# HSBC General Insurance Services (UK) Limited

## Annual Report and Accounts

## 31 December 2009

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Company Registration Number 1798474

# Annual Report and Accounts for the year ended 31 December 2009

## 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 statement of total comprehensive income shown in these accounts

A first interim dividend of £50,000,000 was paid on 12 June 2009 in respect of the year ended 31 December 2009 (2008 first interim £50,000,000) The Directors do not propose a second interim dividend in respect of the year ended 31 December 2009 (2008 second interim £50,000,000)

## Business Review

The Company's net income is £29m (18%) below 2008 Income from Payment Protection Insurance (PPI) continues to decline following the decision in December 2007 to halt new business activity for loan and card repayment protection

Operating expenses have increased from 2008 by £0 64m (1 6%) reflecting a higher commission payment to HSBC Bank plc in respect of sales of the Company's products primarily due to increased motor sales This was partially offset by lower staff costs following the closure of the administration centre Under new arrangements for broked motor business, with a third party partner, the Company is no longer involved in policy administration work for this business

Work has continued on developing a new proposition in response to the Competition Commission (CC) remedies This is currently in pilot, however, it is anticipated that the replacement product will largely be provided by another group entity, with the exception of unemployment coverage

The Company has no direct employees Services required are provided by fellow HSBC Group companies

The Company has no stakeholders other than its parent company

Priorities for 2010 are to review the household, cardguard and motor propositions looking at embedding their sales processes into the Bank's core product systems and sales processes Reviews will continue to provide added value to general insurance products as part of the banking proposition

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 Further analysis is also provided to ensure that the Company continues to treat customers fairly The major risk areas are reputation risk following the PPI referral, credit risk with our insurers, primarily Aviva, and operational risk with both in sourced and outsourced operational areas Ongoing issues are managed via the group database until resolved and learnings disseminated

The financial services industry remains closely regulated and the UK regulators may take actions that could result in changes in industry practices, sales and pricing Certain industry practices, including sale of PPI continue to be under particular scrutiny by the UK industry regulators and/or consumer groups Regulatory changes that would further restrict current industry practices would result in reduced revenues from these sources The Company maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business

# Report of the Directors (continued)

Management consider the key performance indicators (KPIs) to be

| KPI | 2009 | 2008 |
|---|---|---|
| Fees and commission receivable | £134 8m | £160 9m |
| Operating expenses | £41 2m | £40 6m |
| New Business Volumes | | |
| • Home Insurance | 76,560 | 104,652 |
| • Motor Insurance | 90,093 | 62,898 |
| • Cardguard | 52,345 | 62,443 |

## Directors

The directors who served during the year were as follows

| Name | Appointed | Resigned |
|---|---|---|
| P J Blackmore | | 25 February 2009 |
| A S Watson | | 3 November 2009 |
| A K Ferguson | 1 June 2009 | |
| R A Lang | 17 December 2009 | |
| A M Tomlinson | | |

S M Coombes was appointed a director of the Company on 2 February 2010 P C Keenan was appointed a director of the Company on 9 February 2010 A M Tomlinson resigned as a director of the Company on 29 January 2010

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

## Supplier Payment Policy

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

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

## Disclosure of Information to the 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

KPMG Audit plc are deemed to be reappointed in accordance with Section 487(2) of the Companies Act 2006

# 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 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 judgments 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

K E Hudson
*Secretary*

Date 18 February 2010

Registered Office
8 Canada Square
London
E14 5HQ

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

[redacted]

We have audited the financial statements of HSBC General Insurance Services (UK) Ltd for the year ended 31 December 2009 set out on pages 6 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit 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 (APB's) Ethical Standards for Auditors

**Scope of the audit and the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

**Opinion on financial statements**

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 2009 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 information and explanations we require for our audit

NB Priestley

**N B Priestley (Senior Statutory Auditor)**
**For and on behalf of KPMG Audit plc, Statutory Auditor**

Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

22 February 2010

# Statement of Total Comprehensive Income for the Year Ended 31 December 2009

| | Note | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Interest receivable** | | | |
| Other interest receivable and similar income | | **476** | 3,381 |
| **Net interest income** | 7 | **476** | 3,381 |
| **Fees and commissions receivable** | 8 | **134,768** | 160,928 |
| **Net income** | | **135,244** | 164,309 |
| Other operating expenses | 9 | **(41,191)** | (40,555) |
| **Operating profit** | | **94,053** | 123,754 |
| **Profit before income taxes** | | **94,053** | 123,754 |
| Income taxes | 10 | **(26,136)** | (35,464) |
| **Profit for the year being the total comprehensive income for the year** | | **67,917** | 88 290 |

