

HSBC INTERNATIONAL FINANCIAL ADVISERS (UK) LIMITED

**Financial Statements**

**31 DECEMBER 2011**

Registered No 1585283

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## Financial Statements

31 December 2011

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**Financial Statements**  
**31 December 2011**

**Registered No 1585283**

**DIRECTORS AND OFFICERS**

**Directors:**

D R Blackburn  
N A Benbow  
J J Bull  
R E C Cannard  
A M Keane-Munday  
C M Schuetz  
P M Spencer

**Secretary:**

C B Bell

**Registered office:**

8 Canada Square  
London  
E14 5HQ

**Bankers:**

HSBC Bank plc  
8 Canada Square  
London  
E14 5HQ

**Independent Auditors:**

KPMG Audit Plc  
15 Canada Square  
London  
E14 5GL

## Directors' report for the year ended 31 December 2011

### Principal activities

The Company's principal activity is to service the investment needs, on a referral basis, of HSBC Bank International Limited's United Kingdom and European Union based customers and other HSBC Group Companies' customers. The Company is regulated by the FSA (the Financial Services Authority).

The mix of business written comprises structured deposits, discretionary portfolios, insurance bonds and collective investment funds sourced from HSBC Group companies and a range of well established and market leading third party product providers.

### Strategy

The Company's short term and medium term strategy is encapsulated within the Company's annual operating plan and three year strategic plan. The strategic objective of the Company is to become the premium focused European centre of excellence for the provision of a holistic financial planning service for expatriate and non domiciled customers. The Company has the support of the HSBC Group to ensure adequate resources are available to support the objectives of the strategic plan. The Company's objective is to reduce its cost income ratio and increase its return on average invested capital by pursuing strategies designed to increase revenue whilst maintaining tight controls over costs.

The Company is currently largely reliant on HSBC Group referrals, however, it will continue to identify, target and develop other sources of referrals by utilising existing channels and agreed marketing tools to promote new and alternative means of increasing referral and business volumes and consequently revenue streams whilst controlling costs.

### 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 9 to the financial statements.

### Monitoring performance

The Company tracks its performance against a number of benchmarks known as key performance indicators (KPIs). The KPIs fall into two categories. Financial KPIs measure hard numbers whilst non-financial KPIs track operational aspects of the business. The KPIs are used to track performance against planning targets and previous years' results.

#### *Financial key performance indicators*

The Company measures its cost efficiency to assess consumption of resources in creating income based on the Company's cost income ratio. This is defined as the percentage of operating costs divided by gross income. Cost efficiency is achieved through better use of technology and higher productivity, but this may be offset in the short term by the higher costs associated with investing in new or growing business.

The Company measures return based on the return on average invested capital. This is defined as the percentage of profit after tax divided by average equity capital.

	2011	2010
	%	%
Operating cost income ratio	86	86
Return on average invested capital	17.1	16.5

## Directors' report for the year ended 31 December 2011

### *Non-financial key performance indicators*

Customer satisfaction is key to the development of the Company's business. The Company performs regular reviews to monitor the level of its sales quality in conjunction with the review and monitoring of customer complaints.

### **Results and performance**

The profit after taxation for the year ended 31 December 2011 amounted to £354,613 (31 December 2010: £287,912).

The return on average invested capital increased from 16.5% in 2010 to 17.1% in 2011, as the benefits of the restructuring adopted during 2009 start to materialise. During late 2009, changes in the economy led to refocusing on the business. In light of this a restructuring programme occurred. The restructuring included the taking over of the business of HSBC International Financial Advisers (Malta) Limited, including European Passporting business. HSBC International Financial Advisers (Malta) Limited was put into liquidation on 1 July 2010.

### **Employment policy**

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels, in-house magazines and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Company is further encouraged through a profit participation scheme.

### **Dividends**

The Directors do not recommend payment of a dividend (31 December 2010: £nil).

### **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.

### **Directors**

The Directors who held office during the year and up to the date these financial statements were approved are shown on page 2, with the following exceptions,

D R Blackburn (appointed 21 March 2011)  
 J J Bull (appointed 24 March 2011)  
 A M Keane-Munday (appointed 30 June 2011)  
 C M Schuetz (appointed 30 June 2011)  
 D J Nibloe (resigned 7 March 2012)  
 D L Wells (resigned 7 March 2012)  
 P M Crooke (resigned 21 March 2011)  
 R C Green (resigned 25 March 2011)  
 C C Molloy (resigned 25 March 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.

