HSBC Trust Company (UK) Limited

Annual Report and Accounts
Registered No: 106294
31 December 2014

HSBC

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31 December 2014

Strategic Report
31 December 2014

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 Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). The Company has no employees, and all the related services are provided by the parent company.

Business review

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

The profitability of the company has declined year on year. Net income is 83% on last year. This is primarily due to changes to the fee sharing agreement with another group company. In 2013 the Company was receiving 67% of annual management charges on the mutual fund book of c£5bn and is now receiving 50%.

Funds under management were up 1% aided by resilient equity market conditions and positive net sales.

The Company continued to make good progress on the major remediation programme and no material charges were required in 2014. The total operational expenses for the Company were therefore also favourable.

Key performance indicators

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:

	2014	**2013**
Funds under management (£bn)	**11.1**	11.0
New business value (£bn)	**0.9**	0.8
Lost funds under management (£bn)	**0.8**	0.7
Common Equity Tier 1 capital (£m)	**79**	81

Individual fund performances for the Premier Investment Management service for the year to 31 December 2014 were as follows:

	Portfolio %	Benchmark %
Cautious	**7.22**	8.13
Conservative	**7.81**	8.54
Balanced	**7.02**	7.62
Dynamic	**6.29**	6.60
Adventurous	**5.16**	4.96
Trust	**6.41**	7.91
Income	**8.58**	10.67

Strategic Report (continued)
31 December 2014

Principal risks and uncertainties facing the business

The principal risks and uncertainties facing the Company are credit risk, liquidity risk and market risk. The risks, the exposure to such risks and management of risk are set out in note 22 of the financial statements.

The most important non-financial types of risk are operational risk, reputational risk and regulatory risk. The Directors have put in place procedures to monitor and manage these risks.

Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the Company's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Company's risk appetite, as defined by the Executive Committee.

The reputation of the Company must be safeguarded by maintaining the highest standards of conduct at all times and by being aware of issues, activities or associations that pose a threat to the reputation of the Company.

To mitigate the risks of financial and reputational losses in the future, the Company has implemented additional controls and training, and has reviewed its product offering. Furthermore the Company is continuing to work closely with regulators and other stakeholders to implement consistent standards in the Company's dealings with its customers.

In respect of regulatory risk, the UK regulators may take further actions that could result in changes in industry practices, sales and pricing. On 1 January 2014 Capital Requirements Directive IV ('CRD IV') came into effect, which introduced in the EU the Basel III measures. The Company applied these rules during the year. Further information can be found in the Report of Directors – Capital Management.

The Company maintains a strong compliance culture and monitors the regulatory environment closely to respond to changes and reduce risks to the business.

On behalf of the Board

D J Coke
Director

Registered Office
8 Canada Square
London
E14 5HQ

12 February 2015

Report of the Directors
31 December 2014

Directors

The directors who served during the year were as follows:

Name	Appointed	Resigned
D J Coke		
B A Cook		19/03/2014
V Wales		19/03/2014
J B Hackett		

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.

Dividends

An interim dividend of £48m (2013: £nil) was declared and paid during the year.

Significant events since the end of the financial year

No important events affecting the Company have occurred since the end of the financial year.

Future developments

The Company continues to work closely with its parent undertaking, HSBC Bank Plc, to implement the optimum strategic solution for the provision of Wealth Management services to HSBC customers in the UK. As part of this development it is currently expected that the Premier Investment Management Service, Select Investment Fund platform, and the related Investment Funds Plan service, will be migrated to HSBC Bank Plc in 2015/16.

Going concern basis

The financial statements are prepared on a going concern basis, and 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.

Financial instruments

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in note 22 of the Notes to the Financial Statements.

Capital Management

It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Company's approach to capital management during the year.

The Company is regulated by the UK Financial Conduct Authority ("FCA"). The FCA'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.

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.

The regulation and supervision of financial institutions continues to undergo significant change in response to the global financial crisis. The publication of the Capital Requirements Directive IV ('CRD IV') introduced the Basel III measures into the EU and came into effect on 1 January 2014.

