HSBC Private Bank (Suisse) SA

Annual Report 2015

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Review of operations of HSBC Private Bank (Suisse) SA

HSBC Global Private Banking

Customers

HSBC Global Private Banking ("GPB"), of which HSBC Private Bank (Suisse) SA ("the Bank") is part, serves high net worth individuals and families, including those with international banking needs. Since 2011, GPB has taken significant steps to simplify and improve the way it conducts its business, reducing the number of offshore markets we cover to ensure appropriate focus on key growth areas. GPB remains committed to implementing the most effective global standards, including customer due diligence, a tax transparency framework and financial crime compliance measures.

Products and services

We work closely with our clients to provide solutions to grow, manage and preserve wealth. Our products and services include: Investment Management, incorporating advisory, discretionary and brokerage services; Private Wealth Solutions, comprising trusts and estate planning, designed to protect wealth and preserve it for future generations; and a full range of private banking services.

Business synergies

GPB aims to bring the best of the research, product and service capabilities of HSBC Group to its clients. To achieve this, we have three client service groups: the Corporate Client Group, enhancing connectivity with Commercial Banking ("CMB") and Global Banking and Markets ("GB&M"); the Wealth Client Group, delivering a seamless transition across the Retail Banking and Wealth Management ("RBWM") and GPB wealth franchises; and the Global Solutions Group, delivering non-traditional wealth management solutions. Wherever possible, GPB uses product capabilities within GB&M, CMB and RBWM, including asset management, research, insurance, trade finance and capital financing, to offer a unique proposition to our clients.

Areas of focus

GPB aspires to build on HSBC's commercial banking heritage and be the leading private bank for high net worth business owners and principals. We work closely and systematically with CMB and GB&M to deliver a coordinated private and corporate coverage model for our clients.

HSBC Private Bank (Suisse) SA

Financial Performance

The year 2015 ended with a net loss of CHF 92.0 million compared to a profit of CHF 11.1 million in 2014.

Net interest income was down by CHF 122.4 million, primarily due to the effect of downward movements in market interest rates, notably the negative Swiss franc, and the reduction in client deposits balances available for investment.

Net fee income fell by CHF 74.4 million or 25%, reflecting lower brokerage and account services fee income due to continued repositioning of our business as well as the difficult financial market conditions.

Net trading income increased by CHF 55.8 million, reflecting higher income from funding swap activities.

Other result from ordinary activities increased by CHF 21.8 million as a result of a one-off recharge to HSBC Group entity, dividend income as well as gains on the sale of financial fixed assets.

On the cost side, the total operating expenses for 2015 were CHF 482 million, down 6% from CHF 513 million in 2014. This was driven by the Bank's continuous efforts to control its cost base and improve its efficiency. These efforts included the streamlining of the front office and global functions organisation, which was partly offset by higher expenses on consultant and legal fees. A decrease in provisions of CHF 29.6 million, from CHF 136.4 million in 2014 to CHF 106.8 million in 2015, was mainly related to regulatory and restructuring provisions.

General Management changes

The leadership team was further strengthened during 2015. The following appointments were made:

- Philippe Vaney, Financial Controller, and Mohamad El-Chafehi, Head of Business Finance, succeeding Alexandre Macaire, Chief Financial Officer, in July 2015. Philippe Vaney joined the Executive Committee of the Bank;
- Jean-Francois Peyronnard, Head of Regulatory Compliance, succeeding Andrew Kimbrough in November 2015;
- Rachel Mattatia and Karin Wiedmer, Co-Heads of Legal Switzerland, succeeding David Garrido in December 2015;
- In addition, Henri Ourfali stepped down as Head of the Investment Services and Product Solutions ("ISPS") Group in Switzerland in December 2015. He was replaced on an interim basis by Jean-Christophe Gerard, Regional Head of ISPS, and his successor Bryan Henning will enter into function on 4 April 2016.

Significant Developments in 2015

The beginning of 2015 saw intense media coverage of the Swiss Private Bank, with a focus on historical events from over eight years ago, when the standards to which we operate today were not universally in place in our operations.

In 2015, we continued our strategic repositioning efforts. We have progressed with the consolidation of the administration of our trust business in Europe in a regional hub in Jersey. In addition, by June last year, we have ring-fenced our non-core client assets under the supervision of a dedicated central team. We continue to focus on clearly defined target markets that are aligned with priority markets for HSBC Group.

While significant work remains to be done, we continued to make progress towards putting in place a robust and sustainable anti-money laundering and sanctions compliance programme. We are strengthening our financial crime detection and investigation capabilities within our business teams, including delivering enhanced training to appropriate staff.

In November 2015 we successfully launched a new global onboarding tool and established dedicated Client Lifecycle Management teams in the Bank and in HSBC Private Bank (Luxembourg) SA, the first two GPB booking centres to go live. These developments further contribute to a sustainable and globally consistent client experience across the Private Bank, while also increasing the efficiency and effectiveness of our internal processes.

We also continued to prepare the launch of our new core banking platform. Thanks to the progress made in 2015, we are now a step closer to going live in the Bank and in HSBC Private Bank (Luxembourg) SA. Once implemented, our new global platform will be a fundamental part of our proposition and will deliver improved consistency, control, and efficiency.

In 2015 we have worked on enhancements to our products and service offering. Important rollouts for our Discretionary and Advisory services are currently in development and we look forward to sharing these with our clients in 2016.

2015 also marked the tenth edition of our annual corporate sustainability flagship project *Team Up 4 Tomorrow*, as part of which hundreds of volunteers in Geneva and Zurich spent four days supporting non-profit organisations working in the area of education and environmental protection.

In 2016, we will work to deliver enhancements to our systems and products, as well as investing in our people in key growth markets. Most importantly, we will continue to place Client Service Excellence at the heart of everything we do.

Andreas von Planta
Chairman of the Board

Franco Morra
Chief Executive Officer

Philippe Vaney
Financial Controller

Geneva, 24 February 2016

Board of Directors and General Management

Board of Directors

Chairman

Andreas von Planta

Vice-Chairman

Carlo Lombardini

Directors

Bill Kwok

Marc Moses

Elie H. Wakim

Company Secretary

Hervé Cherix

Executive Committee

President

Franco Morra
Chief Executive Officer

Members

Séverine de Cacqueray
Head of Human Resources

Jean-Christophe Gérard
Head of Investment Services and Product Solutions (ad interim)

Simon Larsen
Chief Operating Officer

Roger Lehmann
Business Head of Switzerland Domestic and Multi-Family Offices

Christine Lynch
Chief Risk Officer

Isabelle Monestes
Head of Financial Crime Compliance

Sobhi Tabbara
Business Head of Middle East and North Africa

Philippe Vaney
Financial Controller

Board of Directors and General Management

Zurich branch

Roger Lehmann
Member of the Executive Committee

Guernsey branch

Ian F. Richardson
Chief Executive Officer

Dubai branch

Farzad Billimoria
Senior Executive Officer

Banking Subsidiary

HSBC Private Bank (Luxembourg) S.A.

Martyn Porter
Chief Executive Officer

Auditors

PricewaterhouseCoopers SA, Geneva

Supervision and regulation

As at 31 December 2015, the Common Equity Tier 1 ratio, the Tier 1 ratio and the Total Capital ratio of the Bank were 34.1%. The Total Capital ratio target of the Bank has been fixed at 13.5%.

As at 31 December 2015, the leverage ratio was as follows:

CHF'000	
Leverage ratio exposure	25'165'497
Tier 1 capital	2'535'710
Leverage ratio	**10.1%**

The Liquidity Coverage ratio average for each quarter of the year 2015 was as follows:

CHF'000	Average Q415	Average Q315	Average Q215	Average Q115
Total high quality liquid assets	13'454'052	12'740'845	13'451'489	12'764'346
Total cash outflows	5'482'412	8'491'256	12'451'472	10'497'848
Total cash inflows	12'631'098	15'453'804	21'194'193	20'543'560
Liquidity coverage ratio	**188.2%**	**183.0%**	**153.9%**	**127.1%**

The information related to the capital requirement and the liquidity coverage ratio framework is available in the HSBC Private Banking Holdings (Suisse) SA and the HSBC Holding Plc annual reports.