### **Changes in Secretary**

There have been no changes in Secretary during the year and up to the date these financial statements were approved.

## Directors' report for the year ended 31 December 2011

### Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC group to provide necessary capital resources which are therefore managed on a group basis

The Company defines capital as total shareholders equity. 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 recognises the impact on shareholder returns of the level of equity capital employed within the business and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

The Company manages its own capital within the context of the approved annual HSBC Group capital plan, which determines the optimal amount of capital required to support planned business growth.


### 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/she ought to have taken as a director in order to make himself/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 UK Companies Act 2006 and should be interpreted in accordance therewith.

### Independent auditors

The Company has elected to dispense with the obligation to reappoint auditors annually pursuant to Section 487 of the Companies Act 2006.

By Order of the Board



**D.R. Blackburn**  
Director



**N.A. Benbow**  
Director

Date 17 April 2012

## Directors' report for the year ended 31 December 2011

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

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

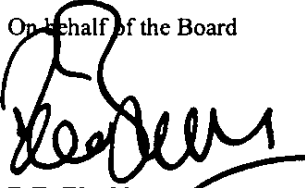
Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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



**D.R. Blackburn**  
Director



**N.A. Benbow**  
Director

Registered Office  
8 Canada Square  
London  
E14 5HQ

Date 17 April 2012

## Independent Auditors' Report to the Members of HSBC International Financial Advisers (UK) Limited

We have audited the financial statements of HSBC International Financial Advisers (UK) Limited for the year ended 31 December 2011 set out on pages 8 to 20. 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 (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 website 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.



M Davies (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15 Canada Square,  
London,  
E14 5GL

Date 25 April 2012



## Financial Statements

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

	<i>Notes</i>	2011 £	2010 £
Fees and commissions		3,562,341	2,882,285
Direct costs		(837,938)	(739,758)
<b>Gross profit</b>		<b>2,724,403</b>	<b>2,142,527</b>
Administrative expenses		(2,241,857)	(1,741,865)
<b>Profit before taxation</b>		<b>482,546</b>	<b>400,662</b>
Tax expense	5	(127,933)	(112,750)
<b>Profit for the year</b>	3	<b>354,613</b>	<b>287,912</b>

There were no acquisitions, discontinued or discontinuing operations during the year

The accounting policies and notes on pages 12 to 20 form an integral part of these financial statements

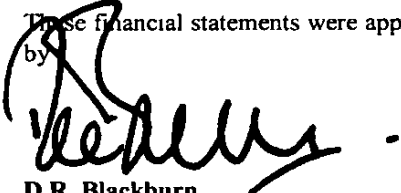
There has been no comprehensive income or expense other than the profit for the year as shown above (2010 Nil)


**Financial Statements (continued)****Statement of financial position as at 31 December 2011**

	<i>Notes</i>	<b>2011</b> <b>£</b>	<b>2010</b> <b>£</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,975,821	1,665,892
Receivables	6	2,141,259	2,393,381
Current tax assets		-	6,219
<b>Total assets</b>		<b>4,117,080</b>	<b>4,065,492</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Other liabilities	7	1,806,996	2,171,663
Current tax liabilities		61,642	-
<b>Total liabilities</b>		<b>1,868,638</b>	<b>2,171,663</b>
<b>Equity</b>			
Called up share capital	8	2,250,000	2,250,000
Retained earnings		(1,558)	(356,171)
<b>Total equity</b>		<b>2,248,442</b>	<b>1,893,829</b>
<b>Total equity and liabilities</b>		<b>4,117,080</b>	<b>4,065,492</b>

The accounting policies and notes on pages 12 to 20 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 17 April 2012 and were signed on its behalf by

  
**D.R. Blackburn**  
 Director

  
**N.A. Benbow**  
 Director

Company Registered Number 1585283

**Financial Statements (continued)****Statement of cash flows for the year ended 31 December 2011**

	2011 £	2010 £
<b>Cash flows from operating activities</b>		
Profit before tax	482,546	400,662
Adjustments for		
– Change in operating assets	252,122	(2,217,677)
– Change in operating liabilities	(364,667)	1,828,664
– Tax paid	(60,072)	-
Net cash generated from operating activities	<u>309,929</u>	<u>11,649</u>
<b>Net increase in cash and cash equivalents</b>	309,929	11,649
Cash and cash equivalents brought forward	<u>1,665,892</u>	<u>1,654,243</u>
Cash and cash equivalents carried forward	<u>1,975,821</u>	<u>1,665,892</u>