Report of the Directors (continued)
31 December 2014

The Company's capital all qualifies under CRD IV as common equity tier one capital ('CET1') which is the highest tier of capital. The CET1 figure at 31 December 2014 was £79,213,431 (2013: £81,327,251) and the CET1 ratio (unaudited) was 56.5% (2013: 66.59%).

The Basel III rules set out the minimum common equity tier 1 ratio requirement of 4.5% and additional capital conservation buffer requirement of 2.5%, to be phased in sequentially from 1 January 2013, becoming fully effective on 1 January 2019. The leverage ratio is subject to a supervisory monitoring period which commenced on 1 January 2011, and a parallel run period which will last from 1 January 2013 until 1 January 2017.

The CRD IV rule changes introduce a revised definition of regulatory capital, primarily focused on common equity tier 1 ('CET1') capital as the predominant form of going concern capital, with a greater quantum to be held by banks. There are increased capital deductions and new regulatory adjustments affecting this higher tier of capital. The new rules also introduce increased Risk weighted Assets (RWA) requirements, mainly for Counterparty Credit Risk ('CCR').

The most significant impact on CET1 capital is the proposed deduction of equity holdings in banks, financial institutions and insurance entities resulting from a reallocation of current deductions to this higher tier of capital and new rules for calculating the amounts to be deducted.

CRD IV also requires banks to maintain a number of additional capital buffers to be met by CET1 capital. These new capital requirements include a Capital Conservation Buffer designed to ensure banks build up capital outside periods of stress that can be drawn down when losses are incurred, currently set at 2.5 per cent, and an institution specific Countercyclical Capital Buffer ('CCB'), to protect against future losses where unsustainable levels of leverage, debt or credit growth pose a systematic threat. The Capital Conservation Buffer and the CCB are to be phased in subject to national transposition in the UK.

Despite final PRA rules uncertainty remains around the precise amount of capital that banks will be required to hold. In addition, many Technical Standards and guidelines have been issued by the EBA in draft form for consultation or are pending publication in 2015. These are due for adoption by the European Commission to become legally enforceable. This provides further uncertainty as to the precise capital requirements under CRD IV.

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.

Auditor

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries in 2013, PricewaterhouseCoopers LLP has been recommended to be appointed as auditors of the HSBC group entities effective for periods ending on or after 1 January 2015. As a result KPMG Audit PLC will not be seeking re-appointment as the Company's auditor for the financial year commencing 1 January 2015 and PricewaterhouseCoopers LLP will seek appointment instead.

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements
31 December 2014

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 Strategic Report, 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

R J Hinton
Company Secretary

Registered Office
8 Canada Square
London
E14 5HQ

12 February 2015

Independent Auditor's Report to the Members of HSBC Trust Company (UK) Limited
31 December 2014

We have audited the financial statements of HSBC Trust Company (UK) Limited for the year ended 31 December 2014 set out on pages 8 to 25. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 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 Strategic Report and 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.

Jonathan Bell (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
100 Temple Street
Bristol BS1 6AG

16 February 2015

Financial Statements
31 December 2014

Income statement for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Interest receivable and similar income		**2,632**	1,617
Interest payable		**(357)**	(253)
Net interest income	3	**2,275**	1,364
Fees and commissions receivable		**99,530**	118,760
Fees and commissions payable		**(13,966)**	(14,752)
Net fee income	4	**85,564**	104,008
Other operating income	11	**-**	2,399
Total operating income		**87,839**	107,771
Administrative expenses	5	**(29,559)**	(28,710)
Provision for liabilities and commitments	15	**165**	(2,461)
Total operating expenses		**(29,394)**	(31,171)
Operating profit		**58,445**	76,600
Tax expense	6	**(12,558)**	(17,811)
Profit for the year		**45,887**	58,789

All activities are classed as continuing.

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2014

There was no other comprehensive income or expense in 2014 (2013: Nil).