By virtue of HSBC Holdings plc's ownership interest in HSBC Private Banking Holdings (Suisse) SA and HSBC Private Bank (Suisse) SA, certain supervisory responsibilities of the Prudential Regulation Authority (PRA) in the United Kingdom extend indirectly to HSBC Private Banking Holdings (Suisse) SA and HSBC Private Bank (Suisse) SA. The PRA exercises consolidated prudential supervision over the HSBC Group. Local bank regulators oversee the subsidiaries' compliance with local laws, regulations and banking practices. As HSBC Private Banking Holdings (Suisse) SA is a management centre for HSBC private banking activities, the Swiss Financial Market Supervisory Authority has elected to exercise consolidated supervision over HSBC Private Banking Holdings (Suisse) SA.

BALANCE SHEET

at 31 December 2015

CHF'000	2015	2014
Assets		
Liquid assets	9'558'943	9'046'480
Amounts due from banks	2'277'109	3'165'645
Amounts due from customers	8'270'426	8'377'897
Mortgage loans	712'190	518'413
Trading portfolio assets	29'527	52'083
Positive replacement values of derivatives financial instruments	285'430	567'022
Financial investments	2'972'969	6'741'679
Accrued income and prepaid expenses	34'966	55'982
Participations	129'935	129'935
Tangible fixed assets	126'937	120'235
Other assets	495'467	666'322
Total assets	**24'893'899**	**29'441'693**
Total subordinated claims	163'123	169'215
- *of which subject to mandatory conversion and /or debt waiver*	-	-
Liabilities		
Amounts due to banks	10'159'968	13'458'391
Amounts due in respect of customer deposits	10'374'180	11'245'462
Negative replacement values of derivatives financial instruments	274'419	502'220
Accrued expenses and deferred income	474'506	465'964
Other liabilities	34'948	104'268
Provisions	610'523	608'005
Reserves for general banking risks	221'597	221'597
Bank's capital	708'480	708'480
Statutory capital reserve	108'759	108'759
Statutory retained earnings reserve	580'120	580'120
Profit carried forward	1'438'427	1'427'297
(Loss) / Profit for the year	(92'028)	11'130
Total liabilities	**24'893'899**	**29'441'693**
Total subordinated debt	-	-
- *of which subject to mandatory conversion and /or debt waiver*	-	-

OFF-BALANCE-SHEET

at 31 December 2015

CHF'000	2015	2014
Contingent liabilities	559'813	712'023
Irrevocable commitments	11'202	17'421

STATEMENT OF INCOME

for the period ended 31 December 2015

CHF'000	2015	2014
Result from interest operations		
Interest and discount income	56'236	138'668
Interest and dividend income from financial investments	36'899	74'892
Interest expense	(45'551)	(43'532)
Gross result from interest operations	**47'584**	**170'028**
Changes in value adjustments for default risks and losses from interest operations	-	-
Subtotal net result from interest operations	**47'584**	**170'028**
Result from commission business and services		
Commission income from securities trading and investment activities	225'554	318'236
Commission income from lending business	4'701	2'759
Commission income from other services	10'086	15'524
Commission expense	(20'535)	(42'327)
Subtotal net income from commissions business and services	**219'806**	**294'192**
Result from trading operations	**139'768**	**83'963**
Other result from ordinary activities		
Result from the disposal of financial investments	8'039	1'569
Income from participations	6'764	1'187
Other ordinary income	93'981	83'506
Other ordinary expenses	(2'386)	(1'693)
Subtotal other result from ordinary activities	**106'398**	**84'569**
Operating expenses		
Personnel expenses	(300'278)	(340'552)
General and administrative expenses	(181'837)	(171'963)
Subtotal operating expenses	**(482'115)**	**(512'515)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(21'849)	(23'669)
Changes to provisions and other value adjustments, and losses	(106'751)	(136'393)
Operating result	**(97'159)**	**(39'825)**
Extraordinary income	28	174'160
Extraordinary expenses	(787)	(563)
Taxes	5'890	(122'642)
(Loss) / Profit for the year	**(92'028)**	**11'130**

STATEMENT OF CHANGES IN EQUITY

At 31 December 2015

CHF'000	Bank's capital	Capital reserve	Retained earnings reserve	Reserve for general banking risks	Voluntary retained earnings reserves and profit / loss carried forward	Result of the period	Total
Equity at the beginning of the year 2015	708'480	108'759	580'120	221'597	1'438'427	-	3'057'383
Dividends and other distributions	-	-	-	-	-	-	-
Other allocations to (transfer from) the reserves for general banking risks	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(92'028)	(92'028)
Equity at the end of the year 2015	**708'480**	**108'759**	**580'120**	**221'597**	**1'438'427**	**(92'028)**	**2'965'355**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2015

1. Activity and number of employees of the Bank

HSBC Private Bank (Suisse) SA (“the Bank”) was incorporated in January 2001.

The Bank has its head office in Geneva with branches in Zurich, Guernsey and Dubai. The business of the Hong Kong branch has been transferred to The Hongkong and Shanghai Banking Corporation Limited, Hong Kong, on 1 November 2013. This branch has no more activity and requests have been filed with local authorities in order to have its registration revoked.

The Bank carries out all the ordinary banking and securities dealers’ operations for the account of its clients and its own account. Its principal activities are wealth management for private and institutional clients and providing credit facilities.

The Bank also participates in the settlement of Swiss franc exchange operations by companies within the HSBC Group.

Outsourcing of IT and other services through agreements with companies owned by the HSBC Group is done according to FINMA circular 08 / 7 “Outsourcing banks”.

At 31 December 2015, the number of employees was 1’213 (2014: 1’350).

2. Accounting and valuation principles

The accounting and valuation principles are based on the Code of Obligations, the Banking Act and its related Ordinance as well as the Accounting rules for banks, securities dealers, financial groups and conglomerates according to FINMA circular 2015/1. The accompanying reliable assessment statutory single-entity financial statements present the economic situation of the Bank such that a third party can form a reliable opinion. The financial statements are allowed to include hidden reserves.

The financial statements are prepared on the assumption of an ongoing concern. The accounting is there-fore based on going-concern values.

The disclosed balance sheet items are valued individually unless stated otherwise. The transitional provision, which requires the individual valuation of equity participations, tangible fixed assets is not applied.

Comparative figures on balance sheet, statement of income and notes were adapted to the revised accounting rules for banks according to FINMA circular 2015/1. Except the adoption of new accounting guidance, no change has been applied to the recognition and valuation principles.

Conversion of foreign currencies

The annual accounts are presented in Swiss francs, the functional currency of the Bank. The balance sheet items denominated in foreign currencies are converted at the closing exchange rate.

The income and expenses in foreign currencies of the Head Office and the branches that have the same functional currency are converted at the effective exchange rates at the end of each month.

The income statement of the branches whose local currency differs from that of Head Office is converted at the average rate. Any conversion gains are provided for. Any conversion losses are first offset against any prior gains, and the excess loss is recorded in the income statement under "Trading income". In order to protect the Bank against fluctuations in exchange rates, the net results from those branches are converted into Swiss francs and, where the local regulations allow it, transferred regularly to the Head Office.

At 31 December, the exchange rates used to convert the main foreign currencies were as follows:

	2015	**2014**
USD	0.994	0.990
EUR	1.083	1.202
GBP	1.473	1.543

Liquid assets

Liquid assets are recognised at their nominal value.

Amounts due from banks

Amounts due from banks are recognised at their nominal value less any necessary value adjustments. Amounts due in respect of precious metal account deposits are valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

Amounts due from customers and mortgage loans

Amounts due from customers and mortgage loans are carried at their nominal value less any necessary value adjustments.

Interest (including accrued interest) and related commissions due and unpaid for more than 90 days are not included in interest income. The impaired loans and any collateral obtained are valued at their liquidation value, and any adjustments in value are made in light of the debtor's creditworthiness. If the repayment of the loan depends exclusively on the sale of the collateral, a value adjustment is made for the entire unsecured portion. The individual valuation adjustments including accrued interest are deducted from the corresponding asset item in the balance sheet.

