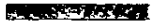


HSBC Trust Company (UK) Limited

**Annual Report and Accounts**

Registered No: 106294

**31 December 2011**



TUESDAY



\*A13NSF89\*

A12

28/02/2012

#220

COMPANIES HOUSE

## **Annual Report and Accounts 31 December 2011**

### **Contents**

Report of the directors	2
Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited	5
Income statement	6
Statement of financial position	7
Statement of cash flows	8
Statement of changes in equity	9
Notes to the financial statements	10

## Report of the Directors

### 31 December 2011

#### Principal activities

The Company's principal activity is to provide wealth management services and products to customers of the HSBC Group in the UK including executorships and trusteeships. The Company is an authorised bank under the Financial Services and Markets Act 2000 and is regulated by the Financial Services Authority (FSA).

#### Results and dividends

The Company's results for the year under review are as detailed in the income statement shown in these accounts.

A dividend of £15,000,000 (2010: £25,000,000) was paid during the year.

#### Business review

The principal activities of the Company are set out above. The Company has no employees, and all the related services are provided by the parent company.

#### Risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks are set out in note 21 of the financial statements. The Company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and to reduce risks to the business.

#### Performance

The Company's results for the year under review are as detailed in the income statement shown in these accounts. During the year the HSBC Group continued to review financial advice provided by its Group companies and as part of this review the estimated cost of redress for the Company increased from £16m to £40m, which HSBC Bank plc has undertaken to reimburse to the company. Payments to customers commenced in April 2011 and are expected to continue in 2012. Net of this cost the underlying profitability of the Company has decreased by 18%, principally attributable to new business strain caused by the relaunch in November 2010 of the discretionary fund management service. This relaunch has been successful, and will provide a platform for long-term growth in profitability.

The Board and senior management monitor the Company's progress against its strategic objectives and financial performance on a regular basis. Performance is assessed against the strategy, budgets and forecasts using financial and non-financial measures. The following details the most significant Key Performance Indicators (KPIs) used by the Company.

	2011	2010
Funds under management (£bn)	9.1	8.5
Core discretionary fund performance (%)	2.0	11.0
Sales (£bn)	2.4	1.1
Lost funds under management (£bn)	1.1	0.8
Customer deposits (£m)	115	153

#### Future developments

The financial services industry in the UK remains closely regulated. In particular, consultation on the Retail Distribution Review, launched by the FSA in 2006 and scheduled for implementation in 2013, is progressing and may result in substantial changes to industry practices, delivery channels and pricing. The HSBC Group in the UK is actively considering revisions to its products and service propositions which may be desirable or necessary as a result of this review, and the Company is engaged in this internal review to ensure that it is positioned appropriately in the future HSBC proposition.

#### Going concern basis

The Financial Statements are prepared on a going concern basis, as the directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions.

## Report of the Directors (continued)

### 31 December 2011

#### Directors

The directors who served during the year were as follows

Name	Appointed	Resigned
A Cheesewright		
J A W Doyle		
D L Wells		
D J Coke		
B A Cook		
S P O'Sullivan		24/03/2011
J B Hackett		09/03/2011
D J Nibloe		
P K Stanley		30/09/2011
V Wales		
N Hinshelwood	28/09/2011	

The Articles of Association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

#### Supplier payment policy

The Company does not currently subscribe to any code or standard on payment practice. It is the Company's policy, however, to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

It is Company practice to organise payment to its suppliers through a central accounts payable function operated by HSBC Bank plc. The payment performance of this unit is incorporated within the results of that company.

#### Capital management

The Company is regulated by the UK Financial Services Authority ("FSA"). The FSA's General Prudential sourcebook ("GENPRU") provides rules for calculating the actual capital and minimum capital resources requirements of the Company. The Company is expected to maintain capital at above the minimum requirement at all times.