Statement of financial position as at 31 December 2014

	Notes	**2014** **£'000**	2013 £'000
ASSETS			
Loans and advances to banks	*7*	**430,899**	340,151
Loans and advances to customers	*8*	**2,160**	2,985
Investments in subsidiary undertakings	*9*	**5**	5
Other assets	*11*	**11,706**	59,727
Prepayments and accrued income		**5,078**	4,830
Deferred tax assets	*10*	**5**	8
Total assets		**449,853**	407,706
LIABILITIES AND EQUITY			
Liabilities			
Customer accounts	*12*	**305,055**	239,770
Other liabilities	*13*	**25,879**	8,391
Current taxation		**12,561**	17,810
Accruals and deferred income	*14*	**2,963**	4,619
Provisions	*15*	**24,182**	55,790
Total liabilities		**370,640**	326,380
Equity			
Called up share capital	*16*	**15,000**	15,000
Share premium account		**100**	100
Retained earnings		**64,113**	66,226
Total equity		**79,213**	81,326
Total equity and liabilities		**449,853**	407,706

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 12 February 2015 and were signed on its behalf by:

D J Coke
Director

Company Registered Number: 106294

Financial Statements (continued)
31 December 2014

Statement of cash flows for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
Cash flows from operating activities			
Profit before income taxes		**58,445**	76,600
Adjustments for:			
– Decrease in loans and advances to customers		**825**	916
– Decrease in other assets		**48,021**	13,368
– (Increase) in prepayments and accrued income		**(248)**	2
– Increase in customer accounts		**65,285**	98,321
– (Decrease) in accruals and deferred income		**(1,656)**	1,402
– Increase in other liabilities		**17,488**	(9,530)
– (Decrease) in provisions		**(31,608)**	(34,637)
Cash generated from operations		**156,552**	146,442
Tax paid		**(17,804)**	(250)
Net cash from operating activities		**138,748**	146,192
Cash flows from financing activities			
Dividends paid	*17*	**(48,000)**	-
Net cash from financing activities		**(48,000)**	-
Net increase/ (decrease) in cash and cash equivalents		**90,748**	146,192
Cash and cash equivalents at 1 January	*18*	**340,151**	193,959
Cash and cash equivalents at 31 December	*18*	**430,899**	340,151

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

Financial Statements (continued)
31 December 2014

Statement of changes in equity for the year ended 31 December 2014

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total shareholders' equity £'000
2014				
At 1 January 2014	**15,000**	**100**	**66,226**	**81,326**
Profit for the year	**-**	**-**	**45,887**	**45,887**
Dividends paid	**-**	**-**	**(48,000)**	**(48,000)**
At 31 December 2014	**15,000**	**100**	**64,113**	**79,213**

	Called up share capital £'000	Share premium £'000	Retained earnings £'000	Total shareholders' equity £'000
2013				
At 1 January 2013	15,000	100	7,437	22,537
Profit for the year	-	-	58,789	58,789
Dividends paid	-	-	-	-
At 31 December 2013	15,000	100	66,226	81,326

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

Notes on the Financial Statements
31 December 2014

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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.

During 2014, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

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 24.

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.

Standards adopted during the year ended 31 December 2014

There were no new standards adopted during the year ended 31 December 2014.

The functional currency as well as the presentation currency is sterling.

(b) Future accounting developments

In addition to the projects to complete financial instrument accounting, discussed below, the IASB is working on projects on insurance and lease accounting which could represent significant changes to accounting requirements in the future.Standards and amendments issued by the IASB but not endorsed by the EU

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Company is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being at amortised cost, fair value through OCI ('FVOCI') or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through OCI. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in OCI.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

(c) General information

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

Notes on the Financial Statements (continued)
31 December 2014

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 receivable and similar income' and 'Interest payable' 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 substantially 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 the Company 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 cost less any impairment losses.

(f) Financial assets and liabilities

(i) Loans and advances

Loans and advances to banks and customers are shown in the statement of financial position at amortised cost using the effective interest method, less any impairment losses. 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 amortised cost using the effective interest method.

