-based payment expense	158	128
Credit-related impairment losses	10,431	(5,854)
Provisions raised	1,116	955
Fair value movement	(71)	31
	12,268	(4,689)

	2017 £'000	2016 £'000
b) Change in operating assets		
Change in prepayments and accrued income	95	9,580
Change in loans and advances to banks	(1,681,150)	(33,715)
Change in loans and advances to customers	61,110	826,263
Change in other assets	282,575	(190,681)
	(1,337,370)	611,447

	2017 £'000	2016 £'000
c) Change in operating liabilities		
Change in accruals and deferred income	(2,701)	(8,017)
Change in deposits by banks	(48,399)	(393,333)
Change in customer accounts	747,056	502,733
Change in other liabilities	286,646	296
	982,602	101,679

	2017 £'000	2016 £'000
d) Cash and cash equivalents comprise		
Cash and balances at central banks	16,316	7,563
Loans and advances to banks of one month or less	717,124	814,722
	733,440	822,285

	2017 £'000	2016 £'000
e) Interest and dividends		
Interest paid	12,993	15,108
Interest received	124,194	149,111
	137,187	164,219

21 Contingent liabilities, contractual commitments and guarantees

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

	2017	2016
	£'000	£'000
	Contract amount	Contract amount
Contingent liabilities:		
Guarantees and assets pledged as collateral security	**24,494**	45,871
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend	**770,860**	596,168
	770,860	596,168

The Entity could be liable to pay a further proportion of the outstanding amount that Financial Services Compensation Scheme ('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.

22 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 Dec 2017	Held for trading £'000	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedging instruments £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	16,316	-	16,316
Derivatives	9,557	-	-	69	9,626
Loans and advances to banks	-	2,438,975	-	-	2,438,975
Loans and advances to customers	-	4,474,483	-	-	4,474,483
Total financial assets	9,557	6,913,458	16,316	69	6,939,400
Total non-financial assets					71,719
Total assets					7,011,119
Liabilities					
Customer accounts	-	-	6,045,228	-	6,045,228
Derivatives	8,115	-	-	874	8,989
Total financial liabilities	8,115	-	6,045,228	874	6,054,217
Total non-financial liabilities					353,145
Total liabilities					6,407,362

At 31 Dec 2016	Held for trading £'000	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Derivatives designated as fair value hedging instruments £'000	Total £'000
Assets					
Cash and cash equivalents	-	-	7,563	-	7,563
Derivatives	12,018	-	-	157	12,175
Loans and advances to banks	-	855,429	-	-	855,429
Loans and advances to customers	-	4,565,629	-	-	4,565,629
Total financial assets	12,018	5,421,058	7,563	157	5,440,796
Total non-financial assets					802,845
Total assets					6,243,641
Liabilities					
Deposits by banks	-	-	48,399	-	48,399
Customer accounts	-	-	5,368,164	-	5,368,164
Derivatives	13,779	-	-	1,967	15,746
Total financial liabilities	13,779	-	5,416,563	1,967	5,432,309
Total non-financial liabilities					98,106
Total liabilities					5,530,415

23 Fair values of financial instruments carried at fair value

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 models, 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 these models; (iii) any adjustments required outside the valuation models; and (iv) where possible, 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 of financial assets and liabilities are determined according to the following hierarchy:

(a) Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

(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 valuation techniques where one or more significant inputs are unobservable.

Financial instruments carried at fair value and bases of valuation

	Fair values			
		Valuation techniques		
	Quoted market price	**Using observable inputs**	**With significant unobservable inputs**	
	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 31 Dec 2017				
Assets				
Derivatives	-	**9,626**	-	**9,626**
Liabilities				
Derivatives	-	**8,989**	-	**8,989**

	Fair values			
		Valuation techniques		
	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
At 31 Dec 2016				
Assets				
Derivatives	-	12,175	-	12,175
Liabilities				
Derivatives	-	15,746	-	15,746

There were no significant transfers between financial instruments classified as Level 1 and Level 2 in 2017 (2016: £nil).

24 Fair value of financial instruments not carried at fair value

Fair values are determined according to the hierarchy set out in Note 23.