#### Disclosure of information to auditors

Each person who is a director at the date of approval of this report confirms that so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

#### Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

## Report of the Directors (continued) 31 December 2011

### Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The following statement, which should be read in conjunction with the auditor's statement of responsibilities, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the auditor in relation to the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations


Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

On behalf of the Board



A Cheesewright  
Director

Registered Office  
8 Canada Square  
London,  
E14 5HQ

24 February 2012

## **Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited**

We have audited the financial statements of HSBC Trust Company (UK) Limited for the year ended 31 December 2011 set out on pages 6 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and Auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



N B Priestley (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
*Chartered Accountants*  
15 Canada Square  
London E14 5GL  
24 February 2012

## Annual Report and Accounts 2011

### Income statement for the year ended 31 December 2011

	<i>Notes</i>	2011 £'000	2010 £'000
Interest receivable and similar income		1,703	917
Interest payable		(258)	(415)
<b>Net interest income</b>	3	<b>1,445</b>	<b>502</b>
Fees and commissions receivable		120,969	111,771
Fees and commissions payable		(67,980)	(52,033)
<b>Net Fee Income</b>		<b>54,434</b>	<b>60,240</b>
Other Operating Income	16	40,382	-
<b>Total Operating Income</b>		<b>94,816</b>	<b>60,240</b>
Administrative expenses	5	(30,795)	(31,075)
Provision for liabilities and commitments	16	(24,768)	(15,694)
<b>Operating profit</b>		<b>39,253</b>	<b>13,471</b>
<b>Profit before income tax</b>		<b>39,253</b>	<b>13,471</b>
Tax expense	6	(10,402)	(3,773)
<b>Profit for the year</b>		<b>28,851</b>	<b>9,698</b>

All activities are classed as continuing

The accounting policies and notes on pages 10 to 21 form an integral part of these financial statements

### Statement of comprehensive income for the year ended 31 December 2011

There was no Other Comprehensive Income, or expense in 2011 (2010 Nil)

**Annual Report and Accounts 2011 (continued)****Statement of financial position as at 31 December 2011**

	<i>Notes</i>	<b>2011 £'000</b>	<b>2010 £'000</b>
<b>ASSETS</b>			
Loans and advances to banks	8	178,837	210,363
Loans and advances to customers	9	3,010	2,868
Investments in subsidiary undertakings	10	5	5
Other assets	12	98,060	71,769
Prepayments and accrued income		4,410	4,898
Deferred tax assets	11	9	18
<b>Total assets</b>		<b>284,331</b>	<b>289,921</b>
<b>LIABILITIES AND EQUITY</b>			
Customer accounts	13	114,798	153,361
Other liabilities	14	16,151	19,653
Current tax liabilities		11,062	-
Accruals and deferred income		4,096	5,575
Non-current liabilities	15	1,334	2,399
Provisions for liabilities and charges	16	91,867	77,761
<b>Total liabilities</b>		<b>239,308</b>	<b>258,749</b>
Equity			
Share capital	17	15,000	15,000
Share premium account	18	100	100
Retained earnings	18	29,923	16,072
<b>Total equity</b>		<b>45,023</b>	<b>31,172</b>
<b>Total equity and liabilities</b>		<b>284,331</b>	<b>289,921</b>

The accounting policies and notes on pages 10 to 21 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 24 February 2012 and were signed on its behalf by



**J A W Doyle**  
Director

Company Registered Number 106294



**Annual Report and Accounts 2011 (continued)****Statement of cash flows for the year ended 31 December 2011**

	<i>Notes</i>	<b>2011</b> <b>£'000</b>	<b>2010</b> <b>£'000</b>
<b>Cash flows from operating activities</b>			
Profit before income taxes		39,253	13,471
<b>Adjustments for</b>			
– (Increase) in loans and advances to customers		(142)	(932)
– (Increase)/Decrease in other assets		(27,130)	13,641
– Decrease in prepayments and accrued income		488	2,207
– (Decrease)/Increase in customer accounts		(38,563)	28,702
– (Decrease)/Increase in accruals and deferred income		(1,479)	120
– (Decrease)/Increase in other liabilities		(3,502)	4,494
– Increase/(Decrease) in provisions		14,106	(58)
– (Decrease) in non-current liabilities		(1,065)	(1,073)
<b>Cash generated from operations</b>		<b>(18,034)</b>	<b>60,572</b>
Tax received/(paid)		1,508	(7,430)
<b>Net cash from operating activities</b>		<b>(16,526)</b>	<b>53,142</b>
<b>Cash flows from financing activities</b>			
Dividends paid	19	(15,000)	(25,000)
<b>Net cash from financing activities</b>		<b>(15,000)</b>	<b>(25,000)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>(31,526)</b>	<b>28,142</b>
Cash and cash equivalents at 1 January	7	210,363	182,221
<b>Cash and cash equivalents at 31 December</b>	7	<b>178,837</b>	<b>210,363</b>

