HSBC Private Bank (Suisse) SA

Annual Report 2018

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 Europe, the Middle East and clients residing in Switzerland. We serve high net worth and ultra-high net worth individuals and their families, providing solutions to grow, manage and preserve their 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 2018

We delivered strong Net New Money in our key markets in the European region and the Middle East and stabilised the level of our revenue. In parallel, we decreased our operational costs thanks to lower staff levels and more streamlined processes.

Throughout 2018 we saw a steady progression of client assets managed as part of our Advisory proposition, reaching a total of CHF 7.9 billion by the end of the year. Moreover, considerable efforts have been undertaken to refresh our Advisory proposition, with the new digital version due to be launched in 2019.

We also signed new Discretionary mandates worth CHF 1.2 billion, bringing the total client assets in this area to CHF 5.4 billion.

In 2018 the Bank continued to improve the client experience, in particular in the area of account opening. This included updating the account opening systems with the latest technology in case management and simplifying our client management process, which resulted in a further reduction in the average time needed for opening new accounts.

We remained focused on embedding robust risk management processes and ensuring that regulatory and financial crime risks are clearly understood and managed.

In addition, the Bank made progress in implementing international tax compliance standards and embedding HSBC's global standards programme, which has now transitioned to business as usual. 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. Furthermore, we continued to enhance our regulatory and financial crime controls to ensure they are as simple and streamlined as possible while still providing effective risk management.

On 1 October 2018, the Bank transferred a number of activities to HSBC PB Services (Suisse) SA, HSBC's Service Company based in Switzerland, as part of HSBC Group's Recovery and Resolution Planning. Employees performing back office activities, and those providing global or regional support to several HSBC entities, as well as related assets, were transferred by way of a business transfer agreement.

In 2018, the Bank also made progress in strengthening its presence in South Africa through the establishment of a Representative Office in the country and obtaining a license from the local authorities to conduct selected investment activities in and into the country.

Our financial performance in 2018

The Bank continued to benefit from a clearly focused strategy, business model and a strengthened client service offering.

This is reflected in the positive Client Net New Money of CHF 2 billion recorded in 2018 bringing the total client assets booked in Switzerland as of 31 December 2018 to CHF 52.7 billion. These factors contributed to a CHF 13 million increase in revenues generated by our interests, commissions and trading related activities, bringing them to a total of CHF 321.2 million.

We also reduced staff costs by CHF 31.8 million, which is explained by the overall reduction in employees following the transfer on 1 October 2018 of a significant proportion of Bank employees to HSBC PB Services (Suisse) SA. The transfer resulted in a decrease in staff costs, which was partly offset by an increase in general and administrative expenses, resulting from the rebilling of services provided by HSBC PB Services (Suisse) SA (CHF 20.1 million).

Our provisions were CHF 65.1 million, essentially for legacy legal and regulatory matters. The year 2018 ended with a loss for the period of CHF 62.2 million.

Changes to the Board of Directors and General Management

Board of Directors

The Board has welcomed Mr. António Simões and Mr. Gabriel Kemmler as new Directors in November 2018:

- Mr. Simões is Chief Executive Officer, HSBC Global Private Banking (GPB), since January 2019. He is a HSBC Group Managing Director and Member of the Group Management Board. His former HSBC appointments include: Chief Executive of HSBC Bank plc; Chief Executive of HSBC UK; Head of Retail Banking and Wealth Management, Europe; and Chief of Staff to the Group Chief Executive and Group Head of Strategy and Planning.
- Mr. Kemmler was Chief Risk Officer Retail & Corporates, Switzerland, when he retired from UBS in 2015. At that time he was chairing the Risk Control Committee and was a Member of the Executive Committee and the Asset & Liability Committee.

Mr. Johannes Jürgen Koch, who had joined the Board in October 2016, was appointed Vice-Chair of the Board in March 2018, in place of Mr. Carlo Lombardini.

Mr. Khaled A. Almolhem and Mr. Carlo Lombardini retired as Board members in February and March 2018, having formed part of the Board since 2016 and 2006, respectively. We would like to thank Mr. Almolhem and Mr. Lombardini for their valuable contributions. Mr. Lombardini chaired the Audit and Risk Committee of the Bank for several years, offering invaluable support, while strengthening the governance and risk control framework of the Bank.

Chief Executive Officer

Mr. Alexander Classen was appointed Chief Executive Officer and Chair of the Executive Committee in November 2018. Mr. Classen has a strong track record in private banking, wealth and investment management, having held a number of senior roles in Switzerland, the United Kingdom and Asia over the past 25 years. We extend a warm welcome to Mr. Classen.

Mr. Classen succeeded Mr. Christophe Guillemot, who was appointed Ad Interim Chief Executive Officer in addition to his role as Chief Financial Officer, GPB, following the departure of Mr. Franco Morra, who retired from HSBC.

The Board would like to thank Mr. Morra for his highly valuable contribution over the past years.

Executive Committee

In addition, the following changes have occurred in the composition of the Bank's Executive Committee:

- John Shipman was appointed Chief Risk Officer and Member of the Executive Committee in March 2018, succeeding Christine Lynch, who took on the role of Regional Chief Risk Officer, Middle East, North Africa and Turkey, HSBC Bank Middle East Limited, in Dubai;
- Karl Faivre was appointed Head of Investment Services and Product Solutions and Member of the Executive Committee in March 2018, succeeding Bryan Henning who retired from HSBC;
- Tom Howse was appointed Head of Human Resources and Member of the Executive Committee in July 2018, succeeding Séverine De Cacqueray, who retired from HSBC;
- Nick May was appointed Business Head Europe and International, Member of the Executive Committee and location head for the Zurich branch of the Bank in September 2018, succeeding Roger Lehmann, former Business Area Head - Switzerland Domestic & Multi Family Office, who retired from HSBC; and
- Stéphane Jacquemin was appointed Chief Operating Officer and Member of the Executive Committee in October 2018, succeeding Simon Larsen who took up a new role within HSBC Group as Head of Global Platform, GPB.

Our priorities for 2019

In 2019 the Bank will accelerate its ongoing work to improve the profitability of our business in Switzerland and deliver sustainable growth, leveraging the collaboration with other GPB booking centers and other business lines.

In particular, we intend to increase the Net New Money from our key markets targeted for growth and newly added markets, as well as attracting assets from intra-Group referrals and enhancing our Discretionary and Advisory offering. This should increase the steady flow of annuity revenues. We also intend to grow our Credit book by continuing to develop an industry-leading Credit Advisory offering.