(iii) Other receivables and other payables

Other receivables and other payables are shown in the statement of financial position at amortised cost using the effective interest method.

(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) Provisions for liabilities and charges

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.

(i) Called up 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.

(j) 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.

(k) Critical accounting estimates and judgments in applying accounting policies

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. The key estimate made within these financial statements is the valuation of the provisions for liabilities and charges which are shown in note 15.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and loans and advances to banks repayable within three months 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.

(m) Subsidiaries

The Company classifies investments in entities which it controls as subsidiaries. The Company's investments in subsidiaries are stated at costs less any impairment losses. Impairment losses recognised in prior periods are reversed through the income statement if, and only if, there has been a change in the estimates used to determine the investment in subsidiary's recoverable amount since the last impairment was recognised.

3 Net interest income

	2014	2013
Interest income	**£'000**	£'000
Banks	**1,303**	635
Customers	**1,329**	982
	2,632	1,617
Interest expense		
Customers	**(357)**	(253)
Net interest income	**2,275**	1,364

4 Net fee income

	2014	2013
Fee Income	**£'000**	£'000
Fund management fees	**91,493**	109,159
Transaction related fees	**8,037**	9,601
Fund management charges	**(13,966)**	(14,752)
Net fee income	**85,564**	104,008

5 Administrative expenses

	2014	2013
	£'000	£'000
Administrative expenses include the following items:		
Auditor's remuneration for audit services	**41**	41
Auditor's remuneration for other services pursuant to legislation	**47**	52
Other administrative expenses	**29,471**	28,617
	29,559	28,710

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

Notes on the Financial Statements (continued)
31 December 2014

6 Tax expense

Analysis of charge in the year	2014 £'000	2013 £'000
Current tax		
UK Corporation tax		
– on current year profit	**12,560**	17,810
– adjustments in respect of prior years	**(5)**	-
Total current tax	**12,555**	17,810
Deferred tax		
Origination and reversal of temporary differences	**3**	1
Adjustment in respect of prior years	**-**	-
Total deferred tax	**3**	1
Tax expense	**12,558**	17,811

The UK corporation tax rate applying to the Company was 21.5 per cent (2013: 23.25 per cent).

The following table reconciles the tax expense:

	2014 £'000	Percentage of overall profit before tax %	2013 £'000	Percentage of overall profit before tax %
Profit before tax	**58,445**		76,600	
Tax at 21.5% (2013: 23.25%)	**12,560**	**21.50**	17,810	23.25
Adjustments in respect of prior period liabilities	**(5)**	**-**	-	-
Change in tax rates	**3**	**-**	1	-
Overall tax expense	**12,558**	**21.50**	17,811	23.25

7 Loans and advances to banks

	2014 £'000	2013 £'000
Amounts due from other group undertakings		
– within one month	**30,000**	41,000
– between one and three months	**400,899**	299,151
	430,899	340,151

8 Loans and advances to customers

	2014 £'000	2013 £'000
Loans to individuals		
– repayable on demand	**2,160**	2,985
	2,160	2,985

Notes on the Financial Statements (continued)
31 December 2014

9 Investments in subsidiary undertakings

	2014 £'000	2013 £'000
Investments in subsidiary undertakings	**5**	5

The subsidiary undertakings of the Company at 31 December 2014 were:

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2014	Ownership Percentage 2013
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	Pensioneer 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.

10 Deferred taxation

	2014 £'000	2013 £'000
Deferred tax assets		
Property, plant and equipment	**5**	8
	5	8
Movement in temporary differences during the year		
At 1 January	**8**	8
Income statement credit	**(3)**	(0)
At 31 December	**5**	8

Notes on the Financial Statements (continued)
31 December 2014

11 Other receivables

	2014 £'000	2013 £'000
Due from group undertakings	**8,664**	55,116
Other receivables	**3,042**	4,611
	11,706	59,727

£5m (2013: £36m) of the balance due from group undertakings relates to customer remediation programmes, in relation to Pension Switching £23k (2013: £23k), Pensions £1k (2013: £803k) and Trusts Charging £4m (2013: £34m). It also includes an amount in relation to HSBC Executor and Trustees (UK) Limited of £750k (2013: £900k) (note 15). HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made in relation to these remediation programmes, in line with agreed amounts. During the period an additional £nil (2013: £2m) was recognised in relation to this reimbursement. This is shown within Other operating income.