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
At 31 Dec 2017		£'000	£'000	£'000	£'000
Assets					
Loans and advances to customers	4,474,483	-	1,586,001	2,945,683	4,531,684
Loans and advances to banks	2,438,975	-	2,438,975	-	2,438,975
Liabilities					
Customer accounts	6,045,228	-	6,021,519	-	6,021,519

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
At 31 Dec 2016		£'000	£'000	£'000	£'000
Assets					
Loans and advances to customers	4,565,629	-	1,673,878	2,905,271	4,579,149
Loans and advances to banks	855,429	-	855,429	-	855,429
Liabilities					
Deposits by banks	48,399	-	48,399	-	48,399
Customer accounts	5,368,164	-	5,370,817	-	5,370,817

Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

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.

Valuation

Fair value is an estimate of 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. It does not reflect the economic benefits and costs that Entity expects to flow from an instrument's cash flow over its expected future life. The Entity's valuation methodologies and assumptions in determining fair values for which no observable market process are available may differ from those of other companies.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporated the prices and future earnings streams of equivalent quoted securities.

Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

25 Derivatives

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.

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

	2017	2016
	£'000	£'000
Foreign exchange	**1,571,664**	1,988,247
Interest rate	**37,125**	47,845
Commodities	**78,195**	85,035
At 31 Dec	**1,686,984**	2,121,127

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

	At 31 Dec 2017		At 31 Dec 2016	
	Assets	**Liabilities**	Assets	Liabilities
	£'000	**£'000**	£'000	£'000
Foreign exchange	**6,467**	**7,252**	9,279	12,415
Interest rate	**773**	**1,737**	1,319	3,331
Commodities	**2,386**	**-**	1,577	-
Total	**9,626**	**8,989**	12,175	15,746

26 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.

The notional contract amounts of derivatives held for hedge accounting purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

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

	2017		2016	
	Fair value hedge £'000	**Cash Flow £'000**	Fair value hedge £'000	Cash Flow £'000
Interest rate contracts:				
- pay fixed swaps	**122,210**	**-**	145,425	-

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 as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at the end of the reporting period, were assets of £69,000 (2016: £157,000) and liabilities of £874,000 (2016: £1,967,000).

	2017 £'000	2016 £'000
Gains/ losses arising from the change in fair value of fair value hedges:		
- On hedging instruments	**984**	(495)
- On hedged item attributable to the hedged risk	**(883)**	494
Total derivatives	**101**	(1)

27 Maturity analysis of assets and liabilities

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

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Cash and balances with central banks	8,895	-	7,421	-	-	-	16,316
Derivatives	4,218	3,461	554	1,393	-	-	9,626
Loans and advances to banks	717,124	-	1,721,851	-	-	-	2,438,975
Loans and advances to customers	1,139,193	397,307	634,379	1,873,788	429,816	-	4,474,483
Accrued income and other financial assets	3,219	57,986	-	-	-	-	61,205
Non-financial assets	-	-	-	-	-	10,514	10,514
At 31 Dec 2017	1,872,649	458,754	2,364,205	1,875,181	429,816	10,514	7,011,119

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities and Equity							
Customer accounts	5,790,573	147,990	92,753	12,976	936	-	6,045,228
Derivatives	6,481	242	802	1,238	226	-	8,989
Accruals and other financial liabilities	15,372	326,103	975	1,242	12	-	343,704
Provisions	-	-	-	-	-	2,628	2,628
Non-financial liabilities	-	-	-	-	-	6,813	6,813
Equity	-	-	-	-	-	603,757	603,757
At 31 Dec 2017	5,812,426	474,335	94,530	15,456	1,174	613,198	7,011,119

	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	Undated £'000	Total £'000
Assets							
Cash and balances with central banks	898	-	6,665	-	-	-	7,563
Derivatives	6,662	3,220	925	1,228	140	-	12,175
Loans and advances to banks	814,722	-	40,707	-	-	-	855,429
Loans and advances to customers	1,198,095	431,962	778,256	1,908,660	248,656	-	4,565,629
Accrued income and other financial assets	9,555	387,121	-	-	-	-	396,676
Non-financial assets	-	-	-	-	-	406,169	406,169
At 31 Dec 2016	2,029,932	822,303	826,553	1,909,888	248,796	406,169	6,243,641

