

HSBC TRUST COMPANY (UK) LIMITED

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2001



Company Registration Number 106294

HSEC TRUST COMPANY (UK) LIMITED

**Annual report and accounts
for the year ended 31 December 2001**

	Page
Report of the Directors	1
Report of the Independent Auditors	3
Profit and loss account	4
Balance sheet	5
Notes to the accounts	6

HSBC TRUST COMPANY (UK) LIMITED

Report of the Directors

Principal activities

The Company, trading principally as Private Clients, offers individually-tailored financial advice, asset management and related services such as executorship, trusteeship and estate planning. The Company operates through a network of offices within England, Wales and Scotland and, under the terms of the Financial Services and Markets Act 2000, these offices are polarised as independent intermediaries.

No change in the Company's activities is anticipated.

Results and dividends

The Company made a profit on its ordinary activities before taxation during the year under review of £24,279,000 (2000: £29,494,000) resulting in a profit after taxation for the year of £16,982,000 (2000: £20,632,000).

A first interim dividend of £13,000,000 was paid on 31 August 2001 in respect of the year ended 31 December 2001 (2000: £10,000,000). A second interim dividend of £4,000,000 for the year ended 31 December 2001 is payable on 28 February 2002 (2000: £11,000,000).

Business review

Operating profit increased in the year reflecting steady growth in customers. New business funds increased year on year, following the recruitment of 60 new sales staff. Funds under management were affected by adverse market performance.

Directors

The Directors who served during the year were as follows:-

	Appointed	Resigned
A J Ashford (Chairman)		
R Barker	01.11.01	
N J Deacon		
P E Dillnutt (Managing Director)		
S A Donohoe		31.10.01
R F Farrand		
B D Goldberg	30.11.01	
D Longmore		30.11.01
P R Smith (Finance Director)		

Directors' interests

All the Directors' interests in the share and loan capital of HSBC Holdings plc, the ultimate parent undertaking, required to be disclosed under the Companies Act 1985, are set out below.

HSBC Holdings plc
Ordinary shares of US\$0.50 each

	31 December 2001	1 January 2001 (or appointment date)
A J Ashford	12,605	5,716
R Barker	2,575	3,397
N J Deacon	19,123	19,700
P E Dillnutt	10,955	10,615
R F Farrand	7,632	8,418
B D Goldberg	-	-
P R Smith	5,081	4,940

HSBC TRUST COMPANY (UK) LIMITED

Report of the Directors

Directors' interests (continued)

R Barker, P E Dillnutt and N J Deacon held 115, 1,133 and 1,733 respectively of HSBC Holdings plc 11.69% Subordinated Bonds 2002 of £1 each throughout the year.

During the year options over HSBC Holdings plc ordinary shares of US\$0.50 each were granted/exercised as follows:

	Granted	Exercised
A J Ashford	1,499	-
R Barker	5,599	-
N J Deacon	2,000	450
P E Dillnutt	4,000	-
R F Farrand	5,800	-
B D Goldberg	4,249	-
P R Smith	2,000	-

Supplier payment policy

The Company subscribes to the Better Payment Practice Code, the four principles of which are: to agree payment terms at the outset and stick to them; to explain payment procedures to suppliers; to pay bills in accordance with any contract agreed with the supplier or as required by law; and to tell suppliers without delay when an invoice is contested and settle disputes quickly. Copies of, and information about, the Code is available from: The Department of Trade and Industry, No.1 Victoria Street, London SW1H 0ET.

It is Company practice to organise payment to its suppliers through a central purchasing unit operated by HSBC Bank plc, its immediate parent undertaking. The payment performance of this unit is incorporated within the results of that company.