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.

12 Customer accounts

	2014 £'000	2013 £'000
Customer balances repayable on demand	**305,055**	239,770

13 Other liabilities

	2014 £'000	2013 £'000
Due to group undertakings	**19,781**	935
Other liabilities	**6,098**	7,456
	25,879	8,391

14 Accruals and deferred income

	2014 £'000	2013 £'000
Accruals	**2,250**	3,382
Deferred Income - expected to be recovered in fewer than 12 months	**711**	1,070
Deferred Income - expected to be recovered in greater than 12 months	**2**	167
	2,963	4,619

Notes on the Financial Statements (continued)
31 December 2014

15 Provisions

	Trusts Charging £'000	Other £'000			Total £'000
At 1 January 2014	**54,590**	**1,200**			**55,790**
Amount utilised	**(30,715)**	**(728)**			**(31,443)**
Amount charged to Income statement	**-**	**216**			**216**
Provision released to Income statement	**-**	**(381)**			**(381)**
Transfer to subsidiary	**-**	**-**			**-**
At 31 December 2014	**23,875**	**307**			**24,182**

	Trusts Charging £'000	Pension Switching £'000	Pension Cases £'000	Administrative Losses £'000	Total £'000
At 1 January 2013	83,725	5,306	-	1,396	90,427
Amount utilised	(29,435)	(4,902)	(1,676)	(1,385)	(37,398)
Amount charged to Income statement	-	-	2,924	401	3,325
Provision released to Income statement	-	(381)	(445)	(38)	(864)
Transfer to subsidiary	300	-	-	-	300
At 31 December 2013	54,590	23	803	374	55,790

Trusts charging

In 2007 the Company commenced a review in respect of over-charging trust fees in prior years. Work on this project is progressing and further remediation payments to customers were provided during the year. The total provision is based on a calculation extrapolated from a sample of cases, and the key assumptions relate to traceability of customers, average redress per customer and achievability of the redress calculation. Uncertainties arise from factors affecting the timing and achievability of notifying and reimbursing those affected. It is possible that outcomes arising within the next financial year could change the carrying value of this provision.

HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made as a result of this review. An amount of £5 million representing the expected reimbursement is included within other receivables due from group undertakings (note 11).

An amount of £0.75m (2013: £0.9m) relating to this provision is shown on the statement of financial position of the Company's subsidiary HSBC Executor & Trustee Company (UK) Limited. The Company has undertaken to reimburse its subsidiary for the subsequent payments made and a charge of £nil (2013: £nil) has been recognised within Other operating expenses.

16 Called up share capital

	2014 £'000	2013 £'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.

Notes on the Financial Statements (continued)
31 December 2014

17 Dividends

	2014 £'000	2014 Total per share	2013 £'000	2013 Total per share
Interim paid	48,000	16.00p	-	-
	48,000	16.00p	-	-

No further dividend is recommended by the Directors.

18 Cash and cash equivalents

	2014 £'000	2013 £'000
Loans and advances to banks	**430,899**	340,151
	430,899	340,151

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

19 Client segregated money

The Company holds cash 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 2014 the cash amounted to £315,837,827 (2013: £254,391,248). The cash is not shown as the Company's assets or liabilities respectively as it is held on behalf of clients.

20 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis at amortised cost. The significant accounting policies in note 2 describe how the classes of financial instruments are measured, and how income and expenses are recognised.

21 Fair Value of financial instruments not carried at fair value

For all financial instruments, the fair value is equal to the carrying value in the balance sheet; that is because they are short-term in nature or reprice at current market rates frequently.