	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	Undated £'000	Total £'000
Liabilities and Equity							
Deposits by banks	48,399	-	-	-	-	-	48,399
Customer accounts	5,093,918	113,854	104,622	54,480	1,290	-	5,368,164
Derivatives	8,574	3,237	900	2,846	189	-	15,746
Accruals and other financial liabilities	1,181	19,041	14,492	-	-	24,272	58,986
Provisions	-	-	-	-	-	1,844	1,844
Non-financial liabilities	-	-	-	-	-	37,276	37,276
Equity	-	-	-	-	-	713,226	713,226
At 31 Dec 2016	5,152,072	136,132	120,014	57,326	1,479	776,618	6,243,641

28 Offsetting of financial assets and financial liabilities

Financial assets

	Gross amounts £'000	Amounts reported in the balance sheet £'000	Amounts not offset in the balance sheet: Financial instruments £'000	Net amount £'000
Financial assets				
Derivatives (Note 25)	**9,626**	**9,626**	**-**	**9,626**
Loans and advances to customer at amortised cost	**4,522,444**	**4,522,444**	**(48,814)**	**4,473,630**
At 31 Dec 2017	**4,532,070**	**4,532,070**	**(48,814)**	**4,483,256**
Financial assets				
Derivatives (Note 25)	12,175	12,175	-	12,175
Loans and advances to customer at amortised cost	4,606,671	4,606,671	(131,253)	4,475,418
At 31 Dec 2016	4,618,846	4,618,846	(131,253)	4,487,593

Financial Liabilities

	Gross amounts £'000	Amounts reported in the balance sheet £'000	Amounts not offset in the balance sheet: Financial instruments £'000	Net amount £'000
Financial liabilities				
Derivatives (Note 25)	**8,989**	**8,989**	**-**	**8,989**
Customer accounts at amortised cost	**6,045,228**	**6,045,228**	**(48,814)**	**5,996,414**
At 31 Dec 2017	**6,054,217**	**6,054,217**	**(48,814)**	**6,005,403**
Financial liabilities				
Derivatives (Note 25)	15,746	15,746	-	15,746
Customer accounts at amortised cost	5,368,164	5,368,164	(131,253)	5,236,911
At 31 Dec 2016	5,383,910	5,383,910	(131,253)	5,252,657

29 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

	2017			2016		
	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	**16,316**	**-**	**16,316**	7,563	-	7,563
Derivatives	**9,626**	**-**	**9,626**	12,175	-	12,175
Loans and advances at amortised costs	**4,525,508**	**(48,814)**	**4,476,694**	5,462,100	(131,253)	5,330,847
Other assets	**57,162**	**-**	**57,162**	396,349	-	396,349
Financial guarantees	**24,494**	**-**	**24,494**	45,871	-	45,871
Loan commitments	**770,860**	**-**	**770,860**	596,168	-	596,168
At 31 Dec	**5,403,966**	**(48,814)**	**5,355,152**	6,520,226	(131,253)	6,388,973

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 11). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing. Collateral and other credit enhancements.

III. Credit quality

The five credit quality classifications 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+ to BBB-	CRR3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5
Sub-standard	B- to C	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 require 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.

	Neither past due nor impaired						
		Medium					
	Strong £'000	Good £'000	Satis-factory £'000	Sub-Standard £'000	Impaired £'000	Impairment Allowances £'000	Total £'000
At 31 Dec 2017							
Cash and balances at central banks	**16,316**	**-**	**-**	**-**	**-**	**-**	**16,316**
Derivatives	**5,356**	**4,270**	**-**	**-**	**-**	**-**	**9,626**
Loans and advances to banks	**2,438,975**	**-**	**-**	**-**	**-**	**-**	**2,438,975**
Loans and advances to customers	**548,900**	**1,960,155**	**1,679,399**	**92,670**	**242,862**	**(49,503)**	**4,474,483**
At 31 Dec 2016							
Cash and balances at central banks	7,563	-	-	-	-	-	7,563
Derivatives	5,743	6,432	-	-	-	-	12,175
Loans and advances to banks	855,429	-	-	-	-	-	855,429
Loans and advances to customers	542,465	1,926,621	1,744,236	95,883	300,246	(43,822)	4,565,629

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:

	2017			2016		
	Individually assessed £'000	**Collectively assessed £'000**	**Total £'000**	Individually assessed £'000	Collectively assessed £'000	Total £'000
Impaired loans & advances to customers						
- personal	**122,457**	-	**122,457**	153,465	-	153,465
- corporate and commercial	**120,405**	-	**120,405**	146,598	-	146,598
- financial	-	-	-	183	-	183
As at 31 Dec	**242,862**	-	**242,862**	300,246	-	300,246

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 which include 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 Dec 2017			At 31 Dec 2016		
	Neither past due nor impaired £'000	Impaired £'000	Total £'000	Neither past due nor impaired £'000	Impaired £'000	Total £'000
Retail	49,291	57,256	106,547	44,229	104,390	148,619
- Residential Mortgages	34,812	39,263	74,075	27,587	77,095	104,682
- Other personal	14,479	17,993	32,472	16,642	27,295	43,937
Commercial real estate	14,565	69,009	83,574	22,600	101,121	123,721
Corporate and commercial	-	2,432	2,432	-	5,269	5,269
Financials	-	-	-	-	181	181
Other	6,590	4,793	11,383	-	364	364
	70,446	133,490	203,936	66,829	211,325	278,154
Impairment allowance on renegotiated loans		(8,507)				(26,181)
Renegotiated loans and advances as % of total gross loans (%)		4.5%				6.0%

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 Dec	2017 £'000	2016 £'000
Other property*	745,961	1,206,539
Residential property	2,188,172	2,044,974
Cash backed	502,260	261,762
Other**	872,358	937,436
Unsecured	213,693	155,960
Gross loan and advances to customers	4,522,444	4,606,671

**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 including loan commitments by level of collateral

	2017 £'000	2016 £'000
Rated CRR 1 to 7		
Not collateralised	**6,821**	11,410
Fully collateralised	**1,079,107**	1,267,110
Partially collateralised	**1,477**	4,855
- collateral value	**915**	2,515
Rated CRR 8 to 10		
Not collateralised	**332**	384
Fully collateralised	**112,682**	147,738
LTV ratio:		
- Less than 50%	**10,414**	10,222
- 51% to 75%	**37,761**	120,050
- 76% to 90%	**62,635**	7,432
- 91% to 100%	**1,872**	10,034
Partially collateralised greater than 100% LTV	**8,470**	5,391
-Collateral value	**5,242**	3,475
At 31 Dec	1,208,889	1,436,888

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

	2017 £'000	2016 £'000
Fully collateralised	**4,689**	5,751
LTV Ratio:		
- Less than 50%	**2,432**	5,453
- 51% to 75% LTV	**2,257**	242
- 76% to 90% LTV	**-**	56
- 91% to 100% LTV	**-**	-
At 31 Dec	**4,689**	5,751

Residential mortgage lending

The table below show residential mortgage lending including off-balance sheet loan commitments 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.

	2017 £'000	2016 £'000
Non-impaired loans and advances		
Fully collateralised	2,221,721	2,132,157
Less than 50% LTV	655,146	745,713
51% to 60% LTV	418,871	449,174
61% to 70% LTV	672,975	579,049
71% to 80% LTV	342,852	243,493
81% to 90% LTV	113,300	91,945
91% to 100% LTV	18,577	22,783
Partially collateralised		
greater than 100% LTV	50,106	136,799
-Collateral value	46,525	106,552
Impaired loans and advances		
Fully collateralised	69,712	95,123
Less than 50% LTV	13,476	31,573
51% to 60% LTV	14,740	12,741
61% to 70% LTV	11,712	22,061
71% to 80% LTV	15,321	15,216
81% to 90% LTV	7,133	7,682
91% to 100% LTV	7,330	5,850
Partially collateralised		
greater than 100% LTV	20,803	25,512
-Collateral value	16,108	20,472
At 31 Dec	2,362,342	2,389,591

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

	2017 Individually assessed £'000	**2017 Collectively assessed £'000**	2016 Individually assessed £'000	2016 Collectively assessed £'000
At 1 Jan	35,688	8,134	43,800	12,170
Amounts written off	(4,940)	-	(7,865)	-
Recoveries of amounts written off in previous years	6	-	172	-
New allowances net of allowance releases	12,404	(1,735)	(1,386)	(4,036)
Exchange and other movements	(54)	-	967	-
At 31 Dec	43,104	6,399	35,688	8,134

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. The risk arises from mismatches in the timing of cash flows.

