Annual Report and Accounts 2005

Contents

Company Registration Number 1798474

Report of the Directors

Principal Activities

The Company carries on the business of providing general insurance products to the customers of its parent, HSBC Bank plc.

Results and Dividends

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

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2005 (2004: £115,000,000).

Business Review

The Company's net income is in line with 2004. Payment protection insurance (PPI) income has increased from credit cards reflecting growth in the extant book and an increase in average card balances resulting in increased case size. This is offset by lower PPI income relating to loans, primarily due to fewer policies being taken with a loan and shorter loan duration. This is partially offset by an increase in average case size.

Administration expenses have increased from 2004 reflecting the full year's cost of the commission payment to HSBC Bank plc, in respect of sales of the Company's products, this commenced with effect from April in 2004.

A major focus in 2005 has been the successful conclusion of contractual negotiations with our underwriter for creditor, home and travel, and the migration of the home insurance existing business from the previous underwriter. This commenced in June. Retention levels are above those planned. Full internet capability is now in place for Home Motor and Travel. The Financial Services Authority general insurance sales regulation came into force on the 14 January 2005. The business is fully compliant. Following integration with the Hamilton general management team in 2004, significant business benefits have accrued particularly in the area of sharing best practise and knowledge.

Priorities for 2006 will be working with HSBC Bank's distribution functions to leverage the Company's sales opportunities particularly in the stand alone market of Home, Motor and Travel, via marketing and referrals. To support our internet offering, straight through procession will be enhanced or developed. In light of the FSA findings relating to Payment Protection Insurance, a full review of our product proposition and distribution model will be undertaken.

The company adopts the Group Risk management framework. Risks are reviewed regularly and a summary of high level risks are reported to the Board together with mitigation plans. Ongoing issues are managed via the group database until resolved and learnings disseminated.

Directors

The directors who served during the year were as follows:

Name	Appointed	Resigned
S G Boyle *		
A R Hill		30 November 2005
A P Hope		
H S Karlcut		24 June 2005
A M Tomlinson		
N C Weaver		
S J Young		

* Independent non-executive director

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

Report of the Directors (continued)

connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 1985. Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors.

Directors' Interests

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

	HSBC Holdings plc Ordinary shares of US$0.50 each	
	1 January 2005 (or appointment date)	31 December 2005
S G Boyle	1,698	2,082
A P Hope	47,152	50,475
A M Tomlinson	230	314
S J Young	1,698	2,082

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

	Granted	Exercised
A P Hope	-	1,119

The terms of a number of Employee Benefit Trusts provide that all employees of HSBC Holdings plc and any of its subsidiary undertakings are potential beneficiaries of the Trusts. As potential beneficiaries of the Trusts, each Director of the Company is deemed to have a technical interest in all of the HSBC Holdings plc ordinary shares of US$0.50 each held by the Trusts. At 31 December 2005 the Trusts held a total of 130,812,676 ordinary shares of US$0.50 each (1 January 2005: 123,108,967).

Supplier Payment Policy

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

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

Report of the Directors (continued)

Statement of Directors' Responsibilities in Relation to Financial Statements

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

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

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

The financial statements are required by law to present fairly the financial position and the performance of the Company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 1985. 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 prevent and detect fraud and other irregularities.

The Directors have taken reasonable steps to ensure that they are aware of any relevant audit information and to ensure that the Company's auditors are aware of this information. So far as the Directors are aware, there is no relevant audit information which has not been disclosed to the Company's auditors.