Notes on the Financial Statements (continued)
31 December 2014

22 Management of financial risk

All of the Company's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Company as a going concern.

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, and monitored by, the FCA and PRA.

The maximum exposure to credit risk is represented by the carrying amount of all financial assets in the statement of financial position. The Company's exposure to credit risk is limited to HSBC Group entities and given their high credit ratings management does not expect these counterparties to fail to meet their obligations.

The financial instruments of the Company (excluding short-term receivables and payables) 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.

The Company held the following financial assets at 31 December 2014:

	2014	2013
	£'000	£'000
Loans and advances to banks	**430,899**	340,151
Loans and advances to customers	**2,160**	2,985
Due from group undertakings	**8,664**	55,116
Other receivables	**3,042**	4,611
	444,765	402,863

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, and these are repayable on demand.

The Company held the following financial liabilities at 31 December 2014:

	2014	2013
	£'000	£'000
Customer accounts	**305,055**	239,770
Accruals	**2,250**	3,382
Due to group undertakings	**19,781**	935
Other liabilities	**6,098**	7,456
	333,184	251,543

Customer accounts are repayable on demand and bear 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%. All other financial liabilities are repayable on demand.

Notes on the Financial Statements (continued)
31 December 2014

Liquidity and cash flow risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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 2014 was 102.6% (2013: 99.4%).

The Company is part of a liquidity group for regulatory purposes, which includes the Company's immediate parent, HSBC Bank plc.

Market risk

Market risk is the risk that movements in market risk factors will affect the Company's performance. Interest rate risk is the only type of market risk to which the Company is directly 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.

A change of 100bp in interest rates at the reporting date would have increased/decreased profit by £4.3m (2013: £3.4m). This analysis assumes that other variables remain constant.

The Company is indirectly exposed to market risk through their valuation of client investments in ISAs, structured products and managed portfolios, which impacts on the income derived from the management of these.

23 Related party transactions

Transactions with related parties are summarised as follows:

a) Net Income

	2014 £'000	2013 £'000
Interest receivable:		
Parent	**1,615**	1,153
Fees and commissions receivable		
Parent	**-**	-
Other group companies	**29,127**	41,693
Fees and commissions payable		
Parent	**-**	-
Other group companies	**13,271**	13,963

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.

b) Expenditure

	2014 **£'000**	2013 £'000
Administrative expenses:		
Parent	**19,674**	20,899
Subsidiary	**(5)**	(4)

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.

	2014 **£'000**	2013 £'000
Assets		
Loans and advances to banks		
Parent	**430,899**	340,151
Other assets		
Parent	**4,844**	48,220
Other group companies	**3,820**	6,896
Liabilities		
Other payables		
Parent	**19,026**	-
Subsidiaries	**755**	935

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

£5m (2013: £36m) of the balance due from the parent relates to customer remediation programmes, in relation to Pension Switching, Pensions and Trusts Review (notes 11 & 15). HSBC Bank plc has undertaken to reimburse the Company in respect of the payments made in relation to these remediation programmes, in line with agreed amounts.

24 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc, which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc, incorporated in England, is the parent undertaking of the smallest group to consolidate these financial statements. Both companies are registered in England.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square
London
E14 5HQ
www.hsbc.com

25 Events after the balance sheet date

There are no significant events after the balance sheet date.

Notes on the Financial Statements (continued)
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26 Directors' emoluments

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

Four directors (2013: 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 recharged costs, allocated on an activities basis, are shown below:

	2014	2013
	£'000	£'000
Emoluments	**338**	302
Pension scheme contributions	**41**	2
	379	304

During the period, three directors exercised options over HSBC Holdings plc ordinary shares of US$0.50 each (2013: US$0.50). Retirement benefits are accruing to the directors under schemes operated by Group companies. Retirement benefits are accruing to one directors under defined benefit schemes and to three director under defined contribution schemes at 31 December 2014 (2013: five and one 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.