The accounting policies and notes on pages 10 to 21 form an integral part of these financial statements

**Annual Report and Accounts 2011 (continued)****Statement of changes in equity for the year ended 31 December 2011**

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£'000	£'000	£'000	£'000
<b>2011</b>				
At 1 January 2011	15,000	100	16,072	31,172
Profit for the year	-	-	28,851	28,851
Dividends	-	-	(15,000)	(15,000)
<b>At 31 December 2011</b>	<b>15,000</b>	<b>100</b>	<b>29,923</b>	<b>45,023</b>

	Called up share capital	Share premium	Retained earnings	Total shareholders' equity
	£'000	£'000	£'000	£'000
<b>2010</b>				
At 1 January 2010	15,000	100	31,374	46,474
Profit for the year	-	-	9,698	9,698
Dividends	-	-	(25,000)	(25,000)
<b>At 31 December 2010</b>	<b>15,000</b>	<b>100</b>	<b>16,072</b>	<b>31,172</b>

The accounting policies and notes on pages 10 to 21 form an integral part of these financial statements

## Annual Report and Accounts 2011 (continued)

### 1 Basis of preparation

#### (a) Compliance with International Financial Reporting Standards

The financial statements are presented in sterling and have been prepared on the historical cost basis

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 December 2011 are prepared in accordance with IFRSs as issued by the IASB.

IFRSs comprise accounting standards issued by the IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

The company is a wholly-owned subsidiary of HSBC Bank plc which prepares accounts in accordance with IFRSs and which are available for public use. Details of where copies of these may be obtained are given in note 23.

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

#### (b) Future accounting developments

At 31 December 2011 a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2011. Those which are expected to have a significant effect on the Company's financial statements are discussed below.

##### Standards and Interpretations issued by the IASB but not endorsed by the EU

##### - Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities. Based on an initial assessment, IFRSs 10 and 11 are not expected to have a material impact on the Company's financial statements.

In May 2011, the IASB issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement. Based on an initial assessment, IFRS 13 is not expected to have a material impact on the Company's financial statements.

## Annual Report and Accounts 2011 (continued)

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IAS 19 revised must be applied retrospectively.

The most significant amendment to IAS 19 for the Company is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement will be presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate. Based on an initial estimate of the impact of this particular amendment on the 2011 financial statements, the effect at the date of adoption will depend on market interest rates, rates of return and the actual mix of scheme assets at that time.

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

### - Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. Based on an initial assessment, the amendments to IAS 32 are not expected to have a material impact on the Company's financial statements.

### - Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated. The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders, including reopening IFRS 9 to address practice and other issues. The EU is not expected to endorse IFRS 9 until the completed standard is available. Therefore, the Company remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these financial statements.

### (c) Going concern

As shown in the statement of financial position on page 7, the capital position is strong. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. For this reason, they continue to adopt the going concern basis in preparing the accounts. Further information on the basis of preparation of these accounts can be seen in Note 1 to both the HSBC Bank plc consolidated accounts prepared under International Financial Reporting Standards and parent company accounts.

### (d) General information

HSBC Trust Company (UK) Limited is a company domiciled and incorporated in England and Wales.

## Annual Report and Accounts 2011 (continued)

### 2 Summary of significant accounting policies

#### (a) Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### (b) Fee and commission income

The Company earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- If the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party), and
- If the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, investment management, portfolio and other service fees).