The accounting policies and notes on pages 12 to 20 form an integral part of these financial statements

**Financial Statements (continued)****Statement of changes in equity for the year ended 31 December 2011**

	Called up share capital	Retained earnings	Total shareholders' equity
	£	£	£
<b>Year Ended 31 December 2011</b>			
At 1 January 2011	2,250,000	(356,171)	1,893,829
Profit for the year	-	354,613	354,613
At 31 December 2011	2,250,000	(1,558)	2,248,442
	Called up share capital	Retained earnings	Total shareholders' equity
	£	£	£
<b>Year Ended 31 December 2010</b>			
At 1 January 2010	2,250,000	(644,083)	1,605,917
Profit for the year	-	287,912	287,912
At 31 December 2010	2,250,000	(356,171)	1,893,829

The accounting policies and notes on pages 12 to 20 form an integral part of these financial statements

Shareholders' equity is wholly attributable to equity shareholders

## Financial Statements (continued)

### Notes on the financial statements

#### 1 Basis of preparation

HSBC International Financial Advisers (UK) Limited is a company domiciled and incorporated in England and Wales

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

The financial statements of HSBC International Financial Advisers (UK) Limited have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU. EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any 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 IFRS Interpretations Committee ('IFRIC') and its predecessor body.

During 2011, in addition to the above, the company adopted a number of standards, interpretations and amendments to standards which had an insignificant effect on the financial statements of the company.

##### (b) Presentation of information

The financial statements are prepared on an historical cost basis except for financial assets designated at fair value, derivatives and financial investments that are stated at fair value.

##### (c) 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. In addition to the projects to complete financial instrument accounting, the IASB is continuing to work on projects on insurance, revenue recognition and lease accounting, which together with the standards described below, will represent widespread and significant changes to accounting requirements from 2013.

#### 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 the 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.

The company is currently assessing the impact of IFRSs 10, 11 and 12 but does not expect them to have an impact on the financial statements.

In May 2011, the IASB also 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

## Financial Statements (continued)

### Notes on the financial statements (continued)

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

The company is currently assessing the impact of IFRS 13 and it is not practical to quantify the effect as at the date of publication of these financial statements, which will depend on final interpretations of the standard, market conditions and the company's holdings of financial instruments at 1 January 2013

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 company is currently assessing the impact of IAS 19 revised but does not expect it to have a significant impact on the financial statements

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

The company is currently assessing the impact of these clarifications but it is impracticable to quantify their effect as at the date of publication of these 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

## 2 Summary of significant accounting policies

### (a) Revenue

Income earned on the execution of a significant act is recognised as revenue when the act is completed Income earned from the provision of services is recognised as revenue as the services are provided and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income'

## Financial Statements (continued)

### Notes on the financial statements (continued)

#### (b) Operating leases

Payments under operating leases are charged to the income statement on a straight line basis over the term of the lease

#### (c) Income Tax

Income tax on the profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised and/or sufficient taxable temporary differences are available. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (d) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement.

#### (e) Dividend income

Dividend income is recognised in the income statement when the right to receive payment is established.

#### (f) Financial assets and liabilities

##### (i) Financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company current account.

##### (ii) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in

**Financial Statements (continued)****Notes on the financial statements (continued)**

value. Such investments are normally those with less than three months' maturity from the date of acquisition, and include cash

**(g) Pension and other post-employment benefits**

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries (including the Company) and certain other employees of the Group. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit scheme ('the principal scheme') which is closed and a defined contribution scheme, which was established on 1 July 1996 for new employees. Individual subsidiaries within the Group, whose employees participate in the principal scheme, are not able to identify their share of the underlying assets and liabilities of the principal scheme and account for the principal scheme as a defined contribution scheme.

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at the end of the reporting period, of which employees of the Company are members, are disclosed in the financial statements of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees.

**(h) 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.

**(i) Use of assumptions**

The results of the company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The accounting policies used in the preparation of the financial statements are described in detail in Note 2.

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent. There are no accounting policies that are deemed critical to the Company's results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation.