*The accounting policies and notes on pages 10 to 20 form an integral part of these financial statements*

## Statement of Financial Position at 31 December 2009

| | | 2009 | 2008 |
|---|---|---|---|
| **Assets** | *Note* | **£000** | £000 |
| Property, plant and equipment | *12* | **-** | 18 |
| Trade and other receivables | *13* | **35** | 1,268 |
| Deferred tax assets | *16* | **26** | 181 |
| **Non Current Assets** | | **61** | 1,467 |
| Trade and other receivables | *13* | **52,480** | 89,394 |
| Cash and cash equivalents | *15* | **93,630** | 62,049 |
| **Current Assets** | | **146,110** | 151,443 |
| **Total Assets** | | **146,171** | 152,910 |
| **Liabilities** | | | |
| Other provisions | *6* | **17,280** | 35,073 |
| **Non Current Liabilities** | | **17,280** | 35,073 |
| Insurance, other payables and deferred income | *14* | **8,709** | 12,145 |
| Current income tax liabilities | | **14,744** | 18,171 |
| **Current Liabilities** | | **23,453** | 30,316 |
| **Total Liabilities** | | **40,733** | 65,389 |
| **Shareholders' equity** | | | |
| Share capital | *17* | **-** | - |
| Retained earnings | *18* | **105,438** | 87,521 |
| **Total shareholders' equity** | | **105,438** | 87,521 |
| **Total Equity and Liabilities** | | **146,171** | 152,910 |

The financial statements were approved by the board of directors on 18 February 2010 and were signed on its behalf by

R A Lang
*Chairman*

Company Registration Number 1798474

*The accounting policies and notes on pages 10 to 20 form an integral part of these financial statements*

# Statement of Changes in Equity
# For the Year Ended 31 December 2009

| | | *Share capital* | *Retained earnings* | *Total* |
|---|---|---|---|---|
| | | **£000** | **£000** | **£000** |
| **Year ended 31 December 2008** | | | | |
| Balance at 1 January 2008 | | - | 99,231 | 99,231 |
| Total comprehensive income for the year | | - | 88,290 | 88,290 |
| Dividends | 11 | - | (100,000) | (100,000) |
| **Balance at 31 December 2008** | | - | 87,521 | 87,521 |
| **Year ended 31 December 2009** | | | | |
| Balance at 1 January 2009 | | - | 87,521 | 87,521 |
| Total comprehensive income for the year | | - | 67,917 | 67,917 |
| Dividends | 11 | - | (50,000) | (50,000) |
| **Balance at 31 December 2009** | | - | 105,438 | 105,438 |

*The accounting policies and notes on pages 10 to 20 form an integral part of these financial statements*

# Statement of Cash Flows – indirect method
## For the Year Ended 31 December 2009

| | Note | 2009<br>£000 | 2008<br>£000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit before tax | | **94,053** | 123,754 |
| **Adjustments for** | | | |
| Depreciation | *9* | **18** | 25 |
| **Changes in operating assets and liabilities** | | | |
| Trade and other receivables | | **38,147** | 2,054 |
| Insurance and other payables | | **(3,436)** | 651 |
| Other provisions | | **(17,793)** | (25,226) |
| **Cash generated from operations** | | **110,989** | 101,258 |
| Tax paid | | **(29,408)** | (39,484) |
| **Net cash from operating activities** | | **81,581** | 61,774 |
| **Cash flows from investing activities** | | | |
| Property, plant and equipment | *12* | **-** | - |
| **Net cash (outflow) from investing activities** | | **-** | - |
| **Cash flows from financing activities** | | | |
| Dividends paid | *11* | **(50,000)** | (100,000) |
| **Net cash outflow from financing activities** | | **(50,000)** | (100,000) |
| **Net increase/(decrease) in cash and cash equivalents** | | **31,581** | (38,226) |
| Cash and cash equivalents at 1 January | | **62,049** | 100,275 |
| **Cash and cash equivalents at 31 December** | *15* | **93,630** | 62,049 |

*The accounting policies and notes on pages 10 to 20 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 18 February 2010

## 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)

**(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 a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3

The Company has adopted IAS 1 Presentation of Financial Statements – Amendment The adoption of this standard did not have any effect on the financial position of the Company but has resulted in changes to the terminology for the main financial statements

The accounting policies set out below have been applied consistently to all years presented in these financial statements

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

**(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 receivable on contracts extending greater than a year, is recognised at the point of sale A refund provision is held for these policies where it is possible for the customer to cancel early and receive a refund

