HSBC Private Bank (Suisse) SA

Annual Report 2017

HSBC
Private Bank

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Review of operations of HSBC Private Bank (Suisse) SA

About HSBC Private Bank (Suisse) SA

HSBC Private Bank (Suisse) SA (“the Bank”) is part of HSBC Global Private Banking (“GPB”). Our primary focus is on serving clients from the Middle East, Europe, as well as clients resident in Switzerland and Family Offices. We serve high net worth individuals and their families, providing solutions to grow, manage and preserve wealth across generations.

Our Bank offers a wide range of investment products and services including Advisory, Managed Investment Solutions and Execution Only Services. We also provide tailored credit, global custody and wealth planning solutions.

We aim to bring the best of the research, product and service capabilities of HSBC Group to our clients. To achieve this, we have three client service groups: the Corporate Client Group, which enhances connectivity with Commercial Banking (“CMB”) and Global Banking and Markets (“GB&M”); the Wealth Client Group, which delivers a seamless transition across the Retail Banking and Wealth Management (“RBWM”) and GPB wealth franchises; and the Global Solutions Group, which provides non-traditional wealth management solutions for Group clients with the most sophisticated needs.

Wherever possible, we work in collaboration with GB&M, CMB and RBWM and use the capabilities available within these divisions, including asset management, research, insurance, trade finance and capital financing, to offer a unique proposition to our clients.

Our achievements in 2017

After completing our strategic repositioning with the sale of our Latin American client portfolio in 2016, in 2017 we focused on growing the business with clients from the key markets we have targeted for growth who invest more than USD 5 million with us.

We delivered strong Net New Money and revenue growth in 2017, successfully increasing our market share in the Middle East and the European region. In parallel, we continued our repositioning exercise on clients that are not in line with our market footprint or our risk appetite. We also decreased our operational costs by leveraging our new core banking platform and systems.

A particular highlight was the introduction of a new Global Advisory Proposition (called Prism Advisory) which was successfully launched in Switzerland and Luxembourg ahead of other HSBC Global Private Banking booking centres. Complementing our Discretionary and Execution Only Services, the three-tiered Advisory Proposition takes into account the different investment needs of our clients. In 2017, we saw several billion dollars of Net New Assets placed into our Advisory offering. In parallel, we presented the refreshed Discretionary offering introduced in 2016 to our clients, signing new mandates worth several billion dollars.

As well as strengthening our offering, we increased the efficiency of our client management systems and processes to improve the experience we provide to clients. The average time for opening new accounts was reduced by several days and the volume of certain types of client documentation more than halved.

We have focused on further consolidating a sustainable financial crime risk management capability and have made additional progress in ensuring full implementation of international tax compliance standards. We also continued our work towards fully embedding HSBC’s global standards. In parallel, we took measures to further embed the requirements applicable to the conduct of our client activities, including cross-border requirements and various conduct of business requirements such as assessing suitability and appropriateness in providing investment services to clients.

Strategic initiatives were also launched in the subsidiary HSBC Private Bank (Luxembourg) SA in order to deepen our coverage of European markets and to be able to provide our client base with the full range of the private banking services in compliance with the revised European Markets in Financial Instruments Directive (MiFID II) and its accompanying Regulation (MiFIR) which came into effect on 3 January 2018. In this context, HSBC Private Bank (Luxembourg) SA has opened a branch in Stockholm, Sweden.

Our financial performance in 2017

After a year of transition in 2016, the Bank has started in 2017 to benefit from a clearly focused strategy, business model and strengthened client service offering.

This is reflected in the CHF 2.5 billion increase in Client Assets to CHF 56.2 billion as of December 2017, as well as in overall positive Client Net New Money of CHF 0.4 billion (including CHF 2.9 billion of Net New Money in key markets targeted for growth). These factors contributed to our ability to maintain operating revenues at a slightly lower level than 2016, almost offsetting the negative impact of the repositioning.

In parallel, and following the implementation of a new core banking platform in 2016, we continued to closely manage our costs and streamline a number of processes. As a result, operating expenses were CHF 40 million lower compared to 2016. We also increased our provisions by CHF 159 million essentially for legacy legal and regulatory matters, offset by the release of reserves for general banking risks of CHF 221 million. The year 2017 ended with a net profit of CHF 32.4 million.

Changes to the Board of Directors and General Management

In March 2017, Mr. Christophe de Backer joined the Board. Mr. de Backer worked for HSBC for more than 20 years in senior roles focused on equity markets, asset management and the insurance and private banking businesses. As well as offering in-depth expertise in various areas of banking, Mr. de Backer’s appointment ensures continued collaboration between HSBC Global Private Banking and HSBC Global Asset Management Ltd. in the area of investments and product solutions.

In the same month, Mr. Elie Wakim retired as a Board Member, having formed part of the Board since 2006. We would like to thank Mr. Wakim for his valuable contributions.

In addition to these changes to the composition of the Board, 2017 has seen the following changes to the General Management of the Bank:

- Rachel Mattatia, Head of Legal, and Jean-Francois Peyronnard, Head of Regulatory Compliance, were appointed Members of the Executive Committee of the Bank in July.
- Stephane Jacquemin was appointed Chief Administrative Officer for Switzerland and Luxembourg in August, succeeding Nikhil Chawla, who was appointed Business Head in the Middle East and North Africa client service team.
- Séverine de Cacqueray, Member of the Executive Committee and Head of Human Resources, left the Bank in December. Tom Howse serves as Head of Human Resources in an ad interim capacity pending the appointment of a permanent successor to Ms. de Cacqueray.

In our subsidiary in Luxembourg, the Head of HSBC Private Bank (Luxembourg) SA, Anthony Simcic, stepped down in November 2017. He was succeeded by Mark Winterflood in February 2018.

Our priorities for 2018

In 2018 we will continue to focus on delivering sustainable advisory and managed investment solutions as well as tailored solutions to help our clients to fulfil their ambitions.

Through client service excellence, and by leveraging the investments made in our offering in 2017, we aim to maintain and accelerate the business momentum seen last year.

In particular, we intend to increase Net New Money from our key markets targeted for growth, attract assets from intra-Group referrals and enhance the penetration rate of Discretionary and Advisory mandates in supporting our clients’ investment needs, which should also increase the steady flow of annuity revenues.

We are developing a Next Generation proposition to deliver a specific and relevant offering to attract the next generations of our existing clients; positioning the Private Bank to prepare for the future generational wealth transfer.

At the same time we will remain focused on strict cost management and straight-through processing.

As we prioritise our sustainable business growth agenda, we will again foster collaboration with GB&M, CMB and RBWM and leverage the benefits of our targeted business model focused on some 20 priority markets and high net worth individuals.