#### (c) Direct Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Company intends to settle on a net basis and the legal right to offset exists.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the statement of financial position date. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when HSBC has a legal right to offset.

#### (d) Dividend distribution

Dividend distributions to the Company's shareholder are recognised in the Company's financial statements in the year in which the dividends are paid.

#### (e) Investment in subsidiary undertaking

The Company accounts for investments in subsidiary undertakings at the lower of cost and written down value.

#### (f) Financial assets and liabilities

##### (i) Loans and advances

## Annual Report and Accounts 2011 (continued)

Loans and advances to banks and customers are shown in the statement of financial position at cost less any amounts written off and less any specific provisions. Interest on advances is recognised in the income statement as it accrues. Amounts repayable within three months are classified as cash and cash equivalents in the statement of cash flows.

### (ii) Customer accounts

Customer accounts are shown in the statement of financial position at cost. Interest payable is recognised in the income statement as it accrues.

### (iii) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (g) Impairment

The carrying amounts of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the income statement.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (h) Other receivables

Other receivables are stated at their amortised cost less impairment losses (see accounting policy g).

### (i) Provisions for liabilities and charges

As a result of the Company's normal business risk, operational losses can arise. Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the Statement of Financial Position date, and are discounted to present value where the effect is material. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (j) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared.

### (k) Employee benefits

The Company does not employ any staff. All staff undertaking work on behalf of the Company are employed by companies in the HSBC group, which recharge this Company for the services provided.

### (l) Other payables

Other payables are stated at amortised cost.

### (m) Use of assumptions and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Annual Report and Accounts 2011 (continued)****3 Net interest income**

	2011 £'000	2010 £'000
<b>Interest income</b>		
Loans and advances	1,703	917
	<u>1,703</u>	<u>917</u>
<b>Interest expense</b>		
Banks and customers	(258)	(415)
<b>Net interest income</b>	<u>1,445</u>	<u>502</u>

**4 Directors' emoluments**

The Company does not have any direct employees. The directors and staff are all employees of other Group undertakings.

Seven directors (2010: six) who served during the year were remunerated by other Group undertakings which made no specific charge to this Company for their services. The emoluments of the other directors are included within wider departmental recharges. Their costs, allocated on an activities basis, are shown below.

*Retirement Benefits*

	2011 £'000	2010 £'000
<b>Emoluments</b>	309	265
Pension scheme contributions	10	3
	<u>319</u>	<u>268</u>
<b>Highest paid director</b>		
Emoluments	129	103
	<u>129</u>	<u>103</u>

During the period, 1 director exercised options over HSBC Holdings plc ordinary shares of US\$0.50 each (2010: five). Retirement benefits are accruing to the directors under schemes operated by Group companies. Retirement benefits are accruing to 7 directors under defined benefit schemes and to 2 directors under defined contribution schemes at 31 December 2011 (2010: seven and two respectively). The Directors are members of retirement benefit schemes operated by HSBC Bank plc. Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc. The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the Directors and staff. It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs recharged to the Company in future periods.

**5 Administrative expenses**

	2011 £'000	2010 £'000
<b>Include the following items</b>		
– Auditors' remuneration for audit services	42	42
– Other services pursuant to legislation	40	36
	<u>82</u>	<u>78</u>

The fees paid to auditors detailed in the note above relate only to activities in respect of the Company.

**Annual Report and Accounts 2011 (continued)****6 Tax expense**

	<i>Notes</i>	2011 £'000	2010 £'000
Analysis of charge in the year			
<b>Current tax</b>			
UK Corporation tax			
– on current year profit		10,393	3,769
– adjustments in respect of prior years		-	-
Total current tax		<u>10,393</u>	<u>3,769</u>
<b>Deferred tax</b>			
Origination and reversal of temporary differences		9	4
Adjustment in respect of prior years		-	-
Total deferred tax		<u>9</u>	<u>4</u>
Tax expense		<u>10,402</u>	<u>3,773</u>

The UK corporation tax rate applying to the Company was 26.5 per cent (2010: 28 per cent)