By order of the Board

PHarvey

Peter J Harvey
Secretary

Date: 23 February 2006

Registered Office:
8 Canada Square
London
E14 5HQ

Independent Auditors' Report to the Members of HSBC General Insurance Services (UK) Limited

We have audited the financial statements of HSBC General Insurance Services (UK) Ltd for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheets, the Cash Flow Statement, the Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants
Registered Auditor

1 Canada Square
London
E14 5AG

23 February 2006

Income statement for the Year Ended 31 December 2005

	Note	2005 £000	2004 £000
Interest receivable			
Other interest receivable and similar income		**5,009**	5,107
Net interest income	7	**5,009**	5,107
Fees and commissions receivable	8	**240,193**	240,235
Net income		**245,202**	245,342
Other Operating Expenses	9	**(92,544)**	(65,605)
Operating profit		**152,658**	179,737
Profit before income taxes		**152,658**	179,737
Income taxes	10	**(45,802)**	(53,926)
Profit after income taxes		**106,856**	125,811

The accounting policies and notes on pages 10 to 22 form an integral part of these financial statements.

Balance Sheet at 31 December 2005

Assets	Note	2005 £000	2004 £000
Property, plant and equipment	*12*	**114**	158
Trade and other receivables	*13*	**3,127**	3,263
Deferred tax assets	*16*	**62**	109
Non Current Assets		**3,303**	3,530
Trade and other receivables	*13*	**115,172**	64,401
Cash and cash equivalents	*15*	**127,542**	127,176
Current Assets		**242,714**	191,577
Total Assets		**246,017**	195,107
Liabilities			
Other provisions	*6*	**53,146**	33,127
Non Current Liabilities		**53,146**	33,127
Insurance, other payables and deferred income	*14*	**48,156**	87,531
Current income tax liabilities		**23,538**	28,128
Current Liabilities		**71,694**	115,659
Total Liabilities		**124,840**	148,786
Net assets		**121,177**	46,321
Shareholders' equity			
Share capital	*17*	**-**	-
Retained earnings	*18*	**121,177**	46,321
Total shareholders' equity		**121,177**	46,321
Total Equity and Liabilities		**246,017**	195,107

The financial statements were approved by the board of directors on 23 February 2006 and were signed on its behalf by:

S G Boyle
Chairman

The accounting policies and notes on pages 10 to 22 form an integral part of these financial statements.

Statement of changes in equity
For the Year Ended 31 December 2005

		Share capital	*Retained earnings*	*Total*
		£000	**£000**	**£000**
Year ended 31 December 2004				
Balance at 1 January 2004		-	**79,510**	**79,510**
Profit for the year		-	**125,811**	**125,811**
Dividends	11	-	**(159,000)**	**(159,000)**
Balance at 31 December 2004	3	-	**46,321**	**46,321**
Year ended 31 December 2005				
Balance at 1 January 2005	3	-	**46,321**	**46,321**
Profit for the year		-	**106,856**	**106,856**
Dividends	11	-	**(32,000)**	**(32,000)**
Balance at 31 December 2005		-	**121,177**	**121,177**

The accounting policies and notes on pages 10 to 22 form an integral part of these financial statements.

Statement of cash flows – indirect method
For the Year Ended 31 December 2005

	Note	2005 £000	2004 £000
Operating Activities			
Profit Before Tax		**152,658**	179,737
Adjustments for:			
Depreciation		**91**	154
Changes in operating assets and liabilities			
Trade & other receivables		**(50,635)**	(15,351)
Insurance & Other Payables		**(39,385)**	58,145
Other provisions		**20,019**	2,809
Cash generated from operations		**82,748**	225,494
Tax paid		**(50,382)**	(56,749)
Net cash from operating activities		**32,366**	168,745
Cash flows from financing activities			
Dividends paid	*11*	**(32,000)**	(159,000)
Net cash (outflow) from financing activities		**(32,000)**	(159,000)
Net increase/(decrease) in cash and cash equivalents		**366**	9,745
Cash and cash equivalents at 1 January		**127,176**	117,431
Cash and cash equivalents at 31 December	*15*	**127,542**	127,176

The accounting policies and notes on pages 10 to 22 form an integral part of these financial statements.

Notes to the financial statements

1 General information

HSBC General Insurance Services (UK) Limited is a company domiciled in England and Wales.

The financial statements were authorised for issue by the directors on 23 February 2006.