Approximately 87% 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.

Since 1 April 2013, 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 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**
Customer accounts	**5,325,954**	**616,231**	**94,365**	**14,098**	**1,125**	**6,051,773**
Financial guarantees	-	7,059	17,070	-	365	24,494
Loan commitments	410,945	45,426	176,078	129,158	9,253	770,860
At 31 Dec 2017	**5,736,899**	**668,716**	**287,513**	**143,256**	**10,743**	**6,847,127**

	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
Deposits by banks	48,399	-	-	-	-	48,399
Customer accounts	4,621,716	589,818	107,045	58,972	1,551	5,379,102
Financial guarantees	10	17,047	28,449	-	365	45,871
Loan commitments	224,752	37,766	246,502	78,416	8,732	596,168
At 31 Dec 2016	4,894,877	644,631	381,996	137,388	10,648	6,069,540

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.

	2017	2016
	£'000	£'000
Value at Risk		
At 31 Dec	**48**	76
Average	**54**	48
Minimum	**17**	32
Maximum	**161**	90

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 assets and liabilities between balances denominated in sterling and those denominated in other currencies.

	Assets	Liabilities	**2017**
	£'000	£'000	**£'000**
Euro	473,981	(808,603)	**(334,622)**
US dollars	515,513	(869,238)	**(353,725)**
Sterling	5,675,593	(4,886,227)	**789,366**
Others, each less than £150 million	72,908	(173,927)	**(101,019)**
At 31 Dec 2017	6,737,995	(6,737,995)	-

	Assets	Liabilities	**2016**
	£'000	£'000	£'000
Euro	137,160	(273,212)	(136,052)
US dollars	304,142	(897,621)	(593,479)
Sterling	5,733,331	(4,928,196)	805,135
Others, each less than £150 million	69,741	(145,345)	(75,604)
At 31 Dec 2016	6,244,374	(6,244,374)	-

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 2017 the Entity's risk as measured by PVBP was £13,045 (2016: £18,004). 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 PVBP of Interest Rate Swaps which have not qualified as Fair Value Hedges for the purposes of IAS 39 (Note 26) at 31 December 2017 was £1,580 (31 December 2016: £1,773).

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 2017. 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 Dec 2017	**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	**2,438,975**	**-**	**-**	**-**	**-**	**-**	**2,438,975**
Loans & advances to customers	**845,445**	**2,187,379**	**40,369**	**1,066,231**	**384,417**	**(49,358)**	**4,474,483**
Other assets	**63,385**	**-**	**7,421**	**-**	**-**	**26,855**	**97,661**
Total Assets	**3,347,805**	**2,187,379**	**47,790**	**1,066,231**	**384,417**	**(22,503)**	**7,011,119**
Liabilities							
Customer accounts	**5,938,562**	**60,140**	**32,613**	**12,977**	**-**	**936**	**6,045,228**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**362,134**	**362,134**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**603,757**	**603,757**
Total equity and liabilities	**5,938,562**	**60,140**	**32,613**	**12,977**	**-**	**966,827**	**7,011,119**
Notional value:							
Interest rate swaps	**6,941**	**(4,238)**	**(1,112)**	**(1,591)**	**-**	**-**	**-**
Interest rate sensitivity gap	**(2,583,816)**	**2,123,001**	**14,065**	**1,051,663**	**384,417**	**(989,330)**	**-**
Cumulative interest rate sensitivity gap	**(2,583,816)**	**(460,815)**	**(446,750)**	**604,913**	**989,330**	**-**	**-**

31 Dec 2016	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	855,429	-	-	-	-	-	855,429
Loans & advances to customers	2,082,551	1,969,652	181,296	297,178	77,366	(42,414)	4,565,629
Other assets	385,054	-	6,665	-	-	430,864	822,583
Total Assets	3,323,034	1,969,652	187,961	297,178	77,366	388,450	6,243,641
Liabilities							
Deposits by banks	48,399	-	-	-	-	-	48,399
Customer accounts	5,207,771	39,072	65,551	54,480	-	1,290	5,368,164
Other liabilities	-	-	-	-	-	113,852	113,852
Shareholders' equity	-	-	-	-	-	713,226	713,226
Total equity and liabilities	5,256,170	39,072	65,551	54,480	-	828,368	6,243,641
Notional value:							
Interest rate swaps	163,045	-	-	(132,079)	(30,966)	-	-
Interest rate sensitivity gap	(1,770,091)	1,930,580	122,410	110,619	46,400	(439,918)	-
Cumulative interest rate sensitivity gap	(1,770,091)	160,489	282,899	393,518	439,918	-	-

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.