The following table reconciles the tax expense

	2011 £'000	Percentage of overall profit before tax %	2010 £'000	Percentage of overall profit before tax %
Taxation at UK corporation tax rate of 26.5% (2010: 28%)	10,402	26.5	3,773	28
Adjustments in respect of prior period liabilities	-	-	-	-
Overall	<u>10,402</u>	<u>26.5</u>	<u>3,773</u>	<u>28</u>

**7 Cash and cash equivalents**

	2011 £'000	2010 £'000
Loans and advances to banks	<u>178,837</u>	<u>210,363</u>
	<u>178,837</u>	<u>210,363</u>

The loans and advances to banks comprise deposits placed with the Company's parent, HSBC Bank plc

**8 Loans and advances to banks**

	2011 £'000	2010 £'000
Amounts due from other group undertakings		
– within one month	33,500	39,500
– between one and three months	<u>145,337</u>	<u>170,863</u>
	<u>178,837</u>	<u>210,363</u>

**9 Loans and advances to customers**

	2011 £'000	2010 £'000
Loans to individuals		
– repayable on demand	<u>3,010</u>	<u>2,868</u>
	<u>3,010</u>	<u>2,868</u>



**Annual Report and Accounts 2011 (continued)****10 Investments in subsidiary undertakings**

	2011 £'000	2010 £'000
Investments in subsidiary undertakings	<u>5</u>	<u>5</u>

The subsidiary undertakings of the Company at 31 December 2011 were

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2011	Ownership Percentage 2010
HSBC Executor & Trustee Company (UK) Limited	Ordinary Shares	England	Trust administration	100	100
Midland Nominees Limited	Ordinary Shares	England	Nominee company	100	100
Turnsonic (Nominees) Limited	Ordinary Shares	England	Nominee company	100	100
St Cross Trustees Limited	Ordinary Shares	England	Pensioner Trustee	100	100

The investments in Midland Nominees Limited, Turnsonic (Nominees) Limited and St Cross Trustees Limited are held at cost, totalling £5,102. The investment in HSBC Executor & Trustee Company (UK) Limited was written down to nil value in a previous period.

**11 Deferred taxation**

	2011 £'000	2010 £'000
<b>Deferred tax assets</b>		
Property, plant and equipment	10	13
Other temporary differences	<u>-</u>	<u>5</u>
	<u>10</u>	<u>18</u>
<b>Movement in temporary differences during the year</b>		
At 1 January	18	23
Income statement debit	<u>(9)</u>	<u>(5)</u>
At 31 December	<u>9</u>	<u>18</u>

**12 Other assets**

	2011 £'000	2010 £'000
Due from group undertakings	92,648	64,261
Corporation tax	-	839
Other debtors	<u>5,412</u>	<u>6,669</u>
	<u>98,060</u>	<u>71,769</u>

£92m (2010 £63m) of the balance due from group undertakings relates to customer remediation programmes, in relation to Pension Switching and Trusts Review, (note 16). HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made in relation to these remediation programmes.

The balance due from group undertakings will decrease in line with payments made to customers as part of the remediation programme. Part of this balance will be receivable in greater than 12 months.

**Annual Report and Accounts 2011 (continued)****13 Customer accounts**

	2011 £'000	2010 £'000
Repayable on demand	114,798	153,361

**14 Other liabilities**

	2011 £'000	2010 £'000
Due to group undertakings	5,240	5,798
Other liabilities	10,911	13,855
	16,151	19,653

**15 Non-current liabilities**

	2011 £'000	2010 £'000
Deferred income	1,334	2,399

**16 Provisions for liabilities and charges**

	Pension Switching £'000	Trusts Review £'000	Administrative Losses £'000	Total £'000
At 1 January 2011	15,569	61,876	316	77,761
Amount utilised	(1)	(10,607)	(54)	(10,662)
Amount charged to P & L	28,813	-	61	28,874
Released to P & L (Indemnity)	(40,382)	-	-	(40,382)
Provision released	(4,000)	-	(106)	(4,106)
Group Transfer (Indemnity)	40,382	-	-	40,382
At 31 December 2011	40,381	51,269	217	91,867

**Administrative Losses**

The provision relates to losses arising from administrative errors made by the Company in the course of its normal business activities. The closing provision comprises losses arising from provision of wealth management services and products, most of which are expected to be settled during 2012. The main uncertainties arise from the difficulties in assessing the financial impact of historical issues.