2 Significant accounting policies

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations issued by the International Accounting Standards Board (IASB) as adopted by the European Commission (EC). These are the Company's first financial statements under IFRS and IFRS 1 has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 3.

(b) *Basis of preparation*

The financial statements are presented in Pounds Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purpose of the transition to IFRSs.

(c) *Revenue*

Fees and commission income

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company on the effective commencement or renewal dates of the related policies. Commission recievable on contracts extending greater than a year, is recognised at the point of sale. A refund provision is held for these policies were it is possible for the customer to cancel early and receive a refund.

Profit commission is accrued relating to the business earned in the current year.

(d) *Employee benefits*

The Company does not employ any staff. All staff undertaking work on behalf on the Company are employed by the Company's parent, HSBC Bank plc, which makes recharges to this Company for the services provided.

Notes to the financial statements (continued)

(e) *Income taxes*

Income tax on the profit or loss for the year 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 the related income tax is also recognised in equity.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, 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 substantially 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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

(f) *Other receivables*

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

(g) *Cash and cash equivalents*

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

(h) *Impairment*

The carrying amounts of the Company's assets are reviewed at each balance sheet 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.

(i) *Trade and other receivables*

Trade and other receivables are stated at their cost less impairment losses.

(j) *Property Plant & Equipment*

Items of property, plant and equipment are stated at historical cost less accumulated depreciation.

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of any items of property, plant and equipment. The estimated useful lives are as follows:

- Vehicles 5 years
- Furniture & Equipment 3 to 5 years
- Premises improvements 10 years

Notes to the Financial Statements (continued)

(k) *Provisions*

Commission receivable in respect of sales of the Company's lending protection products is paid in the form of an up-front single premium. Should the policy be cancelled at any point during its term, a refund of premium will be paid to the customer equivalent to the proportion of risk not yet covered. The company is required to return commission in relation to the corresponding participaton in the original premium. A provision is held for future refunds of commission relating to business sold to date. Movements in this are recorded in the Income Statement as part of commission income.

(l) *Other payables*

Other payables are stated at cost.

(m) *Dividend distribution*

Dividend distributions to the Company's shareholder are recognised as a liability in the Company's financial statements in the year in which the dividends are declared.

3 Explanation of transition to IFRSs

As stated above, these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies set out above have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the financial statements (continued)

Reconciliation of balance sheets 2004

		1 January 2004			31 December 2004		
	Notes	Previous GAAP	Effect of transition to IFRSs	**IFRSs**	Previous GAAP	Effect of transition to IFRSs	**IFRSs**
Assets		£000	£000	**£000**	£000	£000	**£000**
Property, plant and equipment	*12*	310	-	**310**	158	-	**158**
Trade and other receivables	*13*	-	-	-	-	-	-
Deferred tax assets	*16*	52	-	**52**	109	-	**109**
Total Non Current Assets		362	-	**362**	267	-	**267**
Trade and other receivables	*13*	52,372	-	**52,372**	67,664	-	**67,664**
Cash and cash equivalents	*15*	117,431	-	**117,431**	127,176	-	**127,176**
Total Current Assets		169,803	-	**169,803**	194,840	-	**194,840**
Total assets		170,165	-	**170,165**	195,107	-	**195,107**
Liabilities							
Other provisions		30,318	-	**30,318**	33,127	-	**33,127**
Total Non Current Liabilities		30,318	-	**30,318**	33,127	-	**33,127**
Insurance, other payables and deferred income	*14*	105,407	(76,000)	**29,407**	119,531	(32,000)	**87,531**
Current income tax liabilities		30,930	-	**30,930**	28,128	-	**28,128**
Total Current Liabilities		136,337	(76,000)	**60,337**	147,659	(32,000)	**115,659**
Total Liabilities		166,655	(76,000)	**90,655**	180,786	(32,000)	**148,786**
Net assets		3,510	76,000	**79,510**	14,321	32,000	**46,321**
Shareholders Equity							
Share capital	*17*	-	-	-	-	-	-
Retained earnings	*18*	3,510	76,000	**79,510**	14,321	32,000	**46,321**
Total shareholders equity		3,510	76,000	**79,510**	14,321	32,000	**46,321**
Total equity and liabilities		170,165	-	**170,165**	195,107	-	**195,107**