**3 Profit before taxation**

Profit on ordinary activities before taxation is stated after charging

	2011 £	2010 £
Auditor's remuneration		
- audit of the financial statements	14,800	14,800
- other services pursuant to legislation	5,000	5,000
	<u>19,800</u>	<u>19,800</u>

**4 Employee compensation and benefits**

	2011 £	2010 £
Employee compensation and benefits were		
- Wages and salaries	1,815,548	1,113,478
- Social security costs	232,790	127,375
- Pension costs	181,111	150,942
- Other staff costs	<u>198,501</u>	<u>131,627</u>
	<u>2,427,950</u>	<u>1,523,422</u>
Average FTE	26.5	17.8



## Financial Statements (continued)

### Notes on the financial statements (continued)

Most permanent full time employees of HSBC International Financial Advisers (UK) Limited are members of either the HSBC Bank (UK) Pension Scheme or the HSBC Defined Contribution Scheme and contributions are based on pension costs across the Group as a whole. The HSBC Bank (UK) Pension Scheme is a funded defined benefit scheme providing benefits based on final pensionable pay. As the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by IAS 19 'Employee benefits', the scheme is accounted for by the Company as if the scheme was a defined contribution scheme.

In the absence of a contractual agreement between the company and HSBC Bank PLC, the principal sponsoring employer, Group policy requires the company to contribute to the scheme at a contribution rate which is determined by the Group.

Actuarial valuations of the schemes are carried out triennially by external professional actuaries to determine the financial position of the scheme and to enable the Company to determine the level of contributions to be made to the scheme. The latest full actuarial valuation was carried out as at 31 December 2008 at which HSBC Bank (UK) Pension Scheme held assets of £10.6 billion with an overall deficit amounting to £3.2 billion.

Funding of retirement benefits are charged to the income statement as incurred.

### 5 Tax expense

	2011 £	2010 £
<b>Current tax</b>		
UK Corporation Tax		
– on current year profit	(127,875)	(112,185)
– adjustments in respect of prior years	(58)	(565)
<b>Total current tax expense</b>	<b>(127,933)</b>	<b>(112,750)</b>
Reconciliation of effective tax to Corporation Tax expense		
Profit before Corporation Tax	482,546	400,662
Taxation charge at UK tax rate of 26.5% (2010: 28%)	127,875	112,185
Effect of		
Adjustments in respect of prior years	58	565
<b>Overall tax expense</b>	<b>127,933</b>	<b>112,750</b>

The 2012 budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012.

This will reduce the company's future current tax charge accordingly.

It has not yet been possible to quantify full anticipated effect of the announced further 2% rate reduction to 22%, although this will further reduce the company's future current tax charge.

As at 31 December 2011 the Company is not recognising a deferred tax asset of £154,457 (2010: £154,457) in relation to the impairment loss on a subsidiary. The Company does not expect to have any future capital gains against which such a deferred tax asset could be utilised.

### 6 Receivables

	2011 £	2010 £
Amounts due from other group undertakings	2,066,109	2,318,231
Trade receivables	75,150	75,150
	<b>2,141,259</b>	<b>2,393,381</b>

Amounts owed by parent/group undertakings have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial assets, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

**Financial Statements (continued)****Notes on the financial statements (continued)****7 Other liabilities**

	2011 £	2010 £
Amounts due to other group undertakings	1,702,561	2,031,328
Accruals and deferred income	104,435	140,335
	<u>1,806,996</u>	<u>2,171,663</u>

Amounts owed to parent/group undertakings have no fixed date for repayment and are therefore technically repayable on demand. They are accounted for as financial liabilities, measured at amortised cost and the fair value is not considered to be significantly different from the carrying value.

**8. Share capital**

	2011 £	2010 £
<b>Authorised</b>		
10,000,000 Ordinary shares of £1 each	<u>10,000,000</u>	<u>10,000,000</u>
<b>Allotted, called up and fully paid</b>		
2,250,000 Ordinary shares of £1 each	<u>2,250,000</u>	<u>2,250,000</u>

**9 Risk management****Introduction and overview**

The Company has exposure to the following risks

- credit risk
- liquidity risk
- operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has appointed a Risk Management Director who is responsible for developing and monitoring the Company's risk management policies. The Risk Management Director reports regularly to the Board of Directors on activities and issues.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to risk policies and procedures. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Risk Management Director is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Company is assisted in these functions by Group Internal Audit and the Compliance Monitoring Team. Group Internal Audit and the Compliance Monitoring Team undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