Andreas von Planta
Chairman of the Board

Franco Morra
Chief Executive Officer

Philippe Vaney
Financial Controller

Geneva, 21 February 2018

Board of Directors and Executive Committee

Board of Directors

Chairman

Andreas von Planta

Vice-Chairman

Carlo Lombardini

Directors

Khaled Abdullah Almolhem

Christophe De Backer

Kim Fox

Johannes Jürgen Koch

Menasey Marc Moses

Company Secretary

Hervé Cherix

Executive Committee

President

Franco Morra
Chief Executive Officer

Members

Bryan Henning
Head of Investment Services and Product Solutions Group

Simon Larsen
Chief Operating Officer

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

Christine Lynch
Chief Risk Officer

Rachel Mattatia
Head of Legal

Isabelle Monestes
Head of Financial Crime Compliance

Jean François Peyronnard
Head of Regulatory Compliance

Sobhi Tabbara
Market Head Middle East, North Africa

Philippe Vaney
Financial Controller

Branches, Banking Subsidiary and Auditors

Zurich branch

Roger Lehmann
Member of the Executive Committee

Dubai branch

Farzad Billimoria
Senior Executive Officer

Banking Subsidiary

HSBC Private Bank (Luxembourg) S.A.

Peter Miller
Chief Administrative Officer,
Ad-interim Head of HSBC Private Bank (Luxembourg) SA

Auditors

PricewaterhouseCoopers SA, Geneva

Supervision and regulation

As at 31 December 2017, the disclosure related to the capital adequacy was as follows:

CHF'000	
Minimum capital requirement	493'029
Total eligible capital	1'313'773
- of which eligible common equity Tier 1 capital (CET1)	1'069'648
- of which eligible Tier 1 capital (T1)	1'069'648
Risk Weighted Assets	6'162'863
CET1 ratio	17.36%
T1 ratio	17.36%
Total capital ratio	21.32%
Countercyclical buffer ratio	0.01%
CET1 target ratio (appendix 8 CAO)	7.81%
T1 target ratio (appendix 8 CAO)	9.61%
Total capital ratio (appendix 8 CAO)	12.01%

As at 31 December 2017, the leverage ratio was as follows:

CHF'000	
Leverage ratio exposure	16'093'771
Tier 1 capital	1'069'648
Leverage ratio	**6.6%**

The Liquidity Coverage ratio average for each quarter of the year 2017 was as follows:

CHF'000	Average Q417	Average Q317	Average Q217	Average Q117
Total high quality liquid assets	5'950'407	9'616'939	10'757'357	11'767'685
Net cash outflows	3'915'620	6'897'605	7'361'011	8'499'349
Liquidity coverage ratio	**152.0%**	**139.4%**	**146.1%**	**138.5%**

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

CHF'000	2017	2016
Assets		
Liquid assets	2'113'501	7'931'230
Amounts due from banks	2'625'392	4'497'628
Amounts due from customers	6'598'799	7'223'700
Mortgage loans	1'171'885	669'336
Trading portfolio assets	94'462	55'469
Positive replacement values of derivatives financial instruments	183'771	232'627
Financial investments	2'210'320	3'382'887
Accrued income and prepaid expenses	29'387	35'391
Participations	379'935	379'935
Tangible fixed assets	99'299	117'674
Other assets	211'953	184'643
Total assets	**15'718'704**	**24'710'520**
Total subordinated claims	48'825	50'833
- *of which subject to mandatory conversion and /or debt waiver*	-	-
Liabilities		
Amounts due to banks	5'568'320	11'535'429
Amounts due in respect of customer deposits	7'536'345	9'277'897
Negative replacement values of derivatives financial instruments	170'275	223'297
Accrued expenses and deferred income	218'161	118'275
Other liabilities	55'418	43'386
Provisions	671'777	927'465
Reserves for general banking risks	-	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	68'625	1'346'399
Profit / (Loss) for the year	32'424	(380'584)
Total liabilities	**15'718'704**	**24'710'520**
Total subordinated debt	244'125	-
- *of which subject to mandatory conversion and /or debt waiver*	*244'125*	-

OFF-BALANCE-SHEET

at 31 December

CHF'000	**2017**	**2016**
Contingent liabilities	464'055	477'924
Irrevocable commitments	6'033	7'034

STATEMENT OF INCOME

for the periods ended 31 December 2017 and 2016

CHF'000	2017	2016
Result from interest operations		
Interest and discount income	101'174	72'742
Interest and dividend income from financial investments	38'808	17'921
Interest expense	(89'013)	(57'136)
Gross result from interest operations	**50'969**	**33'527**
Changes in value adjustments for default risks and losses from interest operations	-	-
Subtotal net result from interest operations	**50'969**	**33'527**
Result from commission business and services		
Commission income from securities trading and investment activities	146'881	171'959
Commission income from lending business	2'274	3'056
Commission income from other services	13'387	10'891
Commission expense	(17'141)	(21'322)
Subtotal net income from commissions business and services	**145'401**	**164'584**
Result from trading operations	**111'883**	**120'262**
Other result from ordinary activities		
Result from the disposal of financial investments	2'230	7'882
Income from participations	1'732	1'958
Other ordinary income	70'360	70'942
Other ordinary expenses	-	-
Subtotal other result from ordinary activities	**74'322**	**80'782**
Operating expenses		
Personnel expenses	(240'685)	(265'263)
General and administrative expenses	(138'808)	(154'037)
Subtotal operating expenses	**(379'493)**	**(419'300)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(24'706)	(21'749)
Changes to provisions and other value adjustments, and losses	(158'836)	(354'217)
Operating result	**(180'460)**	**(396'111)**
Extraordinary income	431	28'631
Changes in reserves for general banking risks	221'597	-
Taxes	(9'144)	(13'104)
Profit / (Loss) for the year	**32'424**	**(380'584)**

STATEMENT OF CHANGES IN EQUITY

At 31 December 2017

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 2017	708'480	108'759	580'120	221'597	965'815	-	2'584'771
Dividends and other distributions	-	-	-	-	(897'190)	-	(897'190)
Other allocations to (transfer from) the reserves for general banking risks	-	-	-	(221'597)	-	-	(221'597)
Profit for the year	-	-	-	-	-	32'424	32'424
Equity at the end of the year 2017	**708'480**	**108'759**	**580'120**	**-**	**68'625**	**32'424**	**1'498'408**

1. Activity and number of employees of the Bank

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

The Bank has its head office in Geneva with branches in Zurich and Dubai.

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.

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 2017, the number of employees was 945 (2016: 1’099).

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 therefore 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.

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:

	2017	**2016**
USD	0.977	1.017
EUR	1.171	1.073
GBP	1.320	1.259

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 the disposal of financial investments”.

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 financial investments” 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 “Amounts due in respect of customer deposits”. 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 impairment 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 “Result from trading operations”.

B) Hedging financial derivatives instruments

Types of underlying and hedging transactions

The Bank uses hedge accounting mainly in relation to the following type 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 effectiveness 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 “Amounts due from banks” or “Amounts due from 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 “Result from trading operations”.

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.

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.

Risk management

Managing risk effectively is fundamental to the delivery of the Bank's strategic priorities. In doing so, PBRS employs a risk management framework in line and consistent with HSBC Group's Enterprise Risk Management Framework ('ERMF'). It fosters the continuous monitoring of the risk environment and an integrated evaluation of risks and their interactions.

The Bank's enterprise risk management framework is underpinned by its risk culture and is reinforced by the HSBC Group Values and Global Standards. These are instrumental in aligning the behaviours of PBRS staff with HSBC Group's approach to owning and managing risk and helping to ensure that the Bank's risk profile remains in line with its risk appetite.

A) Corporate and risk governance

Robust risk governance and accountability are embedded within the Bank through an established framework that ensures appropriate oversight of and accountability for the effective management of risk.
The PBRS Board has ultimate responsibility for the effective management of risk and approves the Bank's risk appetite. The PBRS Audit & Risk Committee advises the PBRS Board on risk appetite and its alignment with strategy, risk governance and internal controls, and high-level risk related matters.
Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the Bank's risk management policies resides with the Risk Management Meeting ("RMM") of the PBRS Executive Committee. Day-to-day risk management activities are the responsibility of the Bank's senior managers, supported by functions as described under 'Three lines of defence' below.

B) Enterprise-wide risk management tools

The following processes to identify, manage and mitigate risks are integral to risk management at PBRS, helping to ensure that the Bank remains within its risk appetite.

Risk appetite

The Bank's Risk Appetite Statement ('RAS') is the Board's written articulation of the level and types of risk that PBRS is willing to accept in its activities in order to achieve the Bank's medium to long-term business objectives. It is a key component of the Bank's management of risk and is reviewed formally at least twice a year.

The RAS consists of qualitative statements and quantitative metrics, covering income generating risks (those which HSBC accepts, such as credit risk for core business), and non-income generating risks (those which arise by virtue of its operations, such as operational risk).
The Bank's actual risk appetite profile is reported to the RMM on a monthly basis to enable senior management to monitor the risk profile and guide business activity in order to balance risk and return, allowing risks to be promptly identified and mitigated, and inform risk-adjusted remuneration to drive a strong risk culture within the Bank.
In addition, the Bank's actual risk appetite profile is reported to the Bank's Audit & Risk Committee on a quarterly basis.

Risk map

The risk map process provides a point-in-time view of the risk profile of the Bank across a suite of risk categories. It assesses the potential for these risks to materially affect PBRS' financial results, reputation or business sustainability on current and projected bases.
The risk categories presented on the risk map are regularly assessed through the Bank's risk appetite profile and where issues arise, are considered for classification as top or emerging risks. 'Amber' or 'red' risks require monitoring and/or mitigating action plans being either in place or initiated to manage the risk down to acceptable levels. These plans are documented in the Risk Map commentary.

On the PBRS Risk Map, each risk is rated to define the degree of risk:

- Green – Business as Usual – Risk is being managed within appetite. Risk may be high, but any actions are considered ordinary course of business.
- Amber – Enhanced Oversight required – Risk is outside appetite. Management action has been taken, or is in the process of being taken, to bring the risk back within appetite.
- Red – Action necessary – Risk is not within acceptable levels. Management action is needed to reduce risk to acceptable levels. Where management action has been planned or executed, the risk may still remain outside of acceptable levels as a result of, for example, continued uncertainty or factors outside of PBRS or HSBC's control.

The Bank's risk map is reported to the RMM on a monthly basis and to the Bank's Audit & Risk Committee on a quarterly basis.

Top and emerging risks

Identifying, managing and monitoring risks are integral to the Bank's approach to risk management. PBRS top and emerging risks process provides a forward-looking view of those risks which have the potential to threaten the execution of the Bank's strategy and its operations.
A 'top risk' is defined as an issue which has the potential to have a material effect on the Bank's financial results, reputation or long term business model, and which may form and crystallise between six months and one year. The risk impact may be well understood by senior management, with some mitigating actions already in place.
An 'emerging risk' is defined as an issue that has large unknown components which may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a significant material effect on a combination of the Bank's long-term strategy, profitability and reputation. Existing management action plans are likely to be minimal, reflecting the uncertain nature of these risks at this stage.
The top and emerging risk framework enables the Bank to identify and manage current and forward-looking risks to ensure that PBRS' risk appetite remains appropriate. Top and emerging risks are reported to the RMM on a monthly basis and to the Bank's Audit & Risk Committee on a quarterly basis.

Stress testing

PBRS is included within the scope of the regulatory stress testing performed at the HSBC Group level. The Group's stress testing and scenario analysis programme examines the sensitivities of the Group's capital plans and unplanned demand for regulatory capital under a number of scenarios and ensures that top and emerging risks are appropriately considered. These scenarios include, but are not limited to, adverse macroeconomic events, failures at country, sector and counterparty levels, geopolitical occurrences and a variety of projected major operational risk events. Stress testing is applied to risks such as operational risk, including market risk, liquidity and funding risk, credit risk and conduct to evaluate the potential effects of stress scenarios on portfolio values, structural long-term funding positions, income or capital.
The outcomes of the stress testing conducted at PBRS level for the purpose of Group's stress testing are reported to the PBRS Board on an annual basis.

C) Responsibilities

Three lines of defence

PBRS uses the three lines of defence model to underpin its approach to strong risk management. It defines responsibilities for: identifying, assessing, measuring, managing, monitoring and mitigating risks; encouraging collaboration; and enabling efficient coordination of risk and control activities:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them and ensuring that the right controls and assessments are in pace to mitigate these risks.
- The second line of defence reviews and challenges the activities of the first line of defence to ensure that they have met the minimum requirements for risk management. The second line of defence consists of 'Risk Stewards' who are independent of the commercial risk-taking activities undertaken

by the first line of defence. Risk Stewards sit within the Functions. They perform the specialist role of setting policies and the oversight of the first line of defence activities for their given risk type.

- The third line of defence is Internal Audit. They provide independent assurance to management and the Risk and Audit Committees that the Bank's risk management, governance and internal control processes are designed and operating effectively.

People

All employees are required to identify, assess and manage risk within the scope of their assigned responsibilities and, as such, they are critical to the effectiveness of the three lines of defence.
Clear and consistent employee communication on risk conveys strategic messages and sets the tone from senior leadership. In line with HSBC Group, the Bank deploys a suite of mandatory training on critical risk and compliance topics to embed skills and understanding and strengthen the risk culture within PBRS. It reinforces the attitude to risk in the behaviour expected of employees, as described in the Bank's risk policies. The training is updated regularly, describing technical aspects of the various risks assumed by the Bank and how they should be managed effectively. A confidential disclosure line enables staff to raise concerns.
The Bank's risk culture is reinforced by its approach to remuneration. Individual awards, including those for executives, are based on compliance with HSBC Values and the achievement of financial and non-financial objectives which are aligned to the Bank's risk appetite and strategy.

The risk culture is measured and monitored across the Bank in the following ways:

- Industry surveys – Provide useful insight into the current practices, developments and concerns facing the industry. They are useful for benchmarking, driving development of and directing focus on our own practices;
- Snapshot – Snapshot is a Group global employee survey, rolled out also at PBRS level. It provides actionable insight on the sentiment of our employees in several important areas such as our strategy, financial crime risk and broader culture and customer focus. Findings are presented to the PBRS Executive Committee and to all employees through channels such as Monthly Employee Meetings or Exchange Sessions; and
- Operational Risk / Internal Audit reviews – Indicators of risk culture are often evident in our operational risk and internal audit review. They help us to assess employees' understanding of our approach to risk, and whether it is proportionate to their responsibilities.

Independent Risk function

PBRS Risk management, headed by the PBRS Chief Risk Officer, is responsible for the Bank's risk management framework. This includes monitoring risk profiles and forward-looking risk identification and management. PBRS Risk Management also has functional responsibility for risk management in support of PBRS' business through its sub-functions, which are independent from the business. This independence ensures the necessary balance in risk/return decisions.

D) Material risks

The material risk types associated with the Bank's operations are described below.

Credit risk

The credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.
Credit risk arises principally from the direct lending business, but also from certain other products such as guarantees and derivatives.

Loans and advances to clients are granted in the framework of the Bank's wealth management activities, essentially on a secured basis ("Lombard Lending"). Any unsecured and/or any other exceptional lending are granted on a case by case basis and has to be in line with the Bank's strategy and risk appetite. These exceptional lending fall under a pre-defined cap called the Strategic Exceptions Lending Cap ("SLE Cap").

Lombard Lending are guaranteed mainly by liquid assets deposited with the Bank and pledged in its favour. They are generally made up of cash deposits, shares, bonds regularly quoted, investment funds or any other liquid securities acceptable to the Bank. Loans are also granted on the basis of less liquid collateral consisting of hedge funds, real estate, Private Equities (granted on portfolio diversification criteria). 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 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.
The market value of real estate used as collateral is determined on the basis of evaluations carried out by our approved panel valuators. Real Estate facilities are usually granted to clients having an existing Lombard relationship with the Bank and/or to clients having an existing relationship with HSBC group.

For Lombard Lending, each advance or loan has been allocated a Customer Risk Rating (CRR) 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 (margin calls) and, if necessary, liquidates the pledged collateral (close out).

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.

Liquidity and funding risk

The liquidity and funding risk is the risk that we do not have sufficient financial resources to meet our obligations as they fall due or that we can only do so at excessive cost.

Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

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 and lending to intra-group affiliates.

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.

Market risk

The 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 our income or the value of our portfolios.

Exposure to market risk is separated into two portfolios:

- Trading portfolios comprise positions arising from market-making and warehousing of customer-derived positions.
- Non-trading portfolios comprise positions that primarily arise from balance sheet management.

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.

Equity risk

The Bank does not hold equities in its proprietary book.

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 a variation of one basis point in the 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.
- Monitored using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange which are applied to the market risk positions within each risk type; and
- Managed by calculating the interest rate risk on a daily basis and ensuring compliance with the limits granted by Group Market Risk.

The Bank optimises asset and liability management in accordance with the anticipated interest rate variation and the limits granted by HSBC Group Market Risk. Financial derivatives such as interest rate swaps are traded to manage the assets and liabilities gap. In addition, the Bank has limits for synthetic alterations through the FX swap market.

Operational risk

Operational risk is the risk to achieving our strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.
Operational risk arises from day to day operations or external events, and is relevant to every aspect of our business.

The Operational risk is:

- Measured using both the top risk analysis process and the risk and control assessment process, which assess the level of risk and effectiveness of controls;
- Monitored using key indicators and other internal control activities; and
- Managed primarily by business and functional managers that identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls using the operational risk management framework.

Information security risk

The risk of an information security breach, which occurs through the malicious use or misuse of computer(s) or computer networks, that results in an actual or potential adverse effect on an information system and/or the information residing therein, and/or their intended behaviour of the information system. This also includes, information represented in a physical form – such as printed reports, hand written notes, and physical devices containing information.

Legal risk

In conformity with HSBC standards, PBRS has in place policies and procedures to effectively manage Legal Risks. Legal risk is the risk of financial loss, legal/regulatory action or reputational damage resulting from Contractual, Legislative, Dispute and Non-Contractual Rights Risks. In this regard, the Bank is supported by a Legal function in controlling and managing Legal risks. Moreover, the Legal Function provides support in particular through legal advice to all Bank's businesses and functions, by drafting and reviewing the agreements entered into by the Bank, by handling claims raised against the Bank. The Bank's Legal Function is – in accordance with the rules in place - immediately notified about any legal action threatened or commenced against the Bank or its employees.

Regulatory compliance risk

Regulatory compliance risk the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence.

Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching our duty to clients and other counter-parties, inappropriate market conduct and breaching other regulatory requirements.

Regulatory Compliance risk is:

- Measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Regulatory Compliance teams ;
- Monitored against our compliance risk assessments and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and
- Managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.

Financial crime risk

Financial crime risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially illegal activity through HSBC.

Financial crime risk is:

- Measured by reference to identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our Financial Crime Risk teams ;
- Monitored against our financial crime compliance risk appetite statement and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and
- Managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by PBRS itself, our employees or those with whom the Bank is associated that might cause stakeholders to form a negative view of the Bank.

Reputational risk is:

- Measured by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;
- Monitored through a reputational risk management framework that is integrated into the Group's broader risk management framework; and
- Managed by every member of staff and is covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.

Fiduciary risk

The fiduciary risk is the risk of breaching our fiduciary duties, defined as any duty where PBRS/HSBC holds, manages, oversees or has responsibilities for assets for a third party that involves a legal and/or regulatory duty to act with the highest standard of care and with utmost good faith.

Fiduciary risk is part of operational risk, and arises from our business activities where we act in a fiduciary capacity ('designated businesses') as Trustee, Investment Manager or as mandated by law or regulation.

The fiduciary risk is:

- Measured by each against the Bank's risk appetite statements and by the operational risk and control assessment process, which assesses the level of risk and the effectiveness of the key controls;
- Monitored through a combination of testing, key indicators and other metrics such as client and regulatory feedback; and
- Managed via established governance frameworks, and comprehensive policies, procedures and training programmes.

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 2017.

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	-	6'479'446	119'353	6'598'799
Mortgages loans				
Residential property	703'746	-	-	703'746
Office and business premises	468'139	-	-	468'139
Total loans (before netting with value adjustments)				-
31 December 2017	**1'171'885**	**6'479'446**	**119'353**	**7'770'684**
31 December 2016	**669'336**	**7'061'879**	**161'821**	**7'893'036**
Total loans (after netting with value adjustments)				
31 December 2017	**1'171'885**	**6'479'446**	**119'353**	**7'770'684**
31 December 2016	**669'336**	**7'061'879**	**161'821**	**7'893'036**
Off-balance sheet				
Contingent liabilities	-	345'042	119'013	464'055
Irrevocable commitments	-	1'507	4'526	6'033
Total off-balance sheet operations at 31 December 2017	**-**	**346'549**	**123'539**	**470'088**
Total off-balance sheet operations at 31 December 2016	**-**	**418'397**	**66'561**	**484'958**

3.2 Impaired loans / receivables

CHF'000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
31 December 2017	-	-	-	-
31 December 2016	-	-	-	-

3.3 Trading portfolios

CHF'000	2017	2016
Precious metals	94'462	55'469
Total trading portfolio assets	**94'462**	**55'469**

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)	13	1'235	90'841	-	-	-
Futures	103	103	95'084	-	-	-
options (Exchange Traded)	26'103	26'103	4'488'906	-	-	-
Foreign exchange						
forward contracts	109'119	106'977	14'071'569	-	-	-
options (OTC)	9'268	9'268	2'123'853	-	-	-
Interest rate instruments						
Swaps	8'112	8'112	783'528	16'025	3'421	1'089'560
options (OTC)	210	251	211'464	-	-	-
Precious metals						
forward contracts	3'828	3'815	150'680	-	-	-
options (OTC)	10'990	10'990	7'962	-	-	-
Total before netting agreements						
31.12.2017	**167'746**	**166'854**	**22'023'887**	**16'025**	**3'421**	**1'089'560**
- of which, determined using a valuation model	141'540	140'648		16'025	3'421	
31.12.2016	**216'346**	**220'590**	**19'965'456**	**16'281**	**2'707**	**1'230'563**
- of which, determined using a valuation model	199'051	203'320		16'281	2'707	

Total after netting agreements	Positive replacement values (cumulative)	Negative replacement values (cumulative)
31.12.2017	183'771	170'275
31.12.2016	232'627	223'297

Breakdown by counterparty

CHF'000	Central clearing houses	Banks and securities dealers	Other customers	Positive replacement values (cumulative)
Positive replacement values (after netting agreement) in 2017	-	93'819	89'952	**183'771**

3.5 Breakdown of financial investments

CHF'000	Book value 2017	Book value 2016	Fair value 2017	Fair value 2016
Debt securities				
- of which, not intended to be held to maturity (available for sale)	2'180'050	3'322'907	2'183'593	3'326'507
Precious metals	30'270	59'980	30'270	59'980
Total financial investments	**2'210'320**	**3'382'887**	**2'213'863**	**3'386'487**
of which, securities eligible for repo transactions in accordance with liquidity requirements	911'420	1'393'364	—	—

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-	2'172'115
From A+ to A-	-
BBB+ to BBB-	35'920
BB+ to B-	-
Below B-	-
Unrated	2'285
Total financial investments	**2'210'320**

The Bank relies on the rating classes of external rating agencies recognized by FINMA. When two 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
				2017				
Other participations								
-Without market value	379'935	-	379'935	-	-	-	379'935	-
Total participations	**379'935**	**-**	**379'935**	**-**	**-**	**-**	**379'935**	-

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
					2017				2016			
HSBC Private Bank (Luxembourg) SA	Bank	Luxembourg	EUR	283'287	374'956	100%	100%	100%	374'956	100%	100%	100%
Société Immobilière Atlas SA	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
				2017			
Bank buildings	18'626	(17'469)	1'157	98	-	(554)	701
Proprietary or separately acquired software	66'519	(37'290)	29'229	3'915	(14)	(5'550)	27'580
Other tangible fixed assets	318'833	(231'545)	87'288	2'332	-	(18'602)	71'018
Total tangible fixed assets	**403'978**	**(286'304)**	**117'674**	**6'345**	**(14)**	**(24'706)**	**99'299**

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

Future commitments arising from operational leases were as follows:

CHF'000	2017	2016
Maturity up to 12 months	23'177	24'783
Maturity between 12 months to 5 years	87'680	85'287
Maturity over 5 years	70'451	91'690
Total off-balance sheet leasing obligations	**181'308**	**201'760**
- of which may be terminated within one year	-	-

3.9 Breakdown of other assets and other liabilities

CHF'000	2017	2016
Other assets		
Tax prepayments	6'835	6'685
Internal bank business operations	11'750	32'915
Deposit pledged with third party	58'551	53'631
Receivables from Group companies	115'333	89'445
Other assets	19'484	1'967
Total other assets	**211'953**	**184'643**
Other liabilities		
Compensation account	12'604	13'574
Internal bank business operations	29'908	12'320
Indirect Taxes	5'956	5'570
Other liabilities	6'950	11'922
Total other liabilities	**55'418**	**43'386**

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	2017		2016	
Deposits made with companies of the HSBC Group to guarantee operations on derivative instruments carried out with the Group	290'831	103'849	341'004	139'266
Deposits made with external counterparties to guarantee operations on derivative instruments carried out with them	5'226	5'068	668	668
Others	58'551	-	53'631	-
Total pledged assets	**354'608**	**108'917**	**395'303**	**139'934**

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)	2017	2016
Pension fund in favor of employees	2’118	1’480
Total Liabilities	**2’118**	**1’480**

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					2017	2016
Swiss pension fund	27'000	-	27'000	27'000	-	-

Presentation of the pension expenses

	Overfunding at end of 2017	Contribution paid for 2017	Pension expenses in personnel expenses	
CHF'000			2017	2016
Swiss pension fund	119.0%	22'458	22'458	23'430
Swiss complementary pension fund	106.0%	1'406	1'406	1'861

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 119% 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 2017 and 2016.

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 2017	Use in conformity with designated purpose	Currency differences	New provisions charged to income statement	Released to income	Balance at 31 December 2017
Provisions for deferred taxes	21'700	-	-	-	-	21'700
Provisions for other business risks	1'855	-	168	-	-	2'023
Provisions for restructuring	75'067	(18'982)	-	5'573	(6'790)	54'868
Other provisions	828'843	(424'672)	29'932	226'648	(67'565)	593'186
Total provisions	**927'465**	**(443'654)**	**30'100**	**232'221**	**(74'355)**	**671'777**
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	-	-	-	-	-	-

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	Number of shares	Capital giving rights to dividends	Total nominal value	Number of shares	Capital giving rights to dividends
			2017			2016
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	2017	2016
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 1.5 million (2016: CHF 2.2 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	
2017	2016	2017	2016	2017	2016	2017	2016
921'948	1'473'839	7'938	8'631	88'229	47'369	665	268

3.15 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
	2017	2016	2017	2016
CHF'000				
Holders of qualified participations	3'522	22'288	32'263	39'603
Group companies	870'834	2'409'082	3'219'125	3'240'353
Linked companies	1'573'164	1'642'840	2'338'127	7'763'144
Transactions with members of governing bodies	95'868	108'788	2'263	13'084

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 2017 the capital was fully owned by HSBC Private Banking Holdings (Suisse) SA, Geneva (2016: 100%).

The entire share capital is ultimately 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				**2017**				
Liquid assets	2'113'501	-	-	-	-	-	-	2'113'501
Amounts due from banks	2'236'267	-	145'000	-	195'300	48'825	-	2'625'392
Amounts due from customers	-	3'715'292	2'595'282	117'510	151'863	18'852	-	6'598'799
Mortgage loans	-	-	441'714	534'331	166'142	29'698	-	1'171'885
Trading portfolio assets	94'462	-	-	-	-	-	-	94'462
Positive replacement values of derivatives financial instruments	167'746	-	-	-	16'025	-	-	183'771
Financial investments	30'270	-	-	145'175	1'709'584	325'291	-	2'210'320
Total at 31 December 2017	**4'642'246**	**3'715'292**	**3'181'996**	**797'016**	**2'238'914**	**422'666**	**-**	**14'998'130**
Total at 31 December 2016	**9'955'786**	**3'793'578**	**5'787'736**	**1'667'775**	**2'504'857**	**283'145**	**-**	**23'992'877**
Debt capital / financial instruments								
Amounts due to banks	1'544'551	-	3'881'438	142'331	-	-		5'568'320
Amounts due in respect of customer deposits	7'292'191	-	29	-	-	244'125		7'536'345
Negative replacement values of derivatives financial instruments	166'854	-	-	461	2'960	-		170'275
Total at 31 December 2017	**9'003'596**	**-**	**3'881'467**	**142'792**	**2'960**	**244'125**	**-**	**13'274'940**
Total at 31 December 2016	**12'178'035**	**-**	**8'768'625**	**87'262**	**2'701**	**-**	**-**	**21'036'623**

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

CHF'000	Domestic	Foreign	Total 2017	Domestic	Foreign	Total 2016
Assets						
Liquid assets	2'112'273	1'228	2'113'501	7'931'230	-	7'931'230
Amounts due from banks	335'115	2'290'277	2'625'392	48'338	4'449'290	4'497'628
Amounts due from customers	234'895	6'363'904	6'598'799	214'814	7'008'886	7'223'700
Mortgage loans	280'230	891'655	1'171'885	272'464	396'872	669'336
Trading portfolio assets	94'462	-	94'462	55'049	420	55'469
Positive replacement values of derivatives financial instruments	11'148	172'623	183'771	21'717	210'910	232'627
Financial investments	42'537	2'167'783	2'210'320	118'756	3'264'131	3'382'887
Accrued income and prepaid expenses	7'645	21'742	29'387	7'975	27'416	35'391
Participations	4'911	375'024	379'935	4'911	375'024	379'935
Tangible fixed assets	99'296	3	99'299	117'641	33	117'674
Other assets	174'588	37'365	211'953	155'612	29'031	184'643
Total assets	**3'397'100**	**12'321'604**	**15'718'704**	**8'948'507**	**15'762'013**	**24'710'520**
Liabilities						
Amounts due to banks	329'392	5'238'928	5'568'320	35'871	11'499'558	11'535'429
Amounts due in respect of customer deposits	783'886	6'752'459	7'536'345	1'042'071	8'235'826	9'277'897
Negative replacement values of derivatives financial instruments	13'557	156'718	170'275	24'514	198'783	223'297
Accrued expenses and deferred income	206'651	11'510	218'161	114'324	3'951	118'275
Other liabilities	36'425	18'993	55'418	2'439	40'947	43'386
Provisions	671'777	-	671'777	927'465	-	927'465
Reserves for general banking risks	-	-	-	221'597	-	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	70'998	(2'373)	68'625	1'440'077	(93'678)	1'346'399
Profit / (Loss) for the year	33'919	(1'495)	32'424	(380'179)	(405)	(380'584)
Total liabilities	**3'543'964**	**12'174'740**	**15'718'704**	**4'825'538**	**19'884'982**	**24'710'520**

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

CHF'000	Carrying value	Share %	Carrying value	Share %
		2017		**2016**
Assets				
Switzerland	3'397'100	21.6	8'948'507	36.2
Europe excluding Switzerland	6'099'295	38.8	8'574'452	34.7
Latin America and Caribbean	3'030'657	19.3	3'358'747	13.6
Africa and Middle East	1'956'208	12.4	2'362'101	9.6
United States and Canada	675'026	4.3	1'164'626	4.7
Asia-Pacific	560'418	3.6	302'087	1.2
Total assets	**15'718'704**	**100.0**	**24'710'520**	**100.0**

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

	Net foreign exposure at 31 December 2017		**Net foreign exposure at 31 December 2016**	
CHF'000	**Carrying value**	**Share as %**	**Carrying value**	**Share as %**
1&2	8'150'040	72.3	11'452'558	79.3
3	769'954	6.8	461'129	3.2
4	613'292	5.4	805'631	5.6
5	254'754	2.2	248'453	1.8
6	44'009	0.4	50'084	0.3
7	40'541	0.4	135'943	0.9
Unrated	1'410'330	12.5	1'291'526	8.9
Total assets	**11'282'920**	**100.0**	**14'445'324**	**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			**2017**			
Liquid assets	2'109'696	3'120	253	132	300	2'113'501
Amounts due from banks	17'889	458'523	1'602'528	458'047	88'405	2'625'392
Amounts due from customers	215'827	956'573	4'246'889	957'800	221'710	6'598'799
Mortgage loans	599'838	373'872	10'742	165'326	22'107	1'171'885
Trading portfolio assets	-	-	-	-	94'462	94'462
Positive replacement values of derivatives financial instruments	127'372	2'785	40'126	12'526	962	183'771
Financial investments	42'538	65'616	1'925'327	146'569	30'270	2'210'320
Accrued income and prepaid expenses	3'588	2'617	19'955	3'014	213	29'387
Participations	379'867	68	-	-	-	379'935
Tangible fixed assets	99'257	-	42	-	-	99'299
Other assets	96'613	61'604	50'987	2'697	52	211'953
Total assets shown in balance sheet	**3'692'485**	**1'924'778**	**7'896'849**	**1'746'111**	**458'481**	**15'718'704**
Delivery entitlements from spot exchange, forward forex and forex options transactions	1'088'714	2'953'968	6'214'036	1'947'298	4'236'986	16'441'002
Total Assets	**4'781'199**	**4'878'746**	**14'110'885**	**3'693'409**	**4'695'467**	**32'159'706**
Liabilities						
Amounts due to banks	1'249'688	30'366	3'111'671	810'183	366'412	5'568'320
Amounts due in respect of customer deposits	647'420	1'785'859	3'691'000	976'551	435'515	7'536'345
Negative replacement values of derivatives financial instruments	125'256	3'147	27'041	13'869	962	170'275
Accrued expenses and deferred income	146'841	1'131	35'431	26'712	8'046	218'161
Other liabilities	2'432	1'332	50'194	265	1'195	55'418
Provisions	87'914	301'971	281'892	-	-	671'777
Reserves for general banking risks	-	-	-	-	-	-
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	68'669	-	(44)	-	-	68'625
Profit for the year	32'320	-	104	-	-	32'424
Total liabilities shown in balance sheet	**3'757'899**	**2'123'806**	**7'197'289**	**1'827'580**	**812'130**	**15'718'704**
Delivery entitlements from spot exchange, forward forex and forex options transactions	1'016'026	2'764'116	6'915'775	1'846'310	3'894'353	16'436'580
Total Liabilities	**4'773'925**	**4'887'922**	**14'113'064**	**3'673'890**	**4'706'483**	**32'155'284**
Net position per currency	**7'274**	**(9'176)**	**(2'179)**	**19'519**	**(11'016)**	**4'422**

4. INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

4.1 Breakdown and explanation of contingent assets and liabilities

CHF'000	2017	2016
Tax losses carried forward	90'722	73'920
Total contingent assets	**90'722**	**73'920**

CHF'000	2017	2016
Guarantees to secure credits and similar	464'055	477'924
Total contingent liabilities	**464'055**	**477'924**

4.2 Breakdown of fiduciary transactions

CHF'000	2017	2016
Fiduciary deposits with third-party banks	258'532	467'259
Fiduciary deposits with affiliated banks	9'958'636	7'844'252
Total fiduciary transactions	**10'217'168**	**8'311'511**

4.3 Breakdown of managed assets and presentation of their development

Type of managed assets

CHF'000	2017	2016
Assets under discretionary asset management agreements	4'431'868	4'623'004
Other managed assets	47'778'393	45'085'449
Total managed assets	**52'210'261**	**49'708'453**

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.

Development of managed assets

CHF'000	2017	2016
Total managed assets (including double counting) at beginning	49'708'453	59'086'660
- net new money money inflow / (outflow)	400'427	(4'573'000)
+/- price gains / losses, interest, dividends and currency gains / losses	2'101'381	(2'026'746)
- Sale of a non core business client portfolio	-	(2'778'461)
Total managed assets (including double counting) at end	**52'210'261**	**49'708'453**

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

The Bank 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 Bank considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2017. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

Bernard L. Madoff Investment Securities LLC

Bernard L. Madoff ('Madoff') was arrested in December 2008 and later pleaded guilty to running a Ponzi scheme. His firm, Bernard L. Madoff Investment Securities LLC ('Madoff Securities'), is being liquidated in the US 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 $ 8.4 billion, including fictitious profits reported by Madoff.

Based on information available to HSBC, the funds' actual transfers to Madoff Securities minus their actual withdrawals from Madoff Securities during the time HSBC serviced the funds are estimated to have totalled approximately $ 4billion. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

US litigation: The Trustee has brought lawsuits against various HSBC companies - among which HSBC Private Bank (Suisse) SA - in the US Bankruptcy Court, seeking recovery of transfers from Madoff Securities to HSBC in an amount not yet pleaded or determined. HSBC companies and other parties to the action have moved to dismiss the Trustee's US actions. The US Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In September 2017, the US Court of Appeals for the Second Circuit (the 'Second Circuit Court of Appeals') agreed to hear the Trustee's appeal of the US Bankruptcy Court's decision. The Trustee filed his opening brief in January 2018. HSBC's brief is due in April 2018.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together, 'Fairfield') (in liquidation since July 2009) have brought lawsuits in the US and the British Virgin Islands ('BVI') against fund shareholders, including HSBC companies - among which HSBC Private Bank (Suisse) SA - that acted as nominees for clients, seeking restitution of redemption payments. In October 2016, the liquidators for Fairfield ('Fairfield Liquidators') filed a motion seeking leave to amend their complaints in the US Bankruptcy Court. In January 2017, the defendants filed their consolidated motion to dismiss and opposition to the Fairfield Liquidators' motion seeking leave to amend. Briefing on these motions was completed in June 2017, and the US Bankruptcy Court has scheduled oral argument for January 2018.

In December 2014, three additional actions were filed in the US. A purported class of direct investors in Madoff Securities asserted common law claims against various HSBC companies among which HSBC Private Bank (Suisse) SA in the United States District Court for the Southern District of New York (the 'New York District Court'). In September 2016, the New York District Court granted HSBC's motion to dismiss this action and the plaintiffs' failure to appeal renders the court's ruling final. Two investors in Hermes International Fund Limited ('Hermes') also asserted common law claims against various HSBC companies in the New York District Court. HSBC's motion to dismiss this action remains pending. In addition, SPV Optimal SUS Ltd ('SPV OSUS'), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd ('Optimal'), filed a lawsuit in New York state court against various HSBC companies and others, seeking damages on various alleged grounds, including breach of fiduciary duty and breach of trust.

This action has been stayed pending the issuance of a potentially dispositive decision in an action initiated by Optimal regarding the validity of the assignment of its claims to SPV OSUS.

BVI litigation: Beginning in October 2009, the Fairfield Liquidators commenced lawsuits against fund shareholders, including HSBC companies among which HSBC Private Bank (Suisse) SA that acted as nominees for clients, seeking recovery of redemption payments. In March 2016, the BVI court denied a motion brought by certain non-HSBC defendants challenging the Fairfield Liquidators' authorisation to pursue their US claims, which those defendants have appealed. In August 2016, the Fairfield Liquidators voluntarily discontinued their actions against the HSBC defendants.

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.

Tax-related investigations

Various tax administration, regulatory and law enforcement authorities around the world, including in the US, Belgium, Argentina and India, are conducting investigations and reviews of HSBC Private Bank (Suisse) SA and other HSBC companies in connection with allegations of tax evasion or tax fraud, money laundering and unlawful cross-border banking solicitation.

HSBC continues to cooperate in ongoing investigations by the DoJ and the US Internal Revenue Service regarding whether certain HSBC companies and employees, including those associated with HSBC Private Bank (Suisse) SA and an HSBC company in India, acted appropriately in relation to certain customers who had US tax reporting obligations. In connection with these investigations, HSBC Private Bank (Suisse) SA, with due regard for Swiss law, has produced records and other documents to the DoJ. In August 2013, the DoJ informed HSBC Private Bank (Suisse) SA 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 November 2014, HSBC Private Bank (Suisse) SA was placed under formal criminal examination in Belgium for alleged tax-related offences. In June 2017, Belgian authorities placed HSBC Holdings and HSBC Private Bank Holdings (Suisse) SA, the Swiss holding company, under formal criminal examination. In November 2014, HSBC Swiss Private Bank (Suisse) SA was also placed under formal criminal examination in France for alleged tax-related offences in 2006 and 2007 and, in April 2015, HSBC Holdings was informed that it had been placed under formal criminal examination in France in connection with the conduct of HSBC Swiss Private Bank (Suisse) SA. In November 2017, HSBC Swiss Private Bank (Suisse) SA reached an agreement with the French public prosecutor to resolve its investigation. Under the terms of the settlement, HSBC Swiss Private Bank (Suisse) SA agreed to pay a fine and damages of €300 million. The investigations into HSBC Holdings were dismissed without further proceedings.

In November 2014, the Argentine tax authority initiated a criminal action against various individuals, including current and former HSBC employees. The criminal action includes allegations of tax evasion, conspiracy to launder undeclared funds and an unlawful association among HSBC Private Bank (Suisse) SA, HSBC Bank Argentina, HSBC Bank USA and certain HSBC employees, which allegedly enabled numerous HSBC customers to evade their Argentine tax obligations.

In February 2015, the Indian tax authority issued a summons and request for information to an HSBC company in India. In August 2015 and November 2015, HSBC companies received notices issued by two offices of the Indian tax authority, alleging that the Indian tax authority had sufficient evidence to initiate prosecution against HSBC Private Bank (Suisse) SA and an HSBC company in Dubai for allegedly abetting tax evasion of four different Indian individuals and/or families and requesting that the HSBC companies show why such prosecution should not be initiated. HSBC Private Bank (Suisse) SA and the HSBC Company in Dubai have responded to the show cause notices.

HSBC is cooperating with the relevant authorities. As at 31 December 2017, HSBC Private Bank (Suisse) SA has recognised a provision in the amount of CHF 571 million. There are many factors that may affect the range of outcomes, and the resulting financial impact, of these investigations and reviews. Due to uncertainties and limitations of these estimates, the ultimate penalties could differ significantly from this amount.

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, HSBC Private Bank (Suisse) SA is party to legal proceedings 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 a few litigation proceedings initiated by (former) clients alleging breaches of the Bank's duties in the frame of its mandate. The aggregate amount of the claims relating to these proceedings is with a maximum of CHF 109 million plus interest. The Bank is vigorously defending the cases and believes it has strong defenses to the claims.

5. INFORMATION CONCERNING THE STATEMENT OF INCOME

5.1 Breakdown of the result from trading operations

Breakdown by business area

CHF'000	2017	2016
Balance Sheet Management (proprietary trading)	88'324	92'138
Private Banking (trading operations with clients)	23'559	28'124
Result from trading operations	**111'883**	**120'262**

Breakdown by underlying risks

CHF'000	2017	2016
Result from trading activities from		
- Equity securities	(2'323)	(2'398)
- Foreign currencies	114'282	122'521
- Commodities / precious metals	(76)	139
Result from trading operations	**111'883**	**120'262**

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 2017 the negative interests were CHF 45.0 million (2016: CHF 58.6 million). The negative interests resulting from customer deposits are recorded in reduction of the interest expenses. At 31 December 2017 the negative interests were CHF 5.1 million (2016: nil).

5.3 Breakdown of personnel expenses

CHF'000	2017	2016
Salaries	184'389	206'517
- Of which expenses related to restricted share awards, share option awards and alternative forms of variable compensation	*1'515*	*4'960*
Social insurance benefits	17'331	20'107
Payments to pension funds in favour of employees	23'864	25'291
Other personnel expenses	15'101	13'348
Total personnel expenses	**240'685**	**265'263**

5.4 Breakdown of general and administrative expenses

CHF'000	2017	2016
Rental and maintenance expenses	22'738	28'158
Expenses for EDP, equipment, furniture, motor vehicles and other installations	11'238	13'000
Consultants' fees and legal expenses	11'447	24'716
IT consultants	45'716	39'154
Office and operating materials, printed material, telephone, postage and other installations	14'921	13'529
Representative offices	3'995	4'818
Travel costs	5'198	5'764
Insurance fees	3'079	3'935
Advertising expenses	1'281	1'447
Fees of audit firm	2'695	2'321
- of which, for financial and regulatory audits	*2'683*	*2'283*
- of which, for other services	*12*	*38*
Miscellaneous administrative fees	5'416	7'578
Billing received from entities of the HSBC Group	11'084	9'617
Other general and administrative expenses	**138'808**	**154'037**

5.5 Explanations regarding extraordinary income and expenses

CHF'000	2017	2016
Extraordinary income	**431**	**28'631**
- Net gain resulting from the sale of a non core business client portfolio	-	*28'605*
- Release of provision no longer required	*399*	-
- Others	*32*	*26*
Changes in reserves for general banking risks	**221'597**	-

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 2017	Domestic	Foreign	Total 2016
Net result from interest operations	50'500	469	50'969	32'920	607	33'527
Net income from commissions, products and services	145'401	-	145'401	164'601	(17)	164'584
Result from trading activities	111'883	-	111'883	121'016	(754)	120'262
Other result from ordinary activities	75'303	(981)	74'322	78'193	2'589	80'782
Operating expenses	(378'539)	(954)	(379'493)	(418'991)	(309)	(419'300)
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(24'677)	(29)	(24'706)	(21'649)	(100)	(21'749)
Changes to provisions and other value adjustments, and losses	(158'836)	-	(158'836)	(354'562)	345	(354'217)
Operating result	**(178'965)**	**(1'495)**	**(180'460)**	**(398'472)**	**2'361**	**(396'111)**

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

CHF'000	2017	2016
Current tax (expenses) / income	(9'144)	(13'104)
Deferred tax expenses	-	-
Total taxes recognised in the income statement	**(9'144)**	**(13'104)**
Average tax rate weighted on the basis of the operating results	Not relevant	Not relevant

No income tax is recorded in the 2017 and 2016 financial statements. Calculate an average tax rate ratio based on a negative operating results is not relevant. In 2017 and 2016, the tax expenses are composed of the annual equity tax and the Geneva professional communal tax. The tax profit of the year 2017 will be offset by the tax losses brought forward.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

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

CHF'000	**2017**	**2016**
Profit / (Loss) for the year	32'424	(380'584)
Profit brought forward	68'625	1'346'399
Amount at the disposal of the Shareholders' meeting	**101'049**	**965'815**
Dividend	-	897'190
To be carried forward	101'049	68'625
Total	**101'049**	**965'815**

Report of the statutory auditor

to the General Meeting of Shareholders of HSBC Private Bank (Suisse) SA, Geneva

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 8 to 46), for the year ended 31 December 2017.

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 2017 comply with Swiss law and the company's articles of incorporation.

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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, 21 February 2018

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