Notes to the reconciliation of balance sheets

The changes to the 2004 balance sheet have arisen from the adoption of the following IFRS standard:

IAS 10 'Events After The Balance Sheet Date'

Under GAAP, the final dividend of £32,000,000 for 2004, approved at the February 2005 board meeting, was recognised as a dividend in the 2004 profit and loss account. This has been restated to reserves under IAS 10 as at 1 January 2005.

Notes to the Financial Statements (continued)

Reconciliation of profit and loss account for 2004

	Notes	Previous GAAP £000	2004 Effect of transition to IFRS £000	IFRSs £000
Interest receivable				
Other interest receivable and similar income		5,107	-	**5,107**
Net interest income	7	5,107	-	**5,107**
Fees and commissions receivable	8	240,235	-	**240,235**
Net income		245,342	-	**245,342**
Other Operating Expenses	9	(65,605)	-	**(65,605)**
Operating profit		179,737	-	**179,737**
Profit before income taxes		179,737	-	**179,737**
Income taxes	10	(53,926)	-	**(53,926)**
Profit after income taxes		125,811	-	**125,811**
Dividends	11	(115,000)	32,000	**(83,000)**
Retained profit for the financial year		10,811	32,000	**42,811**

Notes to the reconciliation of profit and loss account

The changes to the 2004 profit and loss account have arisen from the adoption of the following IFRS standard:

IAS 10 'Events After The Balance Sheet Date'

Under GAAP, the final dividend of £32,000,000 for 2004, approved at the February 2005 board meeting, was recognised as a dividend in the 2004 profit and loss account. This has been restated to reserves under IAS 10 as at 1 January 2005.

Notes to the financial statements (continued)

4 Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The estimate is based on the level of premium income, applying the profit share formula in line with the agreement with the insurer.

Accrued Profit Share Commission

The estimation of future profit share, relating to business transacted or earned in the financial year, is the company's most critical accounting estimate. The estimate is based on the level of premium income applying the profit share formula in line with the agreement with the insurer. The area where judgement is exercised is for the estimate for claims. Claims vary for each insurance contract type. These estimates are based on the insurers most recent management information, adjusted by the companies' experience of recent events, and knowledge gained from the industry. Accrued profit share is included in trade and other receivables (see Note 13).

Were the claims value in the year to differ by 10% from the management's estimate, the income would increase or decrease by £5.2m.

In addition, for contracts longer than one year, an estimate of the premium to be earned in that year needs to be made. These estimates are based on the insurer's most recent management information, adjusted by the companies experience of recent events, and knowledge gained from the industry.

Were the earned premium estimated for the year to differ by 10% from the management's estimate, the income would increase or decrease by £5.6m.

Provision for Refund of Commission

Commission receivable in respect of sales of the Company's lending protection products is paid in the form of an up-front single payment. Should the policy be cancelled at any point during its term, a refund of commission will be paid to the customer equivalent to the proportion of risk not yet covered. The provision relates to the total amount of commission already received that is potentially returnable to customers as at the balance sheet date. The provision will be utilised over the unexpired period of the policy term up to a maximum of 8 or 10 years for personal lending protection or business lending protection policies respectively. The main uncertainty over the eventual cost arises from the assumption that the last 6 months' experience of customers settling their loans early is indicative of future experience.

The refund profile is based on a six months rolling average amount, extrapolated across the refund profile, averaged for the last 6 months.

Were the refunds average amount for the year to differ by 10% from the management's estimate, the provision would increase or decrease by £5.3m.

5 Assumptions, change in assumptions and sensitivity

(a) Process used to decide on assumptions

For claims and earned premium estimates, a review of the insurer's latest management informations is undertaken, augmented with knowledge of recent events and the Company's own experience.