30 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 1. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, no provisions have been made in respect of these matters as at 31 December 2017. 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, an action was brought in the High Court of Zimbabwe against the Entity and HSBC Bank Plc claiming losses in respect of an alleged failure to respond to enquiries following a regulatory notification. This action is ongoing. A claim against the Entity relating to the same facts was dismissed by the High Court of England and Wales in 2012.

In March 2014, an action was brought in the High Court of England and Wales against the Entity, HSBC Private Bank (Monaco) SA and HSBC Holdings plc claiming a failure by the Entity and HSBC Holdings plc to investigate properly allegations relating to the mis-selling 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 action against HSBC Holdings plc is ongoing.

In September 2017, an action was brought in the High Court of England and Wales against the Entity and HSBC Holdings plc alleging breach of contract in connection with certain deferred compensation arrangements. This action is ongoing.

In July 2015 and November 2015 respectively, two actions were brought against the Entity in the High Court of England and Wales seeking damages on various alleged grounds, including breach of duty by the Entity in the provision of certain historic services relating to the participation by the claimants in certain film finance transactions. These actions are ongoing.

It is possible that additional actions or investigations will be initiated against the Entity as a result of its historic involvement in the provision of certain film finance related services.

Based on the facts currently known, it is not practicable to estimate the resolution of these matters, including the timing or possible aggregate impact on the Entity, which could be significant.

31 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.

	2017	2016
	£'000	£'000
Short-term employee benefits	**1,650**	1,267
Post-employment benefits	**38**	56
Other long-term benefits	**204**	252
Share-based payments	**568**	483

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.

Shareholdings, options and of securities of Directors and other Key Management Personnel

	2017	2016
Number of HSBC Holdings plc shares held by Directors and other key management personnel beneficially	**327,135**	104,621

b) Transactions with other related parties

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

	2017		2016	
	Highest balance during the year[1]	**Balance at 31 December[1]**	Highest balance during the year[1]	Balance at 31 December[1]
	£'000	**£'000**	£'000	£'000
Assets				
Derivatives	**8,810**	**2,970**	11,707	4,166
Loans and advances to banks	**2,437,047**	**2,437,047**	949,297	851,920
Other assets	**5,156**	**5,061**	355,142	355,142
Liabilities				
Derivatives	**12,859**	**7,598**	19,712	13,863
Other liabilities	**273,277**	**273,277**	11,433	8,473

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.

	2017 £'000	2016 £'000
Income statement		
Interest income	**6,348**	6,965
Interest expense	**338**	-
Fee income	**(102)**	104
Fee expense	**2,316**	2,912
Other operating income	**1,916**	-
General and administrative expenses	**5,600**	22,065
Dividend expense	**128,000**	625,000

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

	2017		2016	
	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				
Other assets	**9,008**	**6,393**	7,881	7,881
Liabilities				
Deposits by banks	**-**	**-**	441,732	-

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.

	2017 £'000	2016 £'000
Income statement		
Interest income	**-**	71
Interest expense	**-**	283
Fee income	**4,918**	7,787
Other operating income	**1,445**	805
General and administrative expenses	**30**	87

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

	2017		2016	
	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	**7,946**	**1,928**	71,532	3,078
Other assets	**28,876**	**28,876**	42,892	14,814
Liabilities				
Subordinated amounts due	**-**	**-**	85,349	-
Other liabilities	**40,025**	**38,636**	25,950	15,797

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.

	2017 £'000	2016 £'000
Income statement		
Interest expense	**71**	351
Fee income	**915**	4,600
Fee expense	**3,905**	1,725
Other operating income	**31,805**	31,040
General and administrative expenses	**84,181**	33,754

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.

32 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

33 Events after the balance sheet date

There are no significant events after the balance sheet date.