**Trusts Review**

Work on this complex project is progressing and remediation payments to impacted trusts commenced in 2008. HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made as a result of this review. Included within other assets due from group undertakings (note 12) is an amount of £51.3 million representing the expected reimbursement. This amount includes £0.3m relating to HSBC Executor & Trustee Company (UK) Limited as per below. Remediation payments are still ongoing. The total provision is based on a calculation extrapolated from a sample of cases. Uncertainties arise from factors affecting the timing and achievability of notifying and reimbursing those affected.

During 2009 part of the provision was identified as relating to trusts administered by the Company's subsidiary HSBC Executor & Trustee Company (UK) Limited. The applicable part of the provision was therefore transferred. The Company has undertaken to reimburse its subsidiary for the subsequent payments made.

**Annual Report and Accounts 2011 (continued)****Pension Switching**

During the year the HSBC Group continued to review financial advice provided by its Group companies in the UK. As a result of this review the estimated cost of redress for the Company has increased from £16m to £40m. The provision is based on an actuarial calculation extrapolated using experience of an increasing sample of cases. The timing of the expenditure depends on settlement of individual claims. The provision is also linked to the underlying volatility in equity markets. Remediation payments commenced in April 2011, and are ongoing. HSBC Bank plc has undertaken to reimburse the company for the cost of this review. Included within the assets due from group undertakings (note 12) is an amount of £40m representing the expected reimbursement.

**17 Share capital**

	2011 £'000	2010 £'000
Allotted, called up and fully paid		
3,000,000 Ordinary shares of £5 each	15,000	15,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

**18 Reserves**

	2011 £'000	2010 £'000
Share premium account	100	100
Retained earnings	29,923	16,072
	30,023	16,172

**19 Dividends**

	2011 £'000	2011 Total per share	2010 £'000	2010 Total per share
Interim paid	15,000	5.00p	25,000	8.33p
	15,000	5.00p	25,000	8.33p

No further dividend is recommended by the Directors.

**20 Client segregated money**

The Company holds funds in respect of client investments in ISAs, structured products and managed portfolios in segregated trust accounts with HSBC Bank plc and other external banks. As at 31 December 2011 these funds amounted to £217,833,684 (2010: £167,956,767). The funds are not shown as the Company's assets or liabilities respectively as they are held on behalf of clients.

**21 Management of financial risk****Financial risk**

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 wealth management products and services.

**Annual Report and Accounts 2011 (continued)**

Exposure to credit, interest rate and liquidity risk arises in the normal course of the Company's business. The directors review and agree policies for managing each of these risks and they are summarised below. Minor alterations to these policies were approved by the Board during the year ended 31 December 2011.

**Credit risk**

Credit risk is the risk that financial loss arises from a failure of a customer or counterparty to meet its obligations under a contract. The Company's only significant credit exposure is to its parent, HSBC Bank plc. The Company's principal financial assets are bank balances that are held with its parent. The credit exposure to HSBC Bank plc is monitored on a daily basis, and operates within a limit agreed with the FSA.

**Market risk**

Interest rate risk is the only type of market risk to which the Company is exposed. 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 other liabilities. The ratio at 31 December 2011 was 95% (2010: 89%).

**Financial Assets**

The Company held the following financial assets at 31 December 2011:

	2011 £'000	2010 £'000
Loans and advances to banks	178,837	210,363
Loans and advances to customers	3,010	2,868
	<u>181,847</u>	<u>213,231</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. They are therefore past due at the reporting date but not impaired.

**Financial liabilities**

	2011 £'000	2010 £'000
Customer accounts	<u>114,798</u>	<u>153,361</u>

All financial liabilities are floating rate. They are customer accounts, repayable on demand and bearing interest at variable rates, generally linked to customer rates offered by HSBC Bank plc. The typical impact at the year end of a 1% increase in floating rates would be to increase the annualised interest charged on the year end balance by 1%.