The refund provision is based on the historic profile for customers settling early.

(b) Change in assumptions

The basis of the calculations have not changed

Notes to the Financial Statements (continued)

Movements in profit share accrual	2005 £000	2004 £000
At beginning of year	**62,054**	46,385
Additional receipts to Income Statement	**11,578**	16,264
Additional accrual	**64,411**	77,358
Settlements	**(70,368)**	(77,953)
At end of year	**67,675**	62,054

6 Provisions for Liabilities and Charges

	Refund Provision £000	Other Provisions £000	**Total £000**
As at 1 January 2005	32,977	150	**33,127**
Charged to Income Statement	59,081	-	**59,081**
Amount utilised	(38,912)	-	**(38,912)**
Provisions Released	-	(150)	**(150)**
As at 31 December 2005	53,146	-	**53,146**

Refund Provision see note 4

7 Interest Income

	2005 £000	2004 £000
Cash and short term funds	**4,914**	5,107
Loans and advances	-	-
Other	**95**	-
Banks and customers	-	-
Other	-	-
	5,009	5,107

8 Fees and Commission income

	2005 £000	2004 £000
Commission income		
Agency commission	**174,958**	97,145
Profit share	**65,235**	143,090
	240,193	240,235

Notes to the financial statements (continued)

9 Other operating expenses

	2005 £000	2004 £000
Staff Costs	**4,033**	3,941
Premises & Equipment	**363**	596
Bad Debts	**81**	30
Administrative Expenses	**6,109**	4,296
Auditors Remuneration - audit services	**54**	34
- non audit services	**-**	12
Depreciation	**91**	154
Commission Payable to Group Companies	**81,813**	56,542
Total other operating expenses	**92,544**	65,605

10 Income tax expense

Recognised in the income statement

	2005 £000	2004 £000
Current tax expense		
Current year	**45,755**	53,938
Adjustments for prior years	**-**	45
Total current tax	**45,755**	53,983
Deferred tax expense		
Origination and reversal of temporary differences	**47**	(12)
Effect of change in tax rate on opening liability		
Adjustments to the estimated recoverable amount of deferred tax assets arising in previous years	**-**	(45)
Total deferred tax	**47**	(57)
Total income tax expense in income statement	**45,802**	53,926

11 Dividends

	2005 £000	2004 £000
Final Payment 2003 £760,000 per share	**-**	76,000
First Interim Payment 2004 £830,000 per share	**-**	83,000
Final Payment 2004 £320,000 per share	**32,000**	-
	32,000	159,000

Notes to the Financial Statements (continued)

12 Property, plant and equipment

COST	Motor Vehicles £'000	Equipment £'000	Premises Improvements £'000	Fixtures and Fittings £'000	**Total £'000**
At 1 January 2005	112	1,759	323	1,241	**3,435**
Additions	-	47	-		**47**
At 31 December 2005	112	1,806	323	1,241	**3,482**
DEPRECIATION					
At 1 January 2005	83	1,732	263	1,199	**3,277**
Charge for year	15	35	12	29	**91**
At 31 December 2005	98	1,767	275	1,228	**3,368**
NET BOOK VALUE					
At 31 December 2005	14	39	48	13	**114**
At 31 December 2004	29	27	60	42	**158**

13 Trade and other receivables

		2005 £000	2004 £000
Analysis of other assets			
Non Current Assets			
Profit Share Due from Insurers	- Greater than 1 year	**1,552**	1,263
Profit Share Due from Group Undertakings	- Greater than 1 year	**1,575**	2,000
Total Non Current Assets		**3,127**	3,263
Current Assets			
Profit Share Due from Group undertakings	- Current Year	**11,249**	2,759
Profit Share Due from Insurers	- Current Year	**53,298**	56,032
Commission due from Insurers		**42,872**	1,957
Other Debtors		**7,753**	3,653
Total Current Assets		**115,172**	64,401
		118,299	67,664