We continue to develop our Next Generation proposition to deliver a specific and relevant offering to the next generations of our clients and help the bank support the transfer of wealth to future generations.

As we prioritise our sustainable business growth agenda, we will continue to foster collaboration with GB&M, CMB and RBWM. We will leverage the benefits of our targeted business model focused on some 20 priority markets as well as high net worth and ultra-high net worth individuals. To support our growth ambitions, we will also seek to hire talent from other parts of HSBC and the wider market.

Andreas von Planta
Chairman of the Board

Alexander Classen
Chief Executive Officer

Philippe Vaney
Financial Controller

Geneva, 12 March 2019

Board of Directors and Executive Committee

Board of Directors

Chairman

Andreas von Planta

Vice-Chairman

Johannes Jürgen Koch

Directors

Christophe De Backer

Kim Fox

Gabriel Kemmler

Menasey Marc Moses

António Simões

Company Secretary

Hervé Cherix

Executive Committee

President

Alexander Classen
Chief Executive Officer

Members

Karl Faivre
Head of Investment Services and Product Solutions

Tom Howse
Head of Human Resources

Stéphane Jacquemin
Chief Operating Officer

Nick May
Business Head Europe and International

Rachel Mattatia
Head of Legal

Isabelle Monestes
Head of Financial Crime Compliance

Jean François Peyronnard
Head of Regulatory Compliance

John Shipman
Chief Risk Officer

Sobhi Tabbara
Business Area Head Middle East, North Africa

Philippe Vaney
Financial Controller

Branches, Banking Subsidiary and Auditors

Zurich branch

Nick May
Member of the Executive Committee

Dubai branch

Farzad Billimoria
Senior Executive Officer & Head - Private Banking, UAE

Banking Subsidiary

HSBC Private Bank (Luxembourg) S.A.

Mark Winterflood
Managing Director & Head of Private Banking

Auditors

PricewaterhouseCoopers SA, Geneva

Supervision and regulation

As at 31 December 2018 and 2017, the disclosure related to the capital adequacy was as follows:

CHF'000	2018	2017
Eligible common equity Tier 1 capital (CET1)	1'004'636	1'069'648
Eligible Tier 1 capital (T1)	1'004'636	1'069'648
Total eligible capital	1'251'224	1'313'773
Total Risk-weighted assets	5'485'875	6'162'863
Minimum capital requirement	438'870	493'029
Common Equity Tier 1 ratio	18.31%	17.36%
Tier 1 ratio	18.31%	17.36%
Total capital ratio	22.81%	21.32%
Capital conservation buffer requirement	1.88%	1.25%
Total of Bank CET1 specific buffer requirement	1.88%	1.25%
CET1 available after meeting the bank's minimum capital requirements	12.31%	11.36%
Capital requirement (appendix 8 CAO)	4.00%	4.00%
Countercyclical buffer requirement	0.01%	0.01%
CET1 target ratio (appendix 8 CAO, art. 44 & 44a CAO)	7.81%	7.81%
T1 target ratio (appendix 8 CAO, art. 44 & 44a CAO)	9.61%	9.61%
Total capital ratio (appendix 8 CAO, art. 44 & 44a CAO)	12.01%	12.01%

As at 31 December 2018 and 2017, the leverage ratio was as follows:

CHF'000	2018	2017
Leverage ratio exposure	12'147'883	16'093'771
Tier 1 capital	1'004'636	1'069'648
Leverage ratio	**8.3%**	**6.6%**

The average Liquidity Coverage ratio for each quarter of the year 2018 and 2017 were as follows:

CHF'000	Average Q418	Average Q318	Average Q218	Average Q118
Total high quality liquid assets	3'326'261	3'096'373	3'397'580	3'644'247
Net cash outflows	1'758'232	1'893'814	1'652'329	1'705'014
Liquidity coverage ratio	**189.2%**	**163.5%**	**205.6%**	**213.7%**

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	2018	2017
Assets		
Liquid assets	1'728'445	2'113'501
Amounts due from banks	1'108'671	2'625'392
Amounts due from customers	5'352'130	6'598'799
Mortgage loans	1'413'434	1'171'885
Trading portfolio assets	106'788	94'462
Positive replacement values of derivatives financial instruments	150'655	183'771
Financial investments	1'397'488	2'210'320
Accrued income and prepaid expenses	30'718	29'387
Participations	382'218	379'935
Tangible fixed assets	81'157	99'299
Other assets	65'295	211'953
Total assets	**11'816'999**	**15'718'704**
Total subordinated claims	49'318	48'825
- *of which subject to mandatory conversion and /or debt waiver*	-	-
Liabilities		
Amounts due to banks	3'632'326	5'568'320
Liabilities from securities financing transactions	97'471	-
Amounts due in respect of customer deposits	5'569'672	7'536'345
Negative replacement values of derivatives financial instruments	159'375	170'275
Accrued expenses and deferred income	216'219	218'161
Other liabilities	21'040	55'418
Provisions	684'724	671'777
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	101'049	68'625
(Loss) / Profit for the year	(62'236)	32'424
Total liabilities	**11'816'999**	**15'718'704**
Total subordinated debt	246'588	244'125

OFF-BALANCE-SHEET

at 31 December

CHF'000	**2018**	**2017**
Contingent liabilities	436'375	464'055
Irrevocable commitments	43'401	6'033

STATEMENT OF INCOME

for the periods ended 31 December 2018 and 2017

CHF'000	2018	2017
Result from interest operations		
Interest and discount income	169'235	101'174
Interest and dividend income from financial investments	33'415	38'808
Interest expense	(90'684)	(89'013)
Gross result from interest operations	**111'966**	**50'969**
Changes in value adjustments for default risks and losses from interest operations	-	-
Subtotal net result from interest operations	**111'966**	**50'969**
Result from commission business and services		
Commission income from securities trading and investment activities	159'894	146'881
Commission income from lending business	2'304	2'274
Commission income from other services	5'404	13'387
Commission expense	(16'704)	(17'141)
Subtotal net income from commissions business and services	**150'898**	**145'401**
Result from trading operations	**58'421**	**111'883**
Other result from ordinary activities		
Result from the disposal of financial investments	5'060	2'230
Income from participations	2'325	1'732
Other ordinary income	65'498	70'360
Other ordinary expenses	(13'194)	-
Subtotal other result from ordinary activities	**59'689**	**74'322**
Operating expenses		
Personnel expenses	(208'916)	(240'685)
General and administrative expenses	(138'802)	(138'808)
Subtotal operating expenses	**(347'718)**	**(379'493)**
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(21'458)	(24'706)
Changes to provisions and other value adjustments, and losses	(65'139)	(158'836)
Operating result	**(53'341)**	**(180'460)**
Extraordinary income	-	431
Extraordinary expenses	(76)	-
Changes in reserves for general banking risks	-	221'597
Taxes	(8'819)	(9'144)
(Loss) / Profit for the year	**(62'236)**	**32'424**

STATEMENT OF CHANGES IN EQUITY

At 31 December 2018

CHF'000	Bank's capital	Capital reserve	Retained earnings reserve	Voluntary retained earnings reserves and profit / loss carried forward	Result of the period	Total
Equity at the beginning of the year 2018	708'480	108'759	580'120	101'049	-	1'498'408
Dividends and other distributions	-	-	-	-	-	-
Loss for the year	-	-	-	-	(62'236)	(62'236)
Equity at the end of the year 2018	**708'480**	**108'759**	**580'120**	**101'049**	**(62'236)**	**1'436'172**

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.

As part of the ongoing restructuring process, part of the employees of the Bank and tangible fixed assets recorded in the 2017 Financial Statements of the Bank have been transferred to HSBC PB Services (Suisse) SA on 1 October 2018. As a consequence, at 31 December 2018, the number of employees was 538 compared to 945 employees at December 2017.

Outsourcing of IT and other services through agreements with companies owned by the HSBC Group is done according to FINMA circular 2018 / 3 “Outsourcing – banks and insurers”.

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 previous gains, and the excess losses are recorded in the income statement under "Result for trading operations". 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, are transferred regularly to the Head Office.

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

	2018	2017
USD	0.986	0.977
EUR	1.128	1.171
GBP	1.262	1.320

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.
Provisions are created to cover potential loss on the loan book that ensures the quality of any collateral, and the financial capacity and willingness of the borrower. When a portion or all of the loan is deemed uncollectible, the amount is deducted from the corresponding asset item in the balance sheet and charged in full, in the income statement to "changes in value adjustments for default risks and losses from interest operations".
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".

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".

The Bank does not offset positive and negative replacement values with the same counterparty within the terms of the recognized and legally enforceable netting agreements.

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”. In the case of financial investments valued at the lower of cost or market value, an upwards revaluation to the amortised cost at maximum is to be recognised where the fair value falls below the acquisition cost and then recovers. The balance of the changes in book value is recognised via the items “Other ordinary expenses” or “Other ordinary income”, wherever appropriate.

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”. 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’s 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.

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.

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.

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”.

Provisions

Legal and factual obligations are valued regularly. If an outflow of resources is likely and can be reliably estimated, a corresponding provision is created.

Existing provisions are reassessed at each balance sheet date. Based on this reassessment, the provisions are increased, left unchanged or released.

Positions are recorded in the income statement under “Changes to provisions and other value adjustments and losses”.

Provisions are released via the income statement if they are no longer needed on business grounds and cannot be used for other similar purposes at the same time.

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.

Equity-based compensation schemes exist for the employees of the HSBC Group and is managed by a related company. The cost of the share plan are subsequently recharged to the Bank via a head-office recharge.

The liability is initially recorded within “Accrued expenses and deferred income” and the equity-based compensation scheme is recorded in the item “Personnel expenses”.

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. All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. PBRS has a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework, aligned with the HSBC Group Enterprise Risk Management Framework ("ERMF") is applied throughout PBRS, with governance and corresponding risk management tools. This framework is underpinned by the Bank's risk culture and reinforced by the HSBC Values.

A) Corporate and risk governance

Robust risk governance and accountability are embedded within the Bank through a 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 Risk Appetite Statement ("RAS") is the Board's written articulation of the aggregate level and types of risk that the Bank is willing to accept in order to achieve its business objectives. It provides a baseline for business decisions based on balancing risk and return, and making the best use of the Bank's capital. The Bank's RAS is interlinked with the Bank's strategic and financial plans, as well as remuneration, and is therefore forward-looking in describing the Bank's desired risk appetite profile.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. Risk appetite metrics are reviewed semi-annually and are fundamental to the development of the Bank's strategy, strategic and business planning and senior management balanced scorecards.

The Risk Appetite Profile ("RAP") monitors the actual performance of RAS metrics against the appetite and tolerance thresholds defined for each metric. The Risk Appetite profile is tracked by assigning standard Red, Amber and Green ("RAG") statuses to each metric, based on the Risk Appetite and Risk Tolerance thresholds. A RAG status is also provided for the projected position as at the year-end (based on the latest estimate for financial metrics and judgment based for non-financial metrics) and, where available, for its stressed position. The RAP is reported to the RMM on a monthly basis so that any actual performance which falls outside the approved Risk Appetite is discussed and appropriate mitigating actions are determined.

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 provides a point-in-time view of the residual risk profile of the Bank across both financial and non-financial risks in line with HSBC's risk taxonomy. It enables the RMM to assess the potential for these risks to have a material impact on the Bank's financial results, reputation or sustainability of the business.

The Risk Map ratings are a judgmental assessment by the Risk Steward of the First Line of Defence ("LOD") activities for their risk type(s). Risk Stewards assign current and projected RAG risk ratings. For Amber or Red risk ratings, supporting commentary is required to outline the monitoring and/or mitigating action plans in place to manage the risk down to acceptable levels.

The Risk Map ratings should take into account considerations specific to the risk type such as objective evidence, key indicators, whether the control environment is being adequately managed, Risk & Control assessments and operational risk metrics, where appropriate. Risk Stewards should provide appropriate rationale to support rating decisions and raise any stewardship challenges to the First LOD risk profile as necessary. In making their assessments, Risk Stewards should also consider, where appropriate, operational risk matters (such as Scenario Assessments, Risk and Control Assessments and/or Issues or Events which have arisen), issues raised in reports by Internal Audit, reports by the Monitor, regulatory findings and any other relevant data.

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

The Top and Emerging Risks report provides forward-looking and thematic analysis of risks which are often large scale events or external circumstances, difficult to predict and are often beyond the Bank's ability to directly control.

The Top and Emerging Risks report analyses themes around:

- "Top Risks", which are thematic issues which may arise across any number of risk types which has the potential to have a material impact on the financial results, reputation or long term business model of the Bank, and which may form and crystallise between a 6 month and one year horizon; and
- "Emerging Risks", which are thematic issues with large unknown components and may form and crystallise beyond a one year horizon. If it were to materialise, it could have a significant material impact on a combination of the Bank's long term strategy, profitability and reputation.

There are two key dimensions that determine whether a risk should be considered "Top" or "Emerging": (1) the level of uncertainty around the risk and its potential impact, and (2) the estimated time to crystallisation. As the issue emerges and moves closer to crystallisation, so too should the understanding of the risk and its potential impact on the Bank.

Risk Owners / Risk Stewards assess the internal and external risk environment to contribute to the report and provide senior management with a forward-looking view of issues that could threaten the execution of PBRS strategy or operations. Subject matter experts ("SMEs"), either in the First or Second LOD as appropriate, will be identified for each thematic issue and are responsible for providing monthly updates detailing key impacts and appropriate management actions being undertaken to mitigate the risk. The SMEs must identify all risk types affected by the thematic issue to ensure that the issue has been addressed and mitigated holistically.

Stress testing

Stress testing (including scenario analysis) is an integral component of HSBC's enterprise risk management framework that supports risk management and capital planning. It is an important tool which permits understanding the sensitivities of the core assumptions in strategic and capital plans, and improve decision-making through balancing risk and return.

Stress testing is used to examine the sensitivities of capital plans and unplanned demand for regulatory capital under a number of scenarios, both in the form of regulatory stress tests and internal stress tests. Scenarios are conducted across the Group as well as at a major subsidiary level including PBRS. They 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.

Finance, Risk Strategy and Risk Analytics are jointly responsible for coordinating stress testing activities. The Global Stress Testing Steering Committee, co-chaired by the Global Head of Risk Strategy and the Group Financial Controller, serves as the governance body for stress testing undertaken at the group-wide level and ensures that stress testing has sufficient cross-functional and cross-regional oversight. It provides recommendations and direct escalation to appropriate governing bodies, including, the Stress Testing Management Board (which leads the strategic direction of stress testing across the Group) and the GRC (which reviews the results of group-wide stress tests).

Internal stress tests are also undertaken on a range of scenarios and risks specific to the Bank. These are closely aligned to the assessments of Top and Emerging Risks and inform the risk appetite. They include potential adverse macroeconomic, geopolitical and operational risk events, and potential events that are specific to HSBC.

The scenarios selected reflect the Bank's risk appetite towards profitability, capital and liquidity. Stress testing analysis helps management understand the nature and extent of any vulnerability. Internal stress tests prompt management actions in a number of ways. The impacts to key risk appetite metrics and limits are considered, and these may or may not be re-evaluated (e.g. such as reductions in portfolio caps, limits or direct exposures, and through prompting of closer monitoring and surveillance of exposures which might be sensitive to stress). This process is an integral part of active risk management.

C) Responsibilities

Three lines of defence

The Three Lines of Defence model is an organisational structure that outlines the division of roles and responsibilities, defined by the activities performed. It is applicable to all individuals and to all risk types. There should be a clear segregation between risk ownership (First LOD), risk oversight (Second LOD) and independent assurance (Third LOD) to help support the Bank in the effective identification, assessment, monitoring, management, and reporting of risks:

- The First LOD has ultimate ownership for risk and controls. It comprises of three key roles: Risk Owners, Control Owners and Business Risk Control Managers. Individuals can be both Risk Owners and Control Owners, depending on the activity(ies) they are undertaking.
- The Second LOD reviews and challenges the activities of the First LOD to ensure that they have met the minimum requirements for risk management. The Second LOD is independent of the commercial risk-taking activities undertaken by the First LOD and consists of the CRO, "Risk Stewards" and the Operational Risk Function.
- The third LOD 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.

Risk Culture

Culture consists of the shared attitudes, values and norms that shape employee behaviour; essentially, how all support one another and work together at HSBC to deliver fair outcomes for customers and not disrupt the orderly and transparent operation of financial markets.

The concept of “risk culture” focuses on those behaviours that help manage risk and increase awareness of risk.

Therefore, there is no separate “risk culture”, it is just a way of looking how culture either supports or inhibits the Bank’s ability to manage risk.

The Bank’s values help shape that culture by describing how all should interact with each other, customers, regulators and the wider community. They are:

- Dependable and do the right thing;
- Open to different ideas and cultures; and
- Connected to customers, communities, regulators and each other.

In following them all must act with courageous integrity, standing firm for what is right.

A strong risk culture is one that exhibits the following risk management behaviours:

- Good judgment – how people make decisions. A strong risk culture encourages people to think about the wider principles when making decisions and how these impact others. HSBC’s Charter is a framework based on shared values that can help employees make decisions.
- Speaking up – feeling comfortable speaking up about concerns, even if they relate to mistakes, or highlighting things felt wrong. Views are sought and respected and when people do speak up appropriate action is taken.
- Accountability – standing by decisions and acknowledging and learning from mistakes. It doesn’t mean making decisions in isolation but proactively connecting with others to achieve the right outcome.

At HSBC, risk culture is measured by assessing how it is expressed through a range of tools. The clearest expression of culture is in the sentiment and behaviours of employees, and the business outcomes those behaviours create.

Sentiment and behaviours are measured using regular surveys like Snapshot. Across a population, the Bank can understand how people feel about risk management behaviours. Tools are also used to assess the extent to which the working environment is supportive of these behaviours. When correlated with metrics that describe business outcomes it provides a picture of which behaviours drive certain outcomes.

The Internal Audit function assesses culture in all audits including identifying whether audit issues have a cultural root cause and also periodically perform “deep-dive” culture audits.

Independent Risk function

The Bank’s Risk function oversees the framework and is led by the PBRS Chief Risk Officer, a Member of the Executive Committee. It is independent from the businesses, including the sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward 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.

<u>Currency risk</u>

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.

<u>Equity risk</u>

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 the Bank's 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 the Bank's business.

Operational risk is:
- Measured using the risk and control assessment process, which assesses the level of risk and the effectiveness of controls, and measured for Economic Capital management using risk event losses and scenario analysis;
- 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.

Cyber-threat and unauthorised access to systems

HSBC and other public and private organisations continue to be the targets of increasingly sophisticated cyber-attacks. Ransomware and distributed denial of service attacks appear to be an increasingly dominant threat to the financial industry, which may result in disruption to operations and customer-facing websites or loss of customer data.

Mitigating actions
- Continue to strengthen and significantly invest in ability to prevent, detect and respond to the ever-increasing and sophisticated threat of cyber-attacks. Specifically, by continuing to enhance capabilities to protect against increasingly sophisticated malware, denial of service attacks and data leakage prevention, as well as enhancing security event detection and incident response processes.
- Cyber risk is a priority area for the Board and is regularly reported at Board level to ensure appropriate visibility, governance and executive support for ongoing cybersecurity programme.
- HSBC participates in intelligence sharing with both law enforcement and industry schemes to help improve understanding of, and ability to respond to, the evolving threats faced by the Bank and its peers.

Legal risk

In conformity with HSBC standards, the Bank 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 Adjudication, Non-Contractual Obligations 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 is the risk that the Bank fails 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 the business as a consequence.

Regulatory compliance risk is part of operational risk, and arises from the risks associated with breaching the Bank's 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 Regulatory Compliance teams ;
- Monitored against regulatory compliance risk & control assessments, regulatory 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.

Financial crime risk

Financial crime risk is the risk that the Bank 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 Financial Crime Risk teams ;
- Monitored against financial crime risk & control assessments, 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, 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 the Bank's reputation as indicated by dealings with all relevant stakeholders, including media, regulators, customers and employees;
- Monitored through a reputational risk management framework that is integrated into the Bank'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

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.

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 2018.

3. Information concerning the balance sheet

3.1 Breakdown of securities financing transactions (assets and liabilities)

CHF'000	2018	2017
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions	97'471	-
Book value of securities lent in connection with securities lending or delivered as collateral in connection with securities borrowing as well as securities in own portfolio transferred in connection with repurchase agreements	98'702	-
with unrestricted right to resell or pledge	-	-

3.2 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	75'429	5'147'504	129'197	5'352'130
Mortgages loans				
Residential property	679'901	-	-	679'901
Office and business premises	733'533	-	-	733'533
Total loans (before netting with value adjustments)				-
31 December 2018	**1'488'863**	**5'147'504**	**129'197**	**6'765'564**
31 December 2017	**1'171'885**	**6'479'446**	**119'353**	**7'770'684**
Total loans (after netting with value adjustments)				
31 December 2018	**1'488'863**	**5'147'504**	**129'197**	**6'765'564**
31 December 2017	**1'171'885**	**6'479'446**	**119'353**	**7'770'684**
Off-balance sheet				
Contingent liabilities	-	313'411	122'964	436'375
Irrevocable commitments	-	39'377	4'024	43'401
Total off-balance sheet operations at 31 December 2018	**-**	**352'788**	**126'988**	**479'776**
Total off-balance sheet operations at 31 December 2017	**-**	**346'549**	**123'539**	**470'088**

3.3 Impaired loans / receivables

CHF'000	Gross debt amount	Estimated liquidation value of collateral	Net debt amount	Individual value adjustments
31 December 2018	-	-	-	-
31 December 2017	-	-	-	-

3.4 Trading portfolios

CHF'000	2018	2017
Precious metals	106'788	94'462
Total trading portfolio assets	**106'788**	**94'462**

3.5 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)	169	169	279	-	-	-
Futures	29	29	20'857	-	-	-
options (Exchange Traded)	43'274	43'274	2'458'660	-	-	-
Foreign exchange						
forward contracts	61'483	70'019	10'795'158	-	-	-
options (OTC)	10'320	10'320	1'658'430	-	-	-
Interest rate instruments						
Swaps	9'728	9'728	902'607	3'671	4'004	422'548
options (OTC)	932	932	1'626'537	-	-	-
Precious metals						
forward contracts	3'160	3'011	237'586	-	-	-
options (OTC)	17'889	17'889	5'105	-	-	-
Total before netting agreements						
31.12.2018	**146'984**	**155'371**	**17'705'219**	**3'671**	**4'004**	**422'548**
- of which, determined using a valuation model	103'681	112'068		3'671	4'004	
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	

Total after netting agreements	**Positive replacement values (cumulative)**	**Negative replacement values (cumulative)**
31.12.2018	150'655	159'375
31.12.2017	183'771	170'275

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 2018	-	88'847	61'808	**150'655**

3.6 Breakdown of financial investments

CHF'000	Book value 2018	Book value 2017	Fair value 2018	Fair value 2017
Debt securities				
- of which, not intended to be held to maturity (available for sale)	1'370'517	2'180'050	1'371'096	2'183'593
Precious metals	26'971	30'270	26'971	30'270
Total financial investments	**1'397'488**	**2'210'320**	**1'398'067**	**2'213'863**
of which, securities eligible for repo transactions in accordance with liquidity requirements	656'814	911'420	—	—

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

Breakdown of counterparties by rating

CHF'000	Book value
AAA to AA-	1'343'438
From A+ to A-	19'163
BBB+ to BBB-	34'836
BB+ to B-	-
Below B-	-
Unrated	51
Total financial investments	**1'397'488**

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.

3.7 Presentation of participations

CHF'000	Acquisition cost	Value adjustments	Book value	Additions	Disposals	Value adjustments	Book value	Market value
				2018				
Other participations								
-Without market value	379'935	-	379'935	2'283	-	-	382'218	-
Total participations	**379'935**	**-**	**379'935**	**2'283**	**-**	**-**	**382'218**	-

3.8 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
					2018				2017			
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%
HSBC Financial Services (Lebanon) SAL	Advisory management	Lebanon	USD	1'300	2'283	99.6%	99.6%	99.6%	-	-	-	-
Other participations					79	-	-	-	79	-	-	-

3.9 Presentation of tangible fixed assets

CHF'000	Purchase cost	Accumulated depreciation	Net book value	Additions	Disposals	Depreciation	Net book value
			2018				
Bank buildings	18'724	(18'023)	701	-	-	(264)	437
Proprietary or separately acquired software	70'420	(42'840)	27'580	9'732	(1'271)	(7'083)	28'958
Other tangible fixed assets	321'165	(250'147)	71'018	1'221	(6'366)	(14'111)	51'762
Total tangible fixed assets	**410'309**	**(311'010)**	**99'299**	**10'953**	**(7'637)**	**(21'458)**	**81'157**

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

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

CHF'000	2018	2017
Maturity up to 12 months	22'389	23'177
Maturity between 12 months to 5 years	89'555	87'680
Maturity over 5 years	44'390	70'451
Total off-balance sheet leasing obligations	**156'334**	**181'308**
- of which may be terminated within one year	-	-

3.10 Breakdown of other assets and other liabilities

CHF'000	2018	2017
Other assets		
Tax prepayments	7'808	6'835
Internal bank business operations	4'026	11'750
Deposit pledged with third party	-	58'551
Receivables from Group companies	47'453	115'333
Compensation account	333	-
Other assets	5'675	19'484
Total other assets	**65'295**	**211'953**
Other liabilities		
Compensation account	-	12'604
Internal bank business operations	10'750	29'908
Indirect Taxes	5'092	5'956
Other liabilities	5'198	6'950
Total other liabilities	**21'040**	**55'418**

3.11 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	**2018**		**2017**	
Deposits made with companies of the HSBC Group to guarantee operations on derivative instruments carried out with the Group	288'737	30'370	290'831	103'849
Deposits made with external counterparties to guarantee operations on derivative instruments carried out with them	3'481	2'939	5'226	5'068
Others	-	-	58'551	-
Total pledged assets	**292'218**	**33'309**	**354'608**	**108'917**

3.12 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)	2018	2017
Pension fund in favor of employees	2'221	2'118
Total Liabilities	**2'221**	**2'118**

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					2018	2017
Swiss pension fund	27'000	-	27'000	27'000	-	-

Presentation of the pension expenses

	Overfunding at end of 2018	Contribution paid for 2018	Pension expenses in personnel expenses	
CHF'000			2018	2017
Swiss pension fund	110%	17'448	17'448	22'458
Swiss complementary pension fund	101%	1'545	1'545	1'406

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 110 % 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 2018 and 2017.

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

CHF'000	Balance at 1 January 2018	Use in conformity with designated purpose	Currency differences	New provisions charged to income statement	Released to income	Balance at 31 December 2018
Provisions for deferred taxes	21'700	-	-	-	-	21'700
Provisions for other business risks	2'023	(1'702)	(64)	-	(238)	19
Provisions for restructuring	54'868	(21'977)	-	13'094	(6'022)	39'963
Other provisions	593'186	(8'910)	(9'875)	52'314	(3'673)	623'042
Total provisions	**671'777**	**(32'589)**	**(9'939)**	**65'408**	**(9'933)**	**684'724**
Reserves for general banking risks	-	-	-	-	-	-
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.

3.14 Presentation of the Bank's capital

CHF'000 (except number of shares)	Total nominal value 2018	Number of shares 2018	Capital giving rights to dividends 2018	Total nominal value 2017	Number of shares 2017	Capital giving rights to dividends 2017
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	2018	2017
Non-distributable statutory capital reserve	108'759	108'759
Non-distributable statutory retained earnings reserve	245'481	245'481

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

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

The share-based payment income statement charge above includes CHF 3.8 million (2017: CHF 1.5 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	
2018	2017	2018	2017	2018	2017	2018	2017
738'486	921'948	6'952	7'938	29'699	88'229	220	665

3.16 Disclosure of amounts due from / to related parties

	Amounts due from		Amounts due to	
	2018	2017	2018	2017
CHF'000				
Holders of qualified participations	3'095	3'522	71'280	32'263
Group companies	151'424	870'834	1'211'755	3'219'125
Linked companies	773'629	1'573'164	2'434'098	2'338'127
Transactions with members of governing bodies	174	95'868	40	2'263

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.

3.17 Disclosure of holders of significant participations

As at 31 December 2018 the capital was fully owned by HSBC Private Banking Holdings (Suisse) SA, Geneva (2017: 100%).

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

3.18 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				**2018**				
Liquid assets	1'728'445	-	-	-	-	-	-	1'728'445
Amounts due from banks	914'207	-	144'569	577	49'318	-	-	1'108'671
Amounts due from customers	-	2'531'869	2'184'585	322'308	313'368	-	-	5'352'130
Mortgage loans	-	-	1'000'442	177'027	206'608	29'357	-	1'413'434
Trading portfolio assets	106'788	-	-	-	-	-	-	106'788
Positive replacement values of derivatives financial instruments	146'984	-	-	-	3'671	-	-	150'655
Financial investments	26'971	-	99'598	152'834	827'797	290'288	-	1'397'488
Total at 31 December 2018	**2'923'395**	**2'531'869**	**3'429'194**	**652'746**	**1'400'762**	**319'645**	**-**	**11'257'611**
Total at 31 December 2017	**4'642'246**	**3'715'292**	**3'181'996**	**797'016**	**2'238'914**	**422'666**	**-**	**14'998'130**
Debt capital / financial instruments								
Amounts due to banks	668'728	-	2'928'893	34'705	-	-	-	3'632'326
Liabilities from securities financing transactions	-	-	97'471	-	-	-	-	97'471
Amounts due in respect of customer deposits	4'764'732	-	558'352	-	-	246'588	-	5'569'672
Negative replacement values of derivatives financial instruments	155'371	-	-	-	4'004	-	-	159'375
Total at 31 December 2018	**5'588'831**	**-**	**3'584'716**	**34'705**	**4'004**	**246'588**	**-**	**9'458'844**
Total at 31 December 2017	**9'003'596**	**-**	**3'881'467**	**142'792**	**2'960**	**244'125**	**-**	**13'274'940**

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

	Domestic	Foreign	Total	Domestic	Foreign	Total
CHF'000			2018			2017
Assets						
Liquid assets	1'724'710	3'735	1'728'445	2'112'273	1'228	2'113'501
Amounts due from banks	194'699	913'972	1'108'671	335'115	2'290'277	2'625'392
Amounts due from customers	188'611	5'163'519	5'352'130	234'895	6'363'904	6'598'799
Mortgage loans	528'254	885'180	1'413'434	280'230	891'655	1'171'885
Trading portfolio assets	106'788	-	106'788	94'462	-	94'462
Positive replacement values of derivatives financial instruments	3'429	147'226	150'655	11'148	172'623	183'771
Financial investments	105	1'397'383	1'397'488	42'537	2'167'783	2'210'320
Accrued income and prepaid expenses	1'937	28'781	30'718	7'645	21'742	29'387
Participations	4'911	377'307	382'218	4'911	375'024	379'935
Tangible fixed assets	81'157	-	81'157	99'296	3	99'299
Other assets	59'979	5'316	65'295	174'588	37'365	211'953
Total assets	**2'894'580**	**8'922'419**	**11'816'999**	**3'397'100**	**12'321'604**	**15'718'704**
Liabilities						
Amounts due to banks	232'027	3'400'299	3'632'326	329'392	5'238'928	5'568'320
Liabilities from securities financing transactions	-	97'471	97'471	-	-	-
Amounts due in respect of customer deposits	359'599	5'210'073	5'569'672	783'886	6'752'459	7'536'345
Negative replacement values of derivatives financial instruments	1'836	157'539	159'375	13'557	156'718	170'275
Accrued expenses and deferred income	195'173	21'046	216'219	206'651	11'510	218'161
Other liabilities	17'541	3'499	21'040	36'425	18'993	55'418
Provisions	684'724	-	684'724	671'777	-	671'777
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	107'766	(6'717)	101'049	70'998	(2'373)	68'625
(Loss) / Profit for the year	(69'059)	6'823	(62'236)	33'919	(1'495)	32'424
Total liabilities	**2'926'966**	**8'890'033**	**11'816'999**	**3'543'964**	**12'174'740**	**15'718'704**

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

CHF'000	Carrying value 2018	Share % 2018	Carrying value 2017	Share % 2017
Assets				
Switzerland	2'894'580	24.5	3'397'100	21.6
Europe excluding Switzerland	4'097'910	34.7	6'099'295	38.8
Latin America and Caribbean	2'003'077	17.0	3'030'657	19.3
Africa and Middle East	1'931'757	16.3	1'956'208	12.4
United States and Canada	529'464	4.5	675'026	4.3
Asia-Pacific	360'211	3.0	560'418	3.6
Total assets	**11'816'999**	**100.0**	**15'718'704**	**100.0**

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

	Net foreign exposure at 31 December 2018		Net foreign exposure at 31 December 2017	
CHF'000	Carrying value	Share as %	Carrying value	Share as %
Rating				
1&2	6'176'528	74.3	8'150'040	72.3
3	594'391	7.1	769'954	6.8
4	598'965	7.2	613'292	5.4
5	58'532	0.7	254'754	2.2
6	85'758	1.0	44'009	0.4
7	116'611	1.4	40'541	0.4
Unrated	689'198	8.3	1'410'330	12.5
Total assets	**8'319'983**	**100.0**	**11'282'920**	**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.

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

CHF'000	CHF	EUR	USD	GBP	Others	Total
Assets			**2018**			
Liquid assets	1'722'613	5'123	521	188	-	1'728'445
Amounts due from banks	36'322	289'083	296'950	360'933	125'383	1'108'671
Amounts due from customers	286'459	1'159'151	3'056'511	475'391	374'618	5'352'130
Mortgage loans	528'547	386'369	10'850	466'291	21'377	1'413'434
Trading portfolio assets	-	-	-	-	106'788	106'788
Positive replacement values of derivatives financial instruments	80'511	10'353	47'678	9'872	2'241	150'655
Financial investments	105	34'836	1'196'065	139'511	26'971	1'397'488
Accrued income and prepaid expenses	5'113	2'153	21'047	2'378	27	30'718
Participations	382'155	63	-	-	-	382'218
Tangible fixed assets	80'914	-	243	-	-	81'157
Other assets	50'352	5'728	5'560	3'610	45	65'295
Total assets shown in balance sheet	**3'173'091**	**1'892'859**	**4'635'425**	**1'458'174**	**657'450**	**11'816'999**
Delivery entitlements from spot exchange, forward forex and forex options transactions	1'311'199	2'279'493	6'012'929	1'455'999	1'928'725	12'988'345
Total Assets	**4'484'290**	**4'172'352**	**10'648'354**	**2'914'173**	**2'586'175**	**24'805'344**
Liabilities						
Amounts due to banks	611'483	27'973	2'185'332	414'622	392'916	3'632'326
Liabilities from securities financing transactions	-	-	97'471	-	-	97'471
Amounts due in respect of customer deposits	232'791	1'666'810	2'466'213	825'668	378'190	5'569'672
Negative replacement values of derivatives financial instruments	90'868	10'353	46'269	9'644	2'241	159'375
Accrued expenses and deferred income	151'974	1'114	32'216	29'119	1'796	216'219
Other liabilities	5'511	5'329	7'199	3'000	1	21'040
Provisions	70'521	333'745	280'458	-	-	684'724
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	100'989	-	60	-	-	101'049
Loss for the year	(62'830)	(6'770)	7'364	-	-	(62'236)
Total liabilities shown in balance sheet	**2'598'666**	**2'038'554**	**5'122'582**	**1'282'053**	**775'144**	**11'816'999**
Delivery entitlements from spot exchange, forward forex and forex options transactions	1'879'674	2'142'722	5'512'293	1'628'774	1'820'963	12'984'426
Total Liabilities	**4'478'340**	**4'181'276**	**10'634'875**	**2'910'827**	**2'596'107**	**24'801'425**
Net position per currency	**5'950**	**(8'924)**	**13'479**	**3'346**	**(9'932)**	**3'919**

4. INFORMATION CONCERNING OFF-BALANCE SHEET TRANSACTIONS

4.1 Breakdown and explanation of contingent assets and liabilities

CHF'000	2018	2017
Contingent assets arising from tax losses carried forward	106'705	90'722
Total contingent assets	**106'705**	**90'722**

CHF'000	2018	2017
Guarantees to secure credits and similar	436'375	464'055
Total contingent liabilities	**436'375**	**464'055**

4.2 Breakdown of fiduciary transactions

CHF'000	2018	2017
Fiduciary deposits with third-party banks	321'677	258'532
Fiduciary deposits with affiliated banks	10'613'267	9'958'636
Total fiduciary transactions	**10'934'944**	**10'217'168**

4.3 Breakdown of managed assets and presentation of their development

Type of managed assets

CHF'000	2018	2017
Assets under discretionary asset management agreements	5'267'336	4'431'868
Other managed assets	47'471'899	47'778'393
Total managed assets	**52'739'235**	**52'210'261**

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	2018	2017
Total managed assets (including double counting) at beginning	52'210'261	49'708'453
- net new money money inflow / (outflow)	1'975'076	400'427
+/- price gains / losses, interest, dividends and currency gains / losses	(1'446'102)	2'101'381
Total managed assets (including double counting) at end	**52'739'235**	**52'210'261**

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 2018.
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 totaled approximately $ 4 billion. Various HSBC companies have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

The Trustee has brought lawsuits against various HSBC companies - among which HSBC Private Bank (Suisse) SA - in the U.S. 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 U.S. actions. The U.S. Bankruptcy Court granted HSBC's motion to dismiss with respect to certain of the Trustee's claims in November 2016. In September 2017, the U.S. Court of Appeals for the Second Circuit (the "Second Circuit Court of Appeals") agreed to hear the Trustee's appeal of the U.S. Bankruptcy Court's decision. Briefing on the appeal was completed in May 2018. The Second Circuit Court of Appeals heard oral argument on the appeal in November 2018 and a decision remains pending.

Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (together "Fairfield") (in liquidation since July 2009) have brought lawsuits in the U.S. 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 U.S. Bankruptcy Court. In January 2017, the defendants moved to dismiss and oppose the Fairfield Liquidators' motion. The U.S. Bankruptcy Court issued a partial decision in August 2018 that denied the defendants' motion to dismiss for lack of subject matter jurisdiction and adopted the defendants' position that certain subscription agreements, allegedly signed by the defendants when placing investments in the Fairfield funds, do not confer personal jurisdiction in this action. The remaining arguments raised in the parties' motions remain pending. In September 2018, the court ordered a stipulation among the parties pursuant to which the court will resolve the remaining issues on defendants' motion to dismiss and the liquidators' motion to amend the complaints in any order the court deems appropriate. The motions thus remain pending in substantial part.

In December 2014, SPV Optimal SUS Ltd ("SPV OSUS"), the purported assignee of the Madoff-invested company, Optimal Strategic US Equity Ltd, 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. In April 2018, HSBC transferred the case to the US District Court for the Southern District of New York (the "New York District Court"). In February 2019, SPV OSUS withdrew its action with prejudice against HSBC.

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 U.S., 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, 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 2018, HSBC Private Bank (Suisse) SA has recognised a provision in the amount of CHF 603.8 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 5.3 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	2018	2017
Balance Sheet Management (proprietary trading)	29'446	88'324
Private Banking (trading operations with clients)	28'975	23'559
Result from trading operations	**58'421**	**111'883**

Breakdown by underlying risks

CHF'000	2018	2017
Result from trading activities from		
- Equity securities	(645)	(2'323)
- Interest rate swap	374	-
- Foreign currencies	58'692	114'282
- Commodities / precious metals	-	(76)
Result from trading operations	**58'421**	**111'883**

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 2018 the negative interests were CHF 7.3 million (2017: CHF 45.0 million). The negative interests resulting from customer deposits are recorded in reduction of the interest expenses. At 31 December 2018, the negative interests were CHF 4.1 million (2017: 5.1 million).

5.3 Breakdown of personnel expenses

CHF'000	2018	2017
Salaries	163'643	184'389
- Of which expenses related to restricted share awards, share option awards and alternative forms of variable compensation	*3'837*	*1'515*
Social insurance benefits	14'898	17'331
Payments to pension funds in favour of employees	18'993	23'864
Other personnel expenses	11'382	15'101
Total personnel expenses	**208'916**	**240'685**

5.4 Breakdown of general and administrative expenses

CHF'000	2018	2017
Rental and maintenance expenses	17'943	22'738
Expenses for EDP, equipment, furniture, motor vehicles and other installations	9'507	11'238
Consultants' fees and legal expenses	321	11'447
IT consultants	28'134	33'703
Office and operating materials, printed material, telephone, postage and other installations	14'029	14'921
Representative offices	1'099	1'169
Travel costs	4'445	5'198
Insurance fees	2'961	3'079
Advertising expenses	924	1'281
Fees of audit firm	2'410	2'695
- of which, for financial and regulatory audits	*2'410*	*2'683*
- of which, for other services	-	*12*
Miscellaneous administrative fees	3'514	5'416
Billing received from HSBC PB Services (Suisse) SA	32'081	12'013
Billing received from other entities of the HSBC Group	21'434	13'910
Other general and administrative expenses	**138'802**	**138'808**

5.5 Explanations regarding extraordinary income and expenses

CHF'000	2018	2017
Extraordinary income	**-**	**431**
- Release of provision no longer required	-	*399*
- Others	-	*32*
Extraordinary expenses	**(76)**	**-**
- Loss on fixed assets disposal	*(76)*	-
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 2018	Domestic	Foreign	Total 2017
Net result from interest operations	112'503	(537)	111'966	50'500	469	50'969
Net income from commissions, products and services	150'898	-	150'898	145'401	-	145'401
Result from trading activities	58'421	-	58'421	111'883	-	111'883
Other result from ordinary activities	53'805	5'884	59'689	75'303	(981)	74'322
Operating expenses	(338'027)	(9'691)	(347'718)	(378'539)	(954)	(379'493)
Value adjustments on participations and depreciation and amortisation of tangible fixed assets and intangible assets	(21'455)	(3)	(21'458)	(24'677)	(29)	(24'706)
Changes to provisions and other value adjustments, and losses	(65'139)	-	(65'139)	(158'836)	-	(158'836)
Operating result	**(48'994)**	**(4'347)**	**(53'341)**	**(178'965)**	**(1'495)**	**(180'460)**

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

CHF'000	2018	2017
Current tax expenses	(8'819)	(9'144)
Deferred tax expenses	-	-
Total taxes recognised in the income statement	**(8'819)**	**(9'144)**
Average tax rate weighted on the basis of the operating results	Not relevant	Not relevant

No income tax is recorded in the 2018 and 2017 financial statements. Calculate an average tax rate ratio based on a negative operating results is not relevant. In 2018 and 2017, the tax expenses are composed of the annual equity tax and the Geneva professional communal tax. The tax profit of the year 2017 was 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	2018	2017
(Loss) / Profit for the year	(62'236)	32'424
Profit brought forward	101'049	68'625
Amount at the disposal of the Shareholders' meeting	**38'813**	**101'049**
Dividend	-	-
To be carried forward	38'813	101'049
Total	**38'813**	**101'049**

Report of the statutory auditor
to the General Meeting 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 9 to 51), for the year ended 31 December 2018.

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 2018 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers Ltd

Christophe Kratzer　　　　Gabriel Seow

Audit expert
Auditor in charge

Geneva, 12 March 2019

Enclosures:

- Financial statements (balance sheet, statement of income, statement of changes in equity and notes)
- Proposed appropriation of the available earnings

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