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

## Notes to the financial statements (continued)

**(d)** *Employee benefits*

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

**(e)** *Income taxes*

Income tax on the profit for the year comprises current and deferred tax Income tax is recognised in the statement of total comprehensive income 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 statement of financial position date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided in full, using the statement of financial position 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 statement of financial position 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 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 statement of total comprehensive income

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 and equipment*

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

Depreciation is charged to the statement of total comprehensive income 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

- 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 payment. 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 statement of total comprehensive income 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 in the Company's financial statements in the year in which the dividends are paid

### 3 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

**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 insurer's most recent management information, adjusted by the Company's 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 9m (2008 £5 6m)

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 Company's 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 £2 4m (2008 £3 3m)

**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 6 or 9 years for personal lending protection or business lending protection policies respectively

The provision is determined based on management expectations of future refunds The area where judgement is exercised is in the estimation of future refund to the extent that these may vary from historical trends

Were the refunds average amount for the year to differ by 10% from the management's estimate, the provision would increase or decrease by £0 9m (2008 £3 5m)

# Notes to the financial statements (continued)

## 4 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 information is undertaken, augmented with knowledge of recent events and the Company's own experience

The amount provided is based on management expectations of future refunds based on previous experience and taking into account potential increases in refund levels that may arise from the media and regulatory focus on PPI products

**(b) Change in assumptions**

The bases of the calculations for refunds were changed following withdrawal from sale Other calculations have not changed

| | 2009 | 2008 |
|---|---|---|
| **Movements in profit share accrual** | **£000** | £000 |
| At beginning of year | **64,542** | 71,432 |
| Additional receipts to Income Statement | **20,113** | 25,773 |
| Additional accrual | **47,071** | 62,259 |
| **Settlements** | **(88,284)** | (94,922) |
| **At end of year** | **43,442** | 64,542 |

## 5 Management of financial risk

*Credit risk*

The Company has exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due This is managed by periodically reviewing the counterparties financial strength and credit rating The main area where the Company has a net exposure to credit risk is the default risk of HSBC Bank plc in respect of the Company's deposit holdings

*Liquidity risk*

The Company has to meet daily calls on its cash resources, notably payment of commissions and management expenses There is therefore a risk that cash will not be available to settle liabilities when due

The Company holds a sufficient level of cash balances at all times, such that normal operational cash flows can be met Surplus cash is held on deposit for varying lengths of time dependant on cash flow forecasts This takes into consideration known cash out flows such as expenses, taxes and dividends Contingency arrangements are also available to the Company to ensure that short-term liquidity can be maintained in any extreme or unforeseen circumstances

*Market risk*

The Company has exposure to the economic environment with respect to claims impacting profit share income Whilst this is reviewed, modelled and plans adjusted accordingly, there is little the Company can do to control this risk

## 6 Provisions for liabilities and charges

| | **Refund Provision** |
|---|---|
| | **£000** |
| As at 1 January 2009 | 35,073 |
| Charged to Income Statement | - |
| Amount utilised | (9,204) |
| Released to income statement | (8 589) |
| As at 31 December 2009 | 17,280 |

Refund Provision see note 3

# Notes to the Financial Statements (continued)

## 7 Interest Income

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Cash and short term funds | **476** | 3,381 |
| | **476** | 3 381 |

## 8 Fees and Commission income

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| **Commission income** | | |
| Agency commission | **72,582** | 73,068 |
| Profit share | **62,186** | 87,860 |
| | **134,768** | 160,928 |

## 9 Other operating expenses

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Group recharges – staff costs | **2,381** | 11,128 |
| Premises and equipment | **82** | 173 |
| Bad debts | **6** | 100 |
| Administrative expenses | **8,168** | 8,378 |
| Auditors remuneration – audit services | **44** | 44 |
| - other accounting advice | **-** | 19 |
| - other services pursuant to legislation | **5** | 5 |
| Depreciation | **18** | 25 |
| Commission payable to group companies | **30,487** | 20,057 |
| Loss on derecognition of financial assets/liabilities | **-** | 626 |
| **Total other operating expenses** | **41,191** | 40,555 |

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

# Notes to the financial statements (continued)

## 10 Income tax expense

*(a) Recognised in the statement of total comprehensive income*

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| **Current tax expense** | | |
| Current tax expense | **26,117** | 35,687 |
| Adjustment for prior years | **(136)** | (78) |
| *Current year* | **25,981** | 35,609 |
| **Deferred tax expense** | | |
| Origination and reversal of temporary timing differences | **236** | (145) |