14 Insurance, other payables and deferred income

	2005 £000	2004 £000
Due to group undertakings	**26,913**	57,296
Other Liabilities	**21,243**	30,235
	48,156	87,531

Notes to the financial statements (continued)

15 Cash and cash equivalents

	2005	2004
	£000	£000
Bank and cash balances	801	1,965
Group Treasury Deposits	113,000	110,000
Call deposits	13,416	14,865
Accrued interest	325	346
Cash and cash equivalents	**127,542**	127,176

	Maturity within 1 month	Maturity between 1 and 3 months
	£000	£000
Bank and cash balances	801	-
Group Treasury Deposits	107,000	6,000
Call deposits	13,416	-
Accrued interest	325	-
	121,542	6,000

The interest rate range for the financial year was from 3.75% to 4.93%

16 Deferred tax asset

Deferred tax assets are attributable to the following:

	2005	2004
	£000	£000
Accelerated capital allowances	62	64
Other short term timing differences	-	45
Deferred Tax Assets	**62**	109

17 Share capital

	2005	2004
	£	£
Authorised:		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid :		
100 Ordinary shares of £1 each	100	100

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 to the Financial Statements (continued)

18 Other reserves

	2005	2004
	£000	£000
Retained earnings	121,177	46,231

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company except for £6,005k (2004: £6,005k), which is not distributable and must be kept in compliance with the solvency capital regulations that the Company is subject to.

19 Directors' remuneration

Of the seven directors who served during the year (2004: ten) one was remunerated by other Group undertakings which made no specific charge to this Company for their services. The emoluments of the other directors in respect of their services to the Company are shown below.

	2005	2004
	£000	£000
Emoluments	472	333
Pension scheme contributions	30	7
	502	340
Highest paid director:		
Emoluments	205	108
Pension scheme contributions	16	7
	221	115

Details of directors who exercised share options during the year are given in the directors' report on page 3. The highest paid director did not exercise any share options in the period.

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

With the exception of the independent non-executive director, retirement benefits are accruing to the directors under schemes operated by their employing companies. Retirement benefits are accruing to three directors under defined benefit schemes and to three directors under money purchase schemes at 31 December 2005 (2004: four and three, 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.

20 Related-party transactions

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

Transactions with related parties are summarised as follows:

Notes to the financial statements (continued)

a) Income

	2005	2004
	£000	£000
Interest receivable		
- Parent	**4,914**	5,107
Fees and commission receivable		
- other group companies	**47,097**	14,814
	52,011	19,921

Income from related party transactions arises from:

- interest receivable on cash balances deposited with the Company's parent;
- commission receivable for the referral of business to associates; and
- a share of the profits earned by the associates on the General Insurance products.

b) Expenditure

	2005	2004
	£000	£000
Administration expenses		
- parent	**83,990**	59,822
- other group companies	**1,424**	-
	85,414	59,822

Expenditure from related party transactions arises from:

- Administration expenses payable to the Company's parent and associates is in relation to sales of the Company's products. The Company's products are marketed and sold primarily by HSBC Bank plc through its sales channels. The commission rate is set at a level to cover the cost incurred by HSBC Bank plc in marketing and selling the products.
- Costs charged to the Company for the provision of management services. These include product management, customer services, risk management, actuarial, finance, human resources, property services and IT. The Company is recharged for the actual costs incurred in undertaking these activities.

c) Key management compensation

The Company does not have any direct employees. The directors and staff are all employees of the Company's parent or associates. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individuals' services to the Company:

	2005	2004
	£000	£000
Salaries and other short-term employee benefits	**472**	333
Post-employment benefits	**30**	7
	502	340

Notes to the Financial Statements (continued)

d) Year-end balances with related parties

	2005	2004
	£000	£000
Assets		
Loans and advances to banks		
- parent	**127,542**	127,176
Prepayments and accrued income		
- other group companies	**12,825**	4,759
	140,367	131,935
Liabilities		
Other payable		
- parent	**6,299**	57,280
- other group companies	**20,614**	1,050
	26,913	58,330

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