Statement of Directors' responsibilities in relation to financial statements

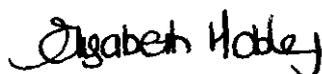
The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year. The Directors are required to prepare these financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

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

By order of the Board



E A Hobley
Secretary

Date: 22 February 2002

Registered Office:
27/32 Poultry
London EC2P 2BX

HSBC TRUST COMPANY (UK) LIMITED

Report of the Independent Auditors, KPMG Audit Plc, to the members of HSBC Trust Company (UK) Limited

We have audited the financial statements on pages 4 to 14.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

22 February 2002

HSBC TRUST COMPANY (UK) LIMITED

**Profit and loss account
for the year ended 31 December 2001**

	Note	2001 £'000	2000 £'000
Interest receivable			
Other interest receivable and similar income		9,928	11,375
Interest payable		(5,463)	(6,105)
NET INTEREST INCOME		<u>4,465</u>	<u>5,270</u>
Dividend income from shares in group undertakings		40	60
Fees and commissions receivable		102,270	95,803
Fees and commissions payable		(13,838)	(16,058)
OPERATING INCOME	2	<u>92,937</u>	<u>85,075</u>
Administrative expenses		(66,608)	(54,534)
Depreciation and amortisation	11	(961)	(783)
Provisions for contingent liabilities and commitments	15	(1,089)	(264)
OPERATING PROFIT		<u>24,279</u>	<u>29,494</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	3	24,279	29,494
Tax on profit on ordinary activities	6	(7,297)	(8,862)
PROFIT ON ORDINARY ACTIVITIES AFTER TAX		<u>16,982</u>	<u>20,632</u>
Dividends	7	(17,000)	(21,000)
RETAINED LOSS FOR THE FINANCIAL YEAR		<u>(18)</u>	<u>(368)</u>
PROFIT AND LOSS ACCOUNT			
Balance at 1 January		1,047	1,415
Retained loss for the year		(18)	(368)
Balance at 31 December		<u>1,029</u>	<u>1,047</u>

All profits relate to continuing operations.

Recognised gains and losses

There are no recognised gains or losses other than the profit on ordinary activities shown above.

The accounting policies and notes on pages 6 to 14 form an integral part of these financial statements.

HSBC TRUST COMPANY (UK) LIMITED

Balance sheet at 31 December 2001

	Note	2001 £'000	2000 £'000
ASSETS			
Loans and advances to banks	9	253,106	197,533
Loans and advances to customers	10	2,883	4,685
Tangible fixed assets	11	3,501	2,636
Other assets	12	2,677	3,289
Prepayments and accrued income		4,964	4,830
TOTAL ASSETS		<u>267,131</u>	<u>212,973</u>
LIABILITIES			
Customer accounts	13	227,541	163,960
Other liabilities	14	19,106	29,244
Accruals and deferred income		3,411	2,686
Provisions for liabilities and charges	15	944	936
Called up share capital	16	15,000	15,000
Share premium account		100	100
Profit and loss account		1,029	1,047
Shareholders' funds	17	16,129	16,147
TOTAL LIABILITIES		<u>267,131</u>	<u>212,973</u>

The accounts were approved by the Board of Directors on 20 February 2002 and were signed on its behalf by:



P E Dillnutt
Managing Director

The accounting policies and notes on pages 6 to 14 form an integral part of these financial statements.

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the Company's financial statements.

a. Basis of preparation

The financial statements have been prepared under the historical cost convention and the special provisions of Part VII of the Companies Act 1985 relating to banking companies, and with applicable accounting standards in the United Kingdom.

In accordance with Financial Reporting Standard 1 (revised 1996) 'Cash Flow Statements', no cash flow statement is presented as all voting rights are controlled by HSBC Holdings plc, which publishes such a statement in its own publicly available accounts.

As the Company is a wholly owned subsidiary of HSBC Bank plc, the Company has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities that form part of the HSBC Bank group (or investees of the group qualifying as related parties). Note 19 details where the consolidated financial statements of HSBC Bank plc, within which this Company is included, can be obtained.

The Company is exempt by virtue of Section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

b. Depreciation

The cost of fixed assets is written off by equal instalments over their expected useful lives as follows:

Vehicles: 5 years
Furniture and equipment: 3 to 5 years
Premises improvements: 10 years

c. Deferred taxation

Provision is made for deferred taxation, using the liability method, on short term timing differences and all other material timing differences to the extent that it is probable that the liability or asset will crystallise.

d. Income

Fees, commissions and interest income are accounted for in the profit and loss account on an accruals basis.

e. Provisions for liabilities and charges

As a result of the Company's normal business risk, operational losses can arise and these are provided for when identified.