Trading portfolio assets

Trading operations comprises exclusively precious metals. The trading portfolio relating to trading operations are valued and recognised at fair value. Fair value is the price based on a price-efficient and liquid market.

The price gain or loss resulting from the valuation is recorded via the item 'Result from trading operations.

Fixed assets

Fixed assets are carried on the balance sheet at acquisition cost less any depreciation required. They are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives of the main categories are as follow:

- Building without land	50 years
- Fixtures and fittings	5-10 years
- Furniture, equipment	5-8 years
- IT equipment	3-5 years

Assets acquired under finance leases are amortized according to the maturity of the contract if it is shorter than the estimated useful life.

Financial investments

Debt securities which the Bank does not intend to hold to maturity are valued according to the lower of cost or market principle. According to FINMA circular 2015/1, the Bank follows the possibility to accrue the premium / discount over the term and therefore value on the basis of the amortised cost, even if the amortised cost is higher than the historical cost.

The balance of any movements in value is accounted for under “Other ordinary expenses” or “Other ordinary income”. Profits and losses arising from the sale of securities valued according to the lower of cost or market principle are accounted for under “Result from disposals of financial securities”.

Interest-bearing securities that are intended to be held to maturity are recorded at acquisition cost. The premiums or discounts are amortized according to the effective yield method over the remaining life of the instrument (accrual method) under the statement of income “Interest and dividend income from investment portfolio” heading. The results from the disposal of these debt instruments are recorded in the balance sheet and amortized over the residual terms of these instruments. When these results correspond to a net loss, a provision is recorded.

All client precious metal positions which are covered by proprietary precious metal positions are included in “Other amounts due to customers”. Such proprietary precious metal positions are classified either as “Financial investments” or as “Amounts due from banks” depending on the nature of the position. All precious metal positions are accounted for at market value.

Participations

Participations are recorded at their acquisition cost. Value adjustments are recorded, if necessary, for permanent impairments in value.

Financial derivatives instruments

A) Trading financial derivatives instruments

Derivative financial instruments are classified as trading operations, unless they have been contracted for hedging purposes. They are valued at fair value and their replacement value is recorded on the balance sheet.

The revaluation of trading operations is accounted for under “Trading income”.

B) Hedging financial derivatives instruments

Types of underlying and hedging transaction

The Bank uses hedge accounting mainly in relation to the following types of transaction:

Underlying transaction	Hedged using
Interest rate risks of interest-rate-sensitive receivables and payables in the banking book	Interest rate swaps

Composition of the group of financial instruments

Some interest-rate-sensitive positions in the banking book (especially receivables and payables with clients as well as mortgage receivables) are grouped in various fixed-interest-rate bands by currency and hedged by means of macro hedges.

Economic relationship between the hedged items and the hedging transactions

As soon as a financial instrument is designated as a hedging transaction, the Bank documents the relationship between the hedging instrument and the secured underlying. Among others, it documents the risk management goals and strategy for the hedging transaction and the methods to assess the effective-ness of the hedging. The economic link between the underlying and the hedging transaction is continuously assessed as part of the effectiveness testing by observing the opposing changes in their values and their correlation. Profits or losses on hedges are accounted for under the same heading as the losses or profits on the hedged items. When a hedging instrument is sold, the profit or loss is recorded in the statement of income.

Measurement of effectiveness

A hedge is seen as highly effective when the following criteria are fulfilled in all material aspects:
- The hedge is estimated as highly effective from its first application and for the rest of its lifetime.
- There is a close economic correlation between the underlying and the hedging transaction.
- Changes in the value of the underlying and the hedge are contrary to the hedged risk.
- The actual results of hedges are within a range of 80%–125%.

Ineffectiveness

If a hedging transaction no longer fulfils the effectiveness criteria, it is considered like a trading transaction and the effect of the ineffective portion is recorded via the item ‘Results from trading operations”.

Amounts due to banks and amounts due in respect of customer deposits

These items are to be recognised at their nominal value.

Amounts due in respect of precious metal account deposits must be valued at fair value if the precious metal concerned is traded on a price-efficient, liquid market.

Provisions

The Bank records value adjustments and provisions based on its assessment of the risks incurred and on its valuation principles.

Value adjustments and provisions related to financial investments and amounts due from customers are deducted from the corresponding balance sheet caption.

Employee benefits obligations

According to FINMA circular 2015/1 (Mn 502), the Bank assesses the potential economic impact related to the employee benefits obligations in particular with the annual accounts of pension funds, prepared in accordance with the Swiss GAAP FER 26 rules. Such annual accounts present employee benefits obligations based on static actuarial methods.

Sale and repurchase agreements (including stock lending and borrowing)

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to sell ("reverse repos") are not recognised on the balance sheet and the consideration paid is recorded in "Loans and advances to banks" or "Loans and advances to customers" as appropriate. The difference between the sale and repurchase price is treated as interest and recognised over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively. Securities borrowed are not recognised on the balance sheet, unless they are sold on to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value, and any gains or losses are included in "Net trading income".

Taxes

The Bank provides for income and capital taxes on an accrual basis.
The effects of the deferred taxes are considered in the calculations and are created via the item "Taxes" if needed.

Off-balance-sheet transactions

Off-balance-sheet disclosures are at nominal value. Provisions are created, if necessary in the liabilities in the balance sheet for foreseeable risks.

Risk management

The Bank, like any other financial institute, is subject to various banking-specific risks: credit, market and liquidity risks as well as operational and legal risks. The monitoring, identification, measurement and management of these risks are a priority for the Bank.

The Board of Directors has conducted an analysis of the main risks incurred by the Bank. This analysis is based on data and risk management tools developed by the Bank and taking prospectively into consideration the risks to which the Bank is exposed. During this risk analysis, the Board took into consideration the existing internal control system to manage and reduce the risks.

The Bank has established a policy in order to limit and manage its main risks. It includes in particular a system of limits, the definition of authorized financial instruments, as well as the authorities relating to operational risk. It is in conformity with the standards adopted by the HSBC Group.

The major risks are measured and controlled by an independent body.

Credit risk

Loans and advances to clients are granted in the framework of the Bank's wealth management activities, essentially on a secured basis. Unsecured loans are granted exceptionally and are accompanied by restrictive conditions.

Loans to clients are guaranteed mainly by liquid assets deposited with the Bank and pledged in its favor. They are generally made up of cash deposits, shares, bonds regularly quoted, investment funds or other securities. Loans are also granted on the basis of collateral consisting of hedge funds, real estate, or other pledges. Real estate is taken into account in the form of first rank mortgages recorded with the Land Registry or similar collateral, in accordance with local regulations.

The assets taken into consideration by the Bank are valued at market and are discounted to determine their collateral or pledge value. The market value of real estate used as collateral is determined on the basis of evaluations that are renewed based on the borrower's rating, the advance value against the real estate, the amount of the credit facility and the market condition. The discount factors used are a function of the underlying risk of the securities pledged and are adjusted based on the level of diversification, liquidity and country risks related to client portfolio.

Each advance or loan has been allocated a rating according to different factors including the quality of the collateral that has been provided, the level of coverage and the portfolio diversification. This system of grading, developed by the HSBC Group, enables the Bank to quantify and monitor the credit risk of its portfolio of loans and advances to clients.
In order to identify any impaired loans, the Bank performs daily reviews to ensure that the loans and advances are covered by the pledged collateral. When margins are insufficient, the Bank requests additional funds and, if necessary, liquidates the pledged collateral.

Impaired loans are valued individually and specific provisions are generally established if the liquidation value of the collateral is no longer sufficient or the borrower does not have the capacity to repay the loan.

Interest rate risk

The interest rate risk is measured using the Present Value of one Basis Point (PVBP) method. This method quantifies the effect of the variation of one basis point in interest rates on the net present value of a position. It thus allows computation of the sensitivity and exposure of the Bank to interest rate changes.