The classification of the Company's financial assets and liabilities is as described in the table below. There is no difference between their stated cost and their fair values (excluding accrued interest).

At 31 December 2011	Loans and receivables £'000	Other amortised cost £'000	Total carrying amount £'000
Loans and advances to banks	178,837	-	178,837
Loans and advances to customers	3,010	-	3,010
	<u>181,847</u>	<u>-</u>	<u>181,847</u>
Customer accounts	-	114,798	114,798
	-	<u>114,798</u>	<u>114,798</u>

**Annual Report and Accounts 2011 (continued)**

At 31 December 2010

	Loans and receivables £'000	Other amortised cost £'000	Total carrying amount £'000
Loans and advances to banks	210,363	-	210,363
Loans and advances to customers	2,868	-	2,868
	<u>213,231</u>	<u>-</u>	<u>213,231</u>
Customer accounts	-	153,361	153,361
	<u>-</u>	<u>153,361</u>	<u>153,361</u>

**22 Management of Capital**

The Company's capital policy is to place all surplus cash with the Company's parent, HSBC Bank plc, on call or on fixed terms of up to three months

As the company is a registered bank, it is subject to the Financial Services Authority's regulations on the definitions, uses and minimum requirements for capital including the base capital requirement figure of €5m. All such regulations were complied with during the period. The Company's tier one capital resources figure at 31 December 2011 was £16,286,513 (2010: £21,573,682).

**23 Related party transactions**

Transactions with related parties are summarised as follows

**a) Net Income**

	2011 £'000	2010 £'000
Interest receivable		
Parent	1,223	909
Fees and commissions receivable		
Parent	-	1
Other group companies	40,184	35,650
Fees and commissions payable		
Parent	57,365	42,960
Other group companies	9,399	7,105

Net income from related party transactions arises from

- interest receivable on cash balances deposited with the Company's parent,
- annual management charges related to the Company in respect of its holdings in collective investment schemes managed by the Group companies,
- commission payable to the Company's intermediate parent and another group company in relation to sales and servicing of the Company's products. The Company's products are marketed and sold primarily by HSBC Bank plc through its sales channels. The commission rates are set at either a percentage of fund sales or a percentage of the initial charge
- reimbursement of payments made by the company to customers as part of trusts review

**Annual Report and Accounts 2011 (continued)****b) Expenditure**

	2011 £'000	2010 £'000
Administrative expenses		
Parent	20,815	23,565
Subsidiary	(3)	(2)

Expenditure from related party transactions arises from

- costs charged to the Company for the provision of management services. These include product management, customer services, compliance and IT. The Company is recharged for the actual costs incurred in undertaking these activities plus a mark up
- costs recoverable from subsidiary undertakings in respect of management services

**c) Year-end balances with related parties**

Balances with related parties are not secured

	2011 £'000	2010 £'000
<b>Assets</b>		
Loans and advances to banks		
Parent	178,836	210,363
Other assets		
Parent	91,964	62,852
Other group companies	683	1,409
<b>Liabilities</b>		
Other payables		
Parent	4,932	4,854
Subsidiaries	307	945

Loans and advances to the parent company are at standard commercial terms

£92m (2010: £63m) of the balance due from the parent relates to customer remediation programmes, in relation to Pension Switching and Trusts Review, (note 16). HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made in relation to these remediation programmes.

In December 2011 HSBC Bank plc agreed to indemnify HSBC Trust Company (UK) Limited in respect of the Pensions Switching provision which resulted in all remediation costs that had previously been recognised by the Company being reimbursed by the parent. This has resulted in a gain of £40m during the year, and is shown in the Income Statement as Other Operating Income.

The Company is controlled by HSBC Bank plc (incorporated in England and Wales) which owns 100% of the Company's shares. The ultimate parent company is HSBC Holdings Plc (incorporated in England and Wales). The consolidated accounts of these groups are available to the public and may be obtained from the registered office at 8 Canada Square London E14 5HQ.