2. OPERATING INCOME

Operating income represents fees, commissions and net interest receivable from the provision of asset management services including executorship, trusteeship, investment advice and management and the sale of broked insurance products.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2001 £'000	2000 £'000
This is stated after charging :		
Depreciation charge for fixed assets	961	783
Auditors' remuneration - audit services	30	29
- non-audit services*	14	23
	<u>1005</u>	<u>835</u>

*Payable to the Auditor and its associates.

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

4. DIRECTORS' EMOLUMENTS

The emoluments paid to Directors in respect of their services to the Company are shown below.

	2001 £'000	2000 £'000
Emoluments paid to Directors	<u>406</u>	<u>366</u>

Retirement benefits are accruing to six Directors under defined benefit schemes and to one Director under a money purchase scheme at 31 December 2001 (2000: seven and none, respectively).

	2001 £'000	2000 £'000
Highest paid Director: Emoluments	<u>110</u>	<u>109</u>

Accrued pension for the highest paid Director at 31 December 2001 is £42,000 (2000 : £39,000).

Details of Directors who exercised share options during the year are given in the Directors' report.

5. RETIREMENT BENEFITS

The Company does not have any direct employees, but receives a recharge from HSBC Bank plc in respect of staff who are engaged in the business. These staff are members of retirement benefit schemes operated by HSBC Bank plc and the Company receives set recharges in respect of contributions to these schemes. Details of the schemes can be found in the Annual Report and Accounts of HSBC Bank plc.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
UK corporation tax at 30% (2000 : 30%)	7,288	8,778
Adjustment with respect to prior year	(9)	(102)
	<u>7,279</u>	<u>8,676</u>
Deferred taxation	18	186
	<u>7,297</u>	<u>8,862</u>

7. DIVIDENDS

	2001 £'000	2000 £'000
First interim paid of 433p per share (2000 : 333p)	13,000	10,000
Second interim payable of 133p per share (2000 : 367p)	4,000	11,000
	<u>17,000</u>	<u>21,000</u>

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

8. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings of the Company at 31 December 2001 were:

Company	Country of registration	Class of share	Interest of HSBC Trust Company (UK) Limited	Principal activity
HSBC Executor & Trustee Company (UK) Limited	England	Ordinary	100%	Trust administration
Midland Nominees Limited	England	Ordinary	100%	Nominee company
Turnsonic (Nominees) Limited	England	Ordinary	100%	Nominee company

The investments in Midland Nominees Limited and Turnsonic (Nominees) Limited are held at cost, totalling £102. The investment in HSBC Executor & Trustee Company (UK) Limited was written down to nil value in a previous period.

9. LOANS AND ADVANCES TO BANKS

	2001 £'000	2000 £'000
Repayable by group undertakings:		
- Within 3 months	<u>253,106</u>	<u>197,533</u>

10. LOANS AND ADVANCES TO CUSTOMERS

	2001 £'000	2000 £'000
- Repayable on demand	<u>2,883</u>	<u>4,685</u>

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

11. TANGIBLE FIXED ASSETS

	Motor Vehicles	Premises Improvements	Furniture, Fittings & Equipment	Total
	£'000	£'000	£'000	£'000
COST				
At 1 January 2001	2,963	342	1,952	5,257
Additions	1,878	11	24	1,913
Transfers from group undertakings	581	-	-	581
Disposals	(995)	-	-	(995)
At 31 December 2001	<u>4,427</u>	<u>353</u>	<u>1,976</u>	<u>6,756</u>
DEPRECIATION				
At 1 January 2001	879	106	1,636	2,621
Charge for year	741	35	185	961
Transfers from group undertakings	268	-	-	268
Disposals	(595)	-	-	(595)
At 31 December 2001	<u>1,293</u>	<u>141</u>	<u>1,821</u>	<u>3,255</u>
NET BOOK VALUE				
At 31 December 2001	<u>3,134</u>	<u>212</u>	<u>155</u>	<u>3,501</u>
At 31 December 2000	<u>2,084</u>	<u>236</u>	<u>316</u>	<u>2,636</u>