**Financial Statements (continued)****Notes on the financial statements (continued)**

Disclosures required under Basel 2 Pillar 3 are shown in the consolidated financial statements of HSBC Holdings plc which are available at its registered address of 8 Canada Square, London E14 5HQ

There were no changes in the Company's approach to risk management during the year

**Credit risk management**

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. For the Company, there is a risk arising in connection with amounts owed from its client base in respect of fees charged but not yet collected and in respect of amounts due from related parties, details of which are disclosed in note 10

Where the Company believes that a debt, or part of a debt, may not be collectible, an impairment provision is made to the value of the estimated impairment. The Company has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities

The Company uses an aged debtors report to review outstanding amounts due from product providers on a monthly basis. Any amounts deemed irrecoverable are written off on a monthly basis. Historically there have not been any material losses in this area. Balances from related companies are reconciled and settled with those related companies on a regular timely basis. There have been no historic losses arising out of related group debt. The Directors regard the level of credit risk as minimal and as a result have made no impairment provisions as at the year end date (2010 £nil)

The Company had no past due exposures as at 31 December 2011 (2010 £Nil)

The Company has the following maximum exposure to credit risk, with no related collateral held

	2011 £	2010 £
Cash and cash equivalents	1,975,821	1,665,892
Trade and other receivables	2,141,259	2,393,381
Tax receivable	-	6,219
	<u>4,117,080</u>	<u>4,065,492</u>

These balances are neither past due nor impaired. Their fair values equate to their carrying amount. The Company's credit risk is considered limited as all financial assets are held with related parties

**Liquidity risk management**

Liquidity risk is the risk that the Company will be unable to meet the obligations arising from its financial liabilities

The Directors believe that the Company has minimal exposure to liquidity risk, since its current assets (including cash) are sufficient to repay its current liabilities

The following tables show the contractual maturity analysis of the Company's liabilities

	Payable within one year	Payable within one year
	2011 £	2010 £
Trade and other payables	<u>1,868,638</u>	<u>2,171,663</u>

**Financial Statements (continued)****Notes on the financial statements (continued)****Operational risk management**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market Notes on the financial statements and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas

- requirements for appropriate segregation of duties, including the independent authorisation of transactions,
- requirements for the reconciliation and monitoring of transactions,
- compliance with regulatory and other legal requirements,
- documentation of controls and procedures,
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified,
- requirements for the reporting of operational losses and proposed remedial action,
- development of contingency plans,
- training and professional development,
- ethical and business standards, and
- risk mitigation, including insurance where this is effective

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Group Internal Audit and the Compliance Monitoring Team. The results of the reviews are discussed with the management of the business, with summaries submitted to senior management of the Company

**10 Related party transactions**

The Company has a related party relationship with its parent, with other group undertakings and with its directors

Particulars of transactions, arrangement and agreements involving related parties are as follows

	2011 £	2010 £
<b>Income statement</b>		
Fees and commissions	3,562,341	2,882,285
Direct costs	837,938	739,758
Administrative expenses	(406,825)	125,709
<b>Statement of financial position</b>		
Trade and other receivables	2,066,109	2,318,231
Cash and cash equivalents	1,975,821	1,665,892
<b>Liabilities</b>		
Trade and other payables	1,702,561	2,031,328

The Company is a wholly owned subsidiary of HSBC International Holdings (Jersey) Limited, a company incorporated and registered in Jersey, Channel Islands. The ultimate holding company is HSBC Holdings plc, which

## Financial Statements (continued)

### Notes on the financial statements (continued)

is incorporated and registered in England. The registered address of HSBC Holdings plc is 8 Canada Square, London E14 5HQ, from where a copy of the consolidated Annual Report and Financial Statements may be obtained.

The key management personnel have been identified as being the Directors of the company. The emoluments of the key management personnel are paid by other HSBC group companies who make no recharge to the company. The Directors are also directors of a number of other HSBC group companies and it is not possible to make a reasonable apportionment of their emoluments in respect of each of the companies. Accordingly, no emoluments in respect of the Directors applicable to the company have been disclosed.

#### 11. Contingent liabilities

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There were no contingent liabilities at 31 December 2011 (2010: £Nil).

#### 12. Subsequent events

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There are no subsequent events requiring disclosure in the financial statements.