The Bank optimises asset and liability management in accordance with the anticipated interest rate variation and the limits granted by HSBC Group Market Risk. It trades financial derivatives such as interest rate swaps to improve the assets and liabilities management gap. In addition, the Bank has limits for trading futures contracts on interest rates and other interest rate products.

The Bank calculates the interest rate risk on a daily basis and ensures compliance with the limits granted.

Other market risk

A) Currency risk

The Bank measures the currency risk on a daily basis and ensures that the limits granted are complied with. The exposures are measured in terms of Net Short per currency as well as the Total Net Short at the Bank level.

Balance Sheet Management uses financial derivative instruments such as currency swaps to manage the currency risk of the Bank.

B) Equity risk

The Bank does not hold equities in its proprietary book.

Liquidity risk

The liquidity strategy is an integral part of the Risk Appetite Statement (RAS) of the Bank and approved by the Board of Directors. The policy is defined and owned by the ALCM department (Asset, Liability and Capital Management) with proper monitoring in place to ensure that the imposed limits and ratios are complied with. The liquidity positions, available funding and concentration risks are reported monthly to the Asset and Liability Management Committee (ALCO) of the Bank.

Liquidity risk management aims to establish a strong liquidity position to allow the Bank to meet its obligations in a timely manner. To the extent that PBRS is a liability-driven balance sheet, the assets are essentially funded by client deposits and the surplus liquidity (excess of deposits over client advances) is deployed in high quality liquid assets.

The Contingency Funding Plan (CFP) is a key aspect of the Bank’s liquidity crisis management framework. The CFP includes an assessment of financing sources in stressed market conditions, considers liquidity status indicators and key figures, and describes the actions to be taken to ensure solvency. To address any eventual liquidity crisis funding is diversified in terms of depositor types and a sufficient high quality liquid assets buffer is maintained.

Operational risk

A) Information security risk

The reliability and security of the Bank's information and technology infrastructure and its customer databases are crucial to maintaining the service availability of banking applications and processes and to protecting the Bank’s reputation. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to the Bank's ability to service its clients, could breach regulations under which the Bank operates and could cause long term damage to its business and reputation.

B) Legal risk

In conformity with HSBC standards, HSBC Private Bank (Suisse) SA has procedures to manage legal risk. Legal risk falls within the definition of operational risk and includes contractual risk, dispute risk, legislative risk and non-contractual rights risk. The Bank is supported by a legal function in controlling legal risk. This function provides support through legal advice to all Bank’s businesses and functions, drafting and reviewing the agreements entered into by the Bank, managing claims raised against the Bank, as well as in respect of non-routine debt recoveries or other litigation against third parties. The Bank Legal department is – in accordance with the rules in place - immediately notified about any legal action threatened or commenced against the Bank or its employees.

Use of derivative financial instruments

These operations are essentially executed on behalf of customers and relate mainly to currencies, interest rates and shares. The transactions carried out for the account of the Bank are primarily performed to manage interest rate risk.

Recording of transactions

The balance sheet is presented in accordance with the trade date principle, except for interbank placements and borrowings as well as loans to customers, which are recorded in accordance with the value date principle.

Material events after the balance sheet date

No material events occurred after the balance sheet date that could have a material impact on the financial position of the Bank as of 31 December 2015.

3. Information concerning the balance sheet

3.1 Presentation of collateral for loans / receivables and off-balance sheet transactions, as well as impaired loans / receivables

CHF'000	Secured by mortgages	Other collateral	Unsecured	Total
Loans (before netting with value adjustments)				
Amounts due from customers	-	7'945'457	324'988	8'270'445
Mortgages loans				
Residential property	507'186	-	-	507'186
Office and business premises	205'004	-	-	205'004
Total loans (before netting with value adjustments)				-
31 December 2015	**712'190**	**7'945'457**	**324'988**	**8'982'635**
31 December 2014	**518'413**	**8'294'333**	**83'738**	**8'896'484**
Total loans (after netting with value adjustments)				
31 December 2015	**712'190**	**7'945'457**	**324'969**	**8'982'616**
31 December 2014	**518'413**	**8'294'333**	**83'564**	**8'896'310**
Off-balance sheet				
Contingent liabilities	-	559'813	-	559'813
Irrevocable commitments	-	2'694	8'508	11'202
Total off-balance sheet operations at 31 December 2015	**-**	**562'507**	**8'508**	**571'015**
Total off-balance sheet operations at 31 December 2014	**-**	**716'052**	**13'392**	**729'444**

3.2 Impaired loans / receivables

CHF'000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
31 December 2015	19	-	19	19
31 December 2014	174	-	174	174

3.3 Trading portfolios

CHF'000	2015	2014
Precious metals	29'527	52'083
Total trading portfolio assets	**29'527**	**52'083**

3.4 Presentation of derivative financial instruments (assets and liabilities)

CHF'000	Trading instruments: Positive replacement values	Trading instruments: Negative replacement values	Trading instruments: Contract volume	Hedging instruments: Positive replacement values	Hedging instruments: Negative replacement values	Hedging instruments: Contract volume
Equity Securities / indices						
options (OTC)	33'365	39'644	8'331'920	-	-	
Foreign exchange						
forward contracts	197'358	175'299	19'310'212	-	-	-
options (OTC)	37'394	37'394	2'398'454	-	-	-
Interest rate instruments						
Swaps	-	-	-	1'236	6'142	800'358
options (OTC)	15'016	15'016	555'249	-	-	-
Precious metals						
forward contracts	1'034	897	111'241	-	-	-
options (OTC)	27	27	21'156	-	-	-
Total before netting agreements						
31.12.2015	**284'194**	**268'277**	**30'728'232**	**1'236**	**6'142**	**800'358**
- of which, determined using a valuation model	-	6'279	-	-	-	-
31.12.2014	**566'087**	**491'002**	**42'886'902**	**935**	**11'218**	**974'548**
- of which, determined using a valuation model	-	-	-	-	-	-

Total after netting agreements	Positive replacement values (cumulative)	Negative replacement values (cumulative)
31.12.2015	285'430	274'419
31.12.2014	567'022	502'220

<u>Breakdown by counterparty</u>

CHF'000	Central clearing houses	Banks and securities dealers	Other customers	Positive replacement values (cumulative)
Positive replacement values (after netting agreement) in 2015	-	105'325	180'105	**285'430**

3.5 Breakdown of financial investments

CHF'000	Book value 2015	Book value 2014	Fair value 2015	Fair value 2014
Debt securities				
- of which, intended to be held to maturity	298'260	2'954'096	298'135	2'955'579
- of which, not intended to be held to maturity (available for sale)	2'594'047	3'629'658	2'603'578	3'652'517
Precious metals	80'662	148'497	80'662	148'497
Equity securities	-	9'428	-	9'429
Total financial investments	**2'972'969**	**6'741'679**	**2'982'375**	**6'766'022**
of which, securities eligible for repo transactions in accordance with liquidity requirements	1'456'071	2'424'443	—	—

Available for sale debt securities and equity stocks are valued according to the lower of cost or market principle on the basis of a global valuation.

Breakdown of counterparties by rating

CHF'000	Book value
AAA to AA-	2'632'904
From A+ to A-	-
BBB+ to BBB-	298'260
BB+ to B-	-
Below B-	-
Unrated	41'805
Total financial investments	**2'972'969**

The Bank relies on the rating classes of Standard & Poor's and Moody's. Ratings are based on Standard & Poor's rating scale. When 2 ratings are available, we use the more prudent one. In the absence of a specific rating, we use the long-term rating of the issuer.

3.6 Presentation of participations

CHF'000	Acquisition cost	Value adjustments	Book value	Additions	Disposals	Value adjustments	Book value	Market value
				2015				
Other participations								
-Without market value	129'935	-	129'935	-	-	-	129'935	——
Total participations	**129'935**	**-**	**129'935**	**-**	**-**	**-**	**129'935**	——

3.7 Disclosure of companies in which the Bank holds a permanent direct or indirect significant participation

CHF'000	Activity	Head office	Currency	Share capital	Net book value	Capital	Voting rights	Held directly	Net book value	Capital	Voting rights	Held directly
					2015				2014			
HSBC Private Bank (Luxembourg) SA	Bank	Luxembourg	EUR	53'000	124'956	100%	100%	100%	124'956	100%	100%	100%
Société Immobilière Atlas	Real estate company	Geneva	CHF	100	2'000	100%	100%	100%	2'000	100%	100%	100%
HSBC Trust Company SA	Advisory management	Zurich	CHF	1'600	2'900	100%	100%	100%	2'900	100%	100%	100%
Other participations					79	-	-	-	79	-	-	-

3.8 Presentation of tangible fixed assets

CHF'000	Purchase cost	Accumulated depreciation	Net book value	Additions	Disposals	Depreciation	Net book value
			2015				
Bank buildings	18'512	(16'460)	2'052	38	-	(499)	1'591
Proprietary or separately acquired software	39'080	(34'177)	4'903	18'342	-	(881)	22'364
Other tangible fixed assets	305'349	(192'069)	113'280	10'171	-	(20'469)	102'982
Total tangible fixed assets	**362'941**	**(242'706)**	**120'235**	**28'551**	**-**	**(21'849)**	**126'937**

The depreciation method applied and the range used for the expected useful life are explained in the general principles for accounting and valuation.

<u>Future commitments arising from operational leases were as follows:</u>

CHF'000	2015	2014
Maturity up to 12 months	25'692	29'171
Maturity between 12 months to 5 years	87'951	91'166
Maturity over 5 years	119'263	135'512
Total off-balance sheet leasing obligations	**232'906**	**255'849**
- of which may be terminated within one year	-	-

3.9 Breakdown of other assets and other liabilities

CHF'000	2015	2014
Other assets		
Compensation account	4'906	10'283
Tax prepayments	315'908	328'693
Internal bank business operations	3'530	208'829
Other assets	171'123	118'517
Total other assets	**495'467**	**666'322**
Other liabilities		
Internal bank business operations	11'245	95'519
Indirect Taxes	5'452	6'689
Other liabilities	18'251	2'060
Total other liabilities	**34'948**	**104'268**

3.10 Disclosure of assets pledged or assigned to secure own commitments and assets under reservation of ownership

	Book value	Effective commitments	Book value	Effective commitments
CHF'000	2015		2014	
Deposits made with companies of the HSBC Group to guarantee operations on derivative instruments carried out with the Group	384'646	384'646	429'973	429'973
Deposits made with external counterparties to guarantee operations on derivative instruments carried out with them	48'330	48'330	44'154	44'154
Bonds placed with clearing companies to guarantee currencies settlement	-	-	98'457	-
Others	54'144	-	60'112	-
Total pledged assets	**487'120**	**432'976**	**632'696**	**474'127**

3.11 Disclosure of liabilities relating to own pensions schemes

The employees of the head office and Swiss branches are affiliated to two defined contribution schemes, the Swiss pension fund and the Swiss complementary pension fund.

In the context of the Swiss pension schemes regulation, all employees are affiliated for their base remuneration at the Swiss pension fund. Employees above a certain level of variable remuneration become eligible to the complementary Swiss pension fund.

Monetary commitments of the Bank to the pension schemes

On 31 December, the monetary commitments of the Bank to the pension schemes were as follows:

(CHF'000)	2015	2014
Pension fund in favor of employees	1'701	2'021
Total Liabilities	**1'701**	**2'021**

These liabilities represent deposits made by the pension funds at the Bank.

Employer contribution reserves

	Nominal value at current year end	Waiver of use at current year end	Net amount at current year end	Net amount at previous year end	Influence of ECR on personnel expenses	
CHF'000					2015	2014
Swiss pension fund	27'000	-	27'000	27'000	-	-

Presentation of the pension expenses

	Overfunding at end of 2015	Contribution paid for 2015	Pension expenses in personnel expenses	
CHF'000			2015	2014
Swiss pension fund	112.0%	23'159	23'159	25'013
Swiss complementary pension fund	100.0%	2'201	2'201	3'009

The accounting for the Swiss pension fund and for the Swiss complementary pension fund is in accordance with the requirements of the Accounting and Reporting Recommendations Swiss GAAP FER 26. There are no other liabilities on the employer's side.

The overfunding of the Swiss Pension fund of 112% is used exclusively for the benefit of the insured members, thus there is no economic benefit to the Bank that needs to be recorded in the balance sheet and in the income statement. There were no economic liabilities at 31 December 2015 and 2014.

3.12 Presentation of value adjustments and provisions, reserves for general banking risks and changes therein during the current year

CHF'000	Balance at 1 January 2015	Use in conformity with designated purpose	Currency differences	New provisions charged to income statement	Released to income	Balance at 31 December 2015
Provisions for deferred taxes	-	-	-	21'700	-	21'700
Provisions for other business risks	2'058	-	(205)	-	-	1'853
Provisions for restructuring	64'267	(4'224)	-	19'628	-	79'671
Other provisions	541'680	(108'766)	(9'442)	83'827	-	507'299
Total provisions	**608'005**	**(112'990)**	**(9'647)**	**125'155**	**-**	**610'523**
Reserves for general banking risks	221'597	-	-	-	-	221'597
Value adjustments for default and country risks						
- of which, value adjustments for default risks in respect of impaired loans	174	(155)	-	-	-	19

The Reserves for general banking risks have been disclosed to the fiscal authorities. Their dissolution will be taken into account in determining the taxable profit in accordance with the local fiscal regulations in force. However, it will be possible to dissolve CHF 20.5 million without tax impact at the cantonal level in Switzerland.

Other provisions include, but are not limited to, legal proceedings and regulatory matters as well as customer remediation.
Legal proceedings include civil court, arbitration or tribunal proceedings brought against the group (whether by way of claim or counterclaim) or civil disputes that may, if not settled, result in court, arbitration or tribunal proceedings. Regulatory matters refer to investigations, reviews and other actions carried out by, or in response to the actions of, regulators or law enforcement agencies in connection with alleged wrongdoing by the group. Further details of legal proceedings are set out in note litigation.
Customer remediation refers to activities (root cause analysis, customer contact, case reviews, decision making and redress calculations) carried out by the group to compensate customers for losses or damages associated with a failure to comply with regulations or to treat customers fairly. Customer remediation is initiated by the group in response to customer complaints and/or industry developments in sales practices, and is not necessarily initiated by regulatory action.

3.13 Presentation of the Bank's capital

CHF'000 (except number of shares)	Total nominal value 2015	Number of shares 2015	Capital giving rights to dividends 2015	Total nominal value 2014	Number of shares 2014	Capital giving rights to dividends 2014
Share capital	708'480	708'480	708'480	708'480	708'480	708'480
- of which, paid up	708'480	708'480	708'480	708'480	708'480	708'480
Total bank's capital	**708'480**	**708'480**	**708'480**	**708'480**	**708'480**	**708'480**

The company's share capital is fully paid in. No special rights are conferred by the share capital.

Non distributable reserves:

To the extent it does not exceed one-half of the share capital, the statutory retained earnings reserve may be used only to cover losses or for measures designed to sustain the company through difficult times, to prevent unemployment or to mitigate its consequences.

There are no statutory limitations that apply to the distribution of the voluntary retained earnings reserve

CHF'000	2015	2014
Non-distributable statutory capital reserve	108'759	108'759
Non-distributable statutory retained earnings reserve	245'481	245'481

3.14 Equity securities or options on equity securities held by executives and directors and by employees

The Bank has no specific share-based payment arrangements of its own and participates in HSBC Holdings Plc plans consisting of share option awards and restricted share awards.

The share-based payment income statement charge above includes CHF 3.3 million (2014: CHF 10.0 million) relating to deferred share awards. These awards are generally granted to employees early in the year following the year to which the award relates. The charge for these awards is recognized from the start of the period to which the service relates to the end of the vesting period. The vesting period is the period over which the employee satisfies certain service conditions in order to become entitled to the award. Due to the staggered vesting profile of certain deferred share awards, the employee becomes entitles to a portion of the award at the end of each year during the vesting period. The income statement charge reflects this vesting profile.

The purpose of the HSBC share option plan is to enable eligible employees to save up to GBP 250 per month, with the option to use the savings to acquire shares, and to align the interests of all employees with the creation of shareholder value.

HSBC Holdings Plc share option awards and restricted share awards held by Bank’s executives, directors and employees are as follows:

	Restricted shares				**Options**			
	Number		**Value in CHF'000**		**Number**		**Value in CHF'000**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Total	1'778'341	2'813'978	15'415	26'734	49'865	128'344	329	766

3.15 Disclosure of amounts due from / to related parties

	Amounts due from		**Amounts due to**	
CHF'000	**2015**	**2014**	**2015**	**2014**
Holders of qualified participations	3'463	13'531	78'461	1'274'690
Group companies	773'878	1'111'470	2'330'929	3'068'268
Linked companies	1'583'894	4'402'371	7'313'416	8'976'537
Transactions with members of governing bodies	2'503	3'864	7'180	6'220

The transactions with related parties were concluded under normal market conditions. They comprised inter-bank loans, deposits, transactions in interest-bearing securities and transactions in derivative financial instruments.

3.16 Disclosure of holders of significant participations

As at 31 December 2015 the capital was fully owned by HSBC Private Banking Holdings (Suisse) SA, Geneva (2014: 100%).

The entire share capital is indirectly owned by HSBC Holdings plc, London.

3.17 Presentation of the maturity structure of financial instruments

CHF'000	At sight	Cancellable	Due within 3 months	Due between 3 to 12 months	Due between 1 to 5 years	Due over 5 years	No maturity	Total
Assets / financial instruments				**2015**				
Liquid assets	9'558'943	-	-	-	-	-	-	9'558'943
Amounts due from banks	1'104'676	-	923'883	-	198'840	49'710	-	2'277'109
Amounts due from customers	-	4'249'751	3'251'534	506'022	248'902	14'217	-	8'270'426
Mortgage loans	-	-	112'695	244'768	324'213	30'514	-	712'190
Trading portfolio assets	29'527	-	-	-	-	-	-	29'527
Positive replacement values of derivatives financial instruments	285'430	-	-	-	-	-	-	285'430
Financial investments	80'661	-	372'692	570'095	1'450'409	499'112	-	2'972'969
Total at 31 December 2015	**11'059'237**	**4'249'751**	**4'660'804**	**1'320'885**	**2'222'364**	**593'553**	**-**	**24'106'594**
Total at 31 December 2014	**10'738'578**	**4'027'890**	**5'579'345**	**3'482'619**	**3'785'008**	**844'293**	**9'428**	**28'467'161**
Debt capital / financial instruments								
Amounts due to banks	497'053	-	9'542'494	120'421	-	-	-	10'159'968
Amounts due in respect of customer deposits	10'339'383	-	34'797	-	-	-	-	10'374'180
Negative replacement values of derivatives financial instruments	274'419	-	-	-	-	-	-	274'419
Total at 31 December 2015	**11'110'855**	**-**	**9'577'291**	**120'421**	**-**	**-**	**-**	**20'808'567**
Total at 31 December 2014	**12'106'553**	**-**	**11'520'359**	**1'579'161**	**-**	**-**	**-**	**25'206'073**

3.18 Presentation of assets and liabilities by domestic and foreign origin (domicile principle)

	Domestic	Foreign	Total	Domestic	Foreign	Total
CHF'000			2015			2014
Assets						
Liquid assets	9'558'943	-	9'558'943	9'037'086	9'394	9'046'480
Amounts due from banks	381'748	1'895'361	2'277'109	124'513	3'041'132	3'165'645
Amounts due from customers	208'945	8'061'481	8'270'426	235'009	8'142'888	8'377'897
Mortgage loans	261'776	450'414	712'190	202'683	315'730	518'413
Trading portfolio assets	29'527		29'527	52'083	-	52'083
Positive replacement values of derivatives financial instruments	41'408	244'022	285'430	105'696	461'326	567'022
Financial investments	357'129	2'615'840	2'972'969	654'788	6'086'891	6'741'679
Accrued income and prepaid expenses	28'164	6'802	34'966	42'544	13'438	55'982
Participations	4'910	125'025	129'935	4'910	125'025	129'935
Tangible fixed assets	126'806	131	126'937	120'235	-	120'235
Other assets	456'921	38'546	495'467	604'752	61'570	666'322
Total assets	**11'456'277**	**13'437'622**	**24'893'899**	**11'184'299**	**18'257'394**	**29'441'693**
Liabilities						
Amounts due to banks	357'401	9'802'567	10'159'968	199'554	13'258'837	13'458'391
Amounts due in respect of customer deposits	1'071'693	9'302'487	10'374'180	1'432'043	9'813'419	11'245'462
Negative replacement values of derivatives financial instruments	9'290	265'129	274'419	63'783	438'437	502'220
Accrued expenses and deferred income	440'926	33'580	474'506	406'286	59'678	465'964
Other liabilities	14'497	20'451	34'948	72'307	31'961	104'268
Provisions	525'895	84'628	610'523	524'870	83'135	608'005
Reserves for general banking risks	132'915	88'682	221'597	132'915	88'682	221'597
Bank's capital	708'480	-	708'480	708'480	-	708'480
Statutory capital reserve	108'759	-	108'759	108'759	-	108'759
Statutory retained earnings reserve	580'120	-	580'120	580'120	-	580'120
Profit carried forward	1'294'509	143'918	1'438'427	1'198'910	228'387	1'427'297
(Loss) / Profit for the year	(95'197)	3'169	(92'028)	(4'402)	15'532	11'130
Total liabilities	**5'149'288**	**19'744'611**	**24'893'899**	**5'423'625**	**24'018'068**	**29'441'693**

3.19 Breakdown of total assets by country or group of countries (domicile principle)

CHF'000	Carrying value	Share %	Carrying value	Share %
		2015		**2014**
Assets				
Switzerland	11'456'277	46.0	11'184'299	38.0
Europe excluding Switzerland	5'361'607	21.6	7'555'421	25.7
United States and Canada	1'450'840	5.8	3'514'318	11.9
Asia-Pacific	1'459'038	5.9	1'572'983	5.3
Latin America and Caribbean	4'034'235	16.2	4'342'906	14.8
Africa and Middle East	1'131'902	4.5	1'271'766	4.3
Total assets	**24'893'899**	**100.0**	**29'441'693**	**100.0**

3.20 Breakdown of total assets by credit rating of country groups (risk domicile view)

	Net foreign exposure at 31 December 2015		Net foreign exposure at 31 December 2014	
CHF'000	Carrying value	Share as %	Carrying value	Share as %
1&2	7'977'746	68.7	11'831'041	74.2
3	565'214	4.9	763'971	4.8
4	569'542	4.9	716'321	4.4
5	552'991	4.7	1'066'635	6.7
6	95'304	0.8	118'522	0.7
7	371'704	3.2	215'254	1.4
Unrated	1'485'721	12.8	1'241'498	7.8
Total assets	**11'618'222**	**100.0**	**15'953'242**	**100.0**

Explanations of the ratings system used

We use ratings provided by the FINMA in its correspondence tables for the calculation of the regulatory capital requirements. The SERV ratings are used for each country. This table was compiled on the basis of the countries of domicile of clients, banking counterparts and issuers. With regard to debtors' customers, the collaterals received are taken into consideration.

3.21 Presentation of assets and liabilities broken by the most significant currencies for the Bank

CHF'000	CHF	EUR	USD	GBP	Others	Total
Assets			**2015**			
Liquid assets	9'555'300	2'494	524	312	313	9'558'943
Amounts due from banks	7'591	440'616	863'344	762'032	203'526	2'277'109
Amounts due from customers	214'807	1'054'135	5'934'555	925'350	141'579	8'270'426
Mortgage loans	315'356	191'832	2'983	175'585	26'434	712'190
Trading portfolio assets	-	-	-	-	29'527	29'527
Positive replacement values of derivatives financial instruments	4'452	33'963	163'993	6'922	76'100	285'430
Financial investments	358'746	774'659	1'744'443	14'460	80'661	2'972'969
Accrued income and prepaid expenses	7'149	8'925	16'371	1'909	612	34'966
Participations	129'871	64	-	-	-	129'935
Tangible fixed assets	126'806	-	131	-	-	126'937
Other assets	415'041	57'974	1'897	15'853	4'702	495'467
Total assets shown in balance sheet	**11'135'119**	**2'564'662**	**8'728'241**	**1'902'423**	**563'454**	**24'893'899**
Delivery entitlements from spot exchange, forward forex and forex options transactions	1'358'352	2'954'239	8'982'515	2'206'638	4'455'517	19'957'261
Total Assets	**12'493'471**	**5'518'901**	**17'710'756**	**4'109'061**	**5'018'971**	**44'851'160**
Liabilities						
Amounts due to banks	1'403'766	172'098	6'351'828	1'552'785	679'491	10'159'968
Amounts due in respect of customer deposits	698'003	1'755'931	6'284'437	1'029'408	606'401	10'374'180
Negative replacement values of derivatives financial instruments	19'223	38'078	132'398	13'159	71'561	274'419
Accrued expenses and deferred income	402'329	1'294	36'804	32'764	1'315	474'506
Other liabilities	1'031	768	18'034	3'867	11'248	34'948
Provisions	101'366	108'562	314'657	2'906	83'032	610'523
Reserves for general banking risks	221'597	-	-	-	-	221'597
Bank's capital	708'480	-	-	-	-	708'480
Statutory capital reserve	108'759	-	-	-	-	108'759
Statutory retained earnings reserve	580'120	-	-	-	-	580'120
Profit carried forward	1'438'636	-	(209)	-	-	1'438'427
(Loss) / Profit for the year	(92'091)	-	63	-	-	(92'028)
Total liabilities shown in balance sheet	**5'591'219**	**2'076'731**	**13'138'012**	**2'634'889**	**1'453'048**	**24'893'899**
Delivery entitlements from spot exchange, forward forex and forex options transactions	6'901'311	3'443'160	4'573'050	1'474'323	3'565'417	19'957'261
Total Liabilities	**12'492'530**	**5'519'891**	**17'711'062**	**4'109'212**	**5'018'465**	**44'851'160**
Net position per currency	**941**	**(990)**	**(306)**	**(151)**	**506**	**-**

4. INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

4.1 Breakdown and explanation of contingent assets and liabilities

CHF'000	2015	2014
Contingent assets arising from tax losses carried forward	143'035	-
Total contingent assets	**143'035**	**-**

CHF'000	2015	2014
Guarantees to secure credits and similar	559'813	712'023
Total contingent liabilities	**559'813**	**712'023**

4.2 Breakdown of fiduciary transactions

CHF'000	2015	2014
Fiduciary deposits with third-party banks	393'982	505'719
Fiduciary deposits with affiliated banks	6'750'761	8'091'138
Total fiduciary transactions	**7'144'743**	**8'596'857**

4.3 Breakdown of managed assets and presentation of their development

Type of managed assets

CHF'000	2015	2014
Assets under discretionary asset management agreements	6'505'746	6'475'607
Other managed assets	52'580'914	60'457'804
Total managed assets	**59'086'660**	**66'933'411**

The managed assets disclosed include all client assets deposited at the Bank with an investment character as well as client assets managed by the Bank. It does not include assets kept by the Bank but managed by a third party (custody-only).

Assets under discretionary asset management agreements comprise clients' deposits for which the Bank makes the investment decisions. Other managed assets include those for which the client makes the investment decisions.

In addition to the assets mentioned above, the Bank also holds assets as part of a "global custodian" service provided to large clients representing CHF 1'057.4 million in December 2015 and CHF 1'280.7 million in December 2014.

Development of managed assets

CHF'000	2015	2014
Total managed assets (including double counting) at beginning	66'933'411	74'174'720
- net new money money outflow	(6'273'000)	(14'454'000)
+/- price gains / losses, interest, dividends and currency gains / losses	(1'573'751)	7'212'691
Total managed assets (including double counting) at end	**59'086'660**	**66'933'411**

Net new money is calculated monthly by totaling the incoming and outgoing client transfers of cash and securities. It does not include currency fluctuations, security price variations as well as internal transfers between the accounts and interest credited to the client deposits. The interest and dividends resulting from the customer's assets as well as the interests, the commissions and fees debited from the client assets are not included either in the net new money calculation.

4.4 Litigation

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ("Madoff") was arrested in December 2008, and ultimately pleaded guilty to running a Ponzi scheme. He has acknowledged, in essence, that while purporting to invest his customers' money in securities, he in fact never invested in securities and used other customers' money to fulfil requests to return investments. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated by a trustee (the 'Trustee').

Various non-US HSBC companies provided custodial, administration and similar services to a number of funds incorporated outside the US whose assets were invested with Madoff Securities. Based on information provided by Madoff Securities, as at 30 November 2008, the purported aggregate value of these funds was US$8.4bn; an amount that includes fictitious profits reported by Madoff. Based on information available to HSBC, we have estimated that the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time that HSBC serviced the funds totaled approximately US$4bn. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US: The Trustee has brought lawsuits against various HSBC companies - among which HSBC Private Bank (Suisse) SA - in the US Bankruptcy Court and in the English High Court. The Trustee's ongoing US claims seek recovery of prepetition transfers pursuant to US bankruptcy law. The amount of these claims has not been pleaded or determined as against HSBC. The Trustee's English action seeks recovery of unspecified transfers from Madoff Securities to or through HSBC. HSBC has not yet been served with the Trustee's English action. The Trustee's deadline for serving the claim has been extended through the third quarter of 2016.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield'), funds whose assets were invested with Madoff Securities, commenced multiple lawsuits in the US and the British Virgin Islands ('BVI') against fund shareholders, including various HSBC companies that acted as nominees for HSBC clients, seeking restitution of payments made in connection with share redemptions. Fairfield's US actions are stayed pending the outcome of the cases in the BVI (discussed below). HSBC Private Bank (Suisse) SA is a one of the defendants in the claim initiated by Fairfield Sigma and Faifield Sentry funds in the USA.

In September 2013, the US Court of Appeals for the Second Circuit affirmed the dismissal of purported class action claims against HSBC and others brought by investors in three Madoff-invested funds on grounds of *forum non conveniens*. In May 2015, plaintiffs filed a motion asking the Court of Appeals to restore their class action claims on the basis of an alleged change of law. Plaintiffs' motion was denied by the Court of Appeals in June 2015.

In December 2014, three additional actions were filed in the US in which HSBC Private Bank (Suisse) SA is targeted as one of the defendant.

The first is a purported class action brought in the United States District Court for the Southern District of New York (the 'New York District Court') by direct investors in Madoff Securities who were holding their investments as of December 2008, asserting various common law claims and seeking to recover damages lost to Madoff Securities' fraud on account of HSBC's purported knowledge and alleged furtherance of the fraud. HSBC moved to dismiss this action in November 2015 and a decision on that motion is pending.

The other two actions were both filed by SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff -invested company, Optimal Strategic US Equity Ltd. One of these actions was filed in New York state court and the other in New York District Court. In January 2015, SPV OSUS dismissed its federal lawsuit against HSBC. The state court action against HSBC remains pending.

In May 2015, an action was filed in New York District Court by two investors in the Madoff-invested fund Hermes International Fund Limited ('Hermes'), asserting various common law claims against HSBC and seeking to recover damages lost to Madoff Securities' fraud. HSBC's motion to dismiss the action was filed in January 2016 and a decision on that motion is pending.

BVI litigation: Beginning in October 2009, Fairfield commenced multiple lawsuits in the BVI against numerous fund shareholders, including various HSBC companies – among which HSBC Private Bank (Suisse) SA - that acted as nominees for clients of HSBC's private banking business and other clients who invested in Fairfield. Fairfield is seeking restitution of redemption payments made by the funds to defendants on the grounds that they were mistakenly based on inflated net asset values. In April 2014, the UK Privy Council issued a ruling in favour of other defendants in the BVI actions, and issued its order in October 2014. The Privy Council ruling found in effect that Fairfield should not be entitled to recover share redemptions that were calculated on a net asset value per share based on fictitious profits, and were paid to shareholders prior to the collapse of Madoff Securities. Separately, a motion was brought by defendants before the BVI court challenging the authorisation of the Fairfield liquidator (appointed in July 2009) to pursue its claims in the US. That motion was heard in March 2015 and a decision on that motion is pending.

There are many factors that may affect the range of possible outcomes, and the resulting financial impact, of the various Madoff-related proceedings described above, including but not limited to the multiple jurisdictions in which the proceedings have been brought and the number of different plaintiffs and defendants in such proceedings.

Tax-related investigations

HSBC continues to cooperate in ongoing investigations by the Department of Justice ('DoJ') and the US Internal Revenue Service regarding whether certain HSBC companies and employees, including those associated with HSBC Private Bank (Suisse) SA (referred as 'the Bank') acted appropriately in relation to certain customers who had US tax reporting obligations. In connection with these investigations, the Bank, with due regard for Swiss law, has produced records and other documents to the DoJ. In August 2013, the DoJ informed the Bank that it was not eligible for the 'Program for Non-Prosecution Agreements or Non-Target Letters for Swiss Banks' since a formal investigation had previously been authorised.

In addition, various tax administration, regulatory and law enforcement authorities around the world, including in Belgium, France, Argentina and India, are conducting investigations and reviews of the Bank in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation The Bank has been placed under formal criminal examination by magistrates in both Belgium and France.

In Argentina, in November 2014, the Argentine tax authority filed a complaint against various individuals, including current and former HSBC employees, alleging tax evasion and an unlawful association amongst the Bank, which allegedly enabled numerous HSBC customers to evade their Argentine tax obligations. In addition, the Argentine Congress convened a special committee to investigate similar allegations, as well as issues related to allegations of Argentine income tax evasion more broadly. The committee issued its final report in December 2015.

In India, the Bank received, in August 2015 and November 2015, notices issued by two offices of the Indian tax authority, alleging that the Indian tax authority had sufficient evidence to initiate prosecution against the Bank for abetting tax evasion of a few different Indian individuals and/or families and requesting that the Bank show why such prosecution should not be initiated.

With respect to each of these ongoing matters, the Bank is cooperating with the relevant authorities in a manner consistent with relevant laws. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews, which could be significant.

In light of the media attention regarding these matters, it is possible that other tax administration, regulatory or law enforcement authorities will also initiate or enlarge similar investigations or regulatory proceedings.

Other litigation

These actions apart, the Bank is party to legal proceedings and regulatory matters - in a number of jurisdictions but mainly in Switzerland - arising out of its normal business operations. The Bank considers that none of these matters is expected to result in a significant adverse effect on the Bank's financial position, either individually or in the aggregate.

Notably, the Bank is engaged in litigation proceedings initiated by two former clients alleging on one side a breach by the Bank of several management mandates and on the other side of an exposure to an incorrect reference currency in the framework of a management mandate. The amounts claimed amount to roughly CHF 31.7 million plus interest at 5%. The Bank is vigorously defending the cases and believes it has strong defenses to the claims.

Overall assessment

Management believes that, based on the information available to it, appropriate provisions have been made in respect of the matters as at 31 December 2015. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

5. INFORMATION CONCERNING THE STATEMENT OF INCOME

5.1 Breakdown of the result from trading income

Breakdown by business area

CHF'000	2015	2014
Balance Sheet Management (proprietary trading)	91'118	20'227
Private Banking (trading operations with clients)	48'650	63'736
Result from trading operations	**139'768**	**83'963**

Breakdown by underlying risks

CHF'000	2015	2014
Result from trading activities from		
- Bank notes	(424)	(397)
- Equity securities	(1'636)	51
- Foreign currencies	140'399	79'749
- Commodities / precious metals	1'429	4'560
Result from trading operations	**139'768**	**83'963**

5.2 Disclosure of material negative interest

The negative interests resulting from the deposit at the Swiss National Bank are recorded in reduction of the interest income. At 31 December 2015 the negative interests were CHF 66.2 million (2014 : 0).

5.3 Breakdown of personnel expenses

CHF'000	2015	2014
Salaries	239'196	271'706
- Of which expenses related to restricted share awards, share option awards and alternative forms of variable compensation	*4'821*	*14'483*
Social insurance benefits	24'960	28'418
Payments to pension funds in favour of employees	25'360	28'022
Other personnel expenses	10'762	12'406
Total personnel expenses	**300'278**	**340'552**

5.4 Breakdown of general and administrative expenses

CHF'000	2015	2014
Rental and maintenance expenses	31'510	41'290
Expenses for EDP, equipment, furniture, motor vehicles and other installations	9'324	12'126
Consultants' fees and legal expenses	45'174	27'875
IT consultants	33'805	23'961
Office and operating materials, printed material, telephone, postage and other installations	15'028	14'950
Representative offices	3'308	11'163
Travel costs	6'740	9'192
Insurance fees	3'785	3'861
Advertising expenses	1'829	2'993
Fees of audit firm	2'004	1'849
- of which, for financial and regulatory audits	*2'003*	*1'847*
- of which, for other services	*1*	*2*
Miscellaneous administrative fees	19'390	7'994
Billing received from entities of the HSBC Group	9'940	14'709
Other general and administrative expenses	**181'837**	**171'963**

5.5 Explanations regarding material losses, extraordinary income and expenses, reserves for general banking risks, and value adjustments and provisions no longer required

CHF'000	2015	2014
Extraordinary income	**28**	**174'160**
- Gain resulting from the sale of a client portfolio	-	*173'783*
- Profit on fixed assets disposal	-	*377*
- Others	*28*	-
Extraordinary expenses	**(787)**	**(563)**

5.6 Presentation of the operating result broken down according to domestic and foreign origin, according to the principle of permanent establishment

CHF'000	Domestic	Foreign	Total 2015	Domestic	Foreign	Total 2014
Net result from interest operations	35'779	11'805	47'584	150'145	19'883	170'028
Net income from commissions, products and services	219'853	(47)	219'806	294'268	(76)	294'192
Result from trading activities	145'645	(5'877)	139'768	86'167	(2'204)	83'963
Other result from ordinary activities	106'197	201	106'398	85'895	(1'326)	84'569
Operating expenses	(479'293)	(2'822)	(482'115)	(511'784)	(731)	(512'515)
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(21'758)	(91)	(21'849)	(23'669)	-	(23'669)
Changes to provisions and other value adjustments, and losses	(106'751)	-	(106'751)	(136'393)	-	(136'393)
Operating result	**(100'328)**	**3'169**	**(97'159)**	**(55'371)**	**15'546**	**(39'825)**

5.7 Presentation of current taxes, deferred taxes and disclosure of tax rate

CHF'000	2015	2014
Current tax income/(expenses)	27'590	(122'642)
Deferred tax income/(expenses)	(21'700)	-
Total taxes recognised in the income statement	**5'890**	**(122'642)**
Average tax rate weighted on the basis of the operating results	6.06%	(307.95)%

The negative average tax rate disclosed for the year 2014 is due to a current tax charge recorded in the statement of income despite a negative operating result in 2014.

There are no tax losses brought forward that affect the current year income tax.

PROPOSED APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes the following appropriation of available earnings:

CHF'000	2015	2014
(Loss) / Profit for the year	(92'028)	11'130
Profit brought forward	1'438'427	1'427'297
Amount at the disposal of the Shareholders' meeting	**1'346'399**	**1'438'427**
Dividend	-	-
To be carried forward	1'346'399	1'438'427
Total	**1'346'399**	**1'438'427**

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of HSBC Private Bank (Suisse) SA, which comprise the balance sheet, statement of income, statement of changes in equity and notes (pages 6 to 40), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (art. 728 CO and art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with art. 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Christophe Kratzer	Alain Lattafi
Audit expert Auditor in charge	Audit expert

Geneva, 24 February 2016

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