12. OTHER ASSETS

	2001 £'000	2000 £'000
a) Analysis of Other assets		
Pensions relief at source	461	243
Deferred tax (See (b) below)	62	80
Commission receivable	768	145
Due from group undertakings	785	1,045
Other	601	1,776
	<u>2,677</u>	<u>3,289</u>

b) Deferred tax

	Amount provided		Amount unprovided	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Tax effect of short term timing differences	(40)	(40)	-	-
Accelerated capital allowances	(22)	(40)	-	-
	<u>(62)</u>	<u>(80)</u>	<u>-</u>	<u>-</u>

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

13. CUSTOMER ACCOUNTS

	2001 £'000	2000 £'000
Repayable on demand	<u>227,541</u>	<u>163,960</u>

14. OTHER LIABILITIES

	2001 £'000	2000 £'000
Corporation tax	2,595	4,392
Dividend payable	4,000	11,000
Due to group undertakings	8,983	8,107
Other liabilities	3,528	5,745
	<u>19,106</u>	<u>29,244</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for contingent liabilities and commitments:

	Administrative losses £'000	Pensions misselling £'000	Indemnity commission £'000	Total £'000
At 1 January 2001	543	320	73	936
Charged to Profit and loss	868	225	73	1,166
Utilised during the year	(655)	(363)	(63)	(1,081)
Released to Profit and loss	(77)	-	-	(77)
At 31 December 2001	<u>679</u>	<u>182</u>	<u>83</u>	<u>944</u>

Administrative losses

The provision relates to losses arising from administrative errors made by the Company in the course of its asset management and related activities. The closing provision comprises ten losses arising from trust and probate cases, most of which are expected to be settled during 2002. There is one case which involves property leases which could extend to 2010, although earlier resolution is being pursued. The main uncertainties arise from the difficulties in assessing the financial impact of historical errors.

Pensions misselling

Following the announcement by the Securities and Investments Board in October 1994 of a programme to secure redress for people wrongly sold personal pensions, the Company made provision for the amount of compensation potentially payable under Phases 1 and 2 of the review. For all Phase 1 and Phase 2 cases offers of redress have been made or letters sent advising that no redress is due.

The Financial Services Authority announced in May 2000 an extension of the review of personal pensions to cover the sale of Free-standing Additional Voluntary Contributions (FSAVCs). The Company made additional provision for the amount of compensation potentially payable under this review. The review of affected cases is well progressed.

Compensation remains payable in a number of both Pensions Review cases and FSAVC cases, however, settlement of these cases is expected during 2002.

The main uncertainties over the eventual costs of these reviews arise from the variations in levels of compensation appropriate to individual cases and the possible impact of any further guidance from the Financial Services Authority.

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

Indemnity commission

The Company receives commission on an indemnity basis in respect of sales of broked insurance products. The provision is in respect of amounts of commission which may be repayable in the event that the customer cancels the policy. The period during which commission may be repayable is typically three years. The main uncertainty affecting the amount that will be repayable is the level of policy cancellations.

16. SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised : Equity Ordinary shares of £5 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid : Equity Ordinary shares of £5 each	<u>15,000</u>	<u>15,000</u>

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £'000	2000 £'000
Opening shareholders' funds	16,147	16,515
Profit for the financial year	16,982	20,632
Dividends	(17,000)	(21,000)
Closing shareholders' funds	<u>16,129</u>	<u>16,147</u>

18. FINANCIAL INSTRUMENTS

The financial instruments of the Company (excluding short-term debtors and creditors) comprise loans and deposits. These instruments arise mainly from the acceptance of deposits from customers as part of the Company's core business activities of providing investment management, trust and probate services. The Company finances its operations from capital and retained profits. The Company does not use derivatives and all transactions are denominated in sterling.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the year ended 31 December 2001.

Interest rate risk

Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC Bank plc. The Company places all funds with its parent, HSBC Bank plc. The Company manages its interest rate risk by placing deposits with its parent only at call or for fixed periods of up to 3 months.

Liquidity risk

The Company's policy throughout the year has been to maintain sufficient liquidity by ensuring that its ratio of liquid assets (principally loans to banks with under 30 days residual maturity) exceeds 12.5% of total customer and creditor liabilities. The ratio at 31 December 2001 was 82% (2000 : 74%).

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

18. FINANCIAL INSTRUMENTS (continued)

Financial liabilities

The interest rate profile of the financial liabilities of the Company as at 31 December was:

	2001 £'000	2000 £'000
Floating rate financial liabilities	<u>227,541</u>	<u>163,960</u>

The floating rate financial liabilities comprise customer accounts bearing interest at variable rates, generally linked to customer rates offered by HSBC Bank plc.

Financial assets

The Company held the following financial assets as at 31 December:

	2001 £'000	2000 £'000
Loans and advances to banks	253,106	197,533
Loans and advances to customers	2,883	4,685
	<u>255,989</u>	<u>202,218</u>

The loans and advances to banks comprise deposits placed with the Company's parent, HSBC Bank plc, at call or for fixed terms of up to 3 months. Loans and advances to customers comprise overdrafts to customers, repayable on demand.

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

18. FINANCIAL INSTRUMENTS (continued)

Interest rate sensitivity gap analysis

The table below summarises the repricing of assets and liabilities as at 31 December 2001. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months £'000	Non- interest bearing £'000	Total £'000
Assets			
Loans and advances to banks	253,106	-	253,106
Loans and advances to customers	2,883	-	2,883
Tangible fixed assets	-	3,501	3,501
Other assets	-	2,677	2,677
Prepayments and accrued income	-	4,964	4,964
Total assets	<u>255,989</u>	<u>11,142</u>	<u>267,131</u>
Liabilities			
Customer accounts	227,541	-	227,541
Other liabilities	-	19,106	19,106
Accruals and deferred income	-	3,411	3,411
Provisions for liabilities and charges	-	944	944
Shareholders' funds	-	16,129	16,129
Total liabilities	<u>227,541</u>	<u>39,590</u>	<u>267,131</u>
Interest rate sensitivity gap	<u>28,448</u>	<u>(28,448)</u>	<u>-</u>
Cumulative gap	<u>28,448</u>	<u>-</u>	<u>-</u>

HSBC TRUST COMPANY (UK) LIMITED

Notes to the accounts

18. FINANCIAL INSTRUMENTS (continued)

Interest rate sensitivity gap analysis (continued)

The table below summarises the repricing of assets and liabilities as at 31 December 2000. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

	Not more than three months £'000	Non- interest bearing £'000	Total £'000
Assets			
Loans and advances to banks	197,533	-	197,533
Loans and advances to customers	4,685	-	4,685
Tangible fixed assets	-	2,636	2,636
Other assets	-	3,289	3,289
Prepayments and accrued income	-	4,830	4,830
Total assets	<u>202,218</u>	<u>10,755</u>	<u>212,973</u>
Liabilities			
Customer accounts	163,960	-	163,960
Other liabilities	-	29,244	29,244
Accruals and deferred income	-	2,686	2,686
Provisions for liabilities and charges	-	936	936
Shareholders' funds	-	16,147	16,147
Total liabilities	<u>163,960</u>	<u>49,013</u>	<u>212,973</u>
Interest rate sensitivity gap	<u>38,258</u>	<u>(38,258)</u>	<u>-</u>
Cumulative gap	<u>38,258</u>	<u>-</u>	<u>-</u>

Fair value of financial assets and liabilities

The fair value of the financial assets and liabilities of the Company at 31 December 2000 and 31 December 2001 is considered to be equal to the balance sheet carrying value due to the short-term nature of the assets and liabilities held.

19. ULTIMATE PARENT COMPANY AND PARENT UNDERTAKING

The Company's immediate parent company is HSBC Bank plc and its ultimate parent company is HSBC Holdings plc, both of which are registered in England.

The largest group in which the results of the Company are consolidated is that headed by HSBC Holdings plc. The smallest group in which they are consolidated is that headed by HSBC Bank plc. The consolidated accounts of these groups are available to the public and may be obtained from their registered offices at:

HSBC Bank plc
27/32 Poultry
London EC2P 2BX

HSBC Holdings plc
10 Lower Thames Street
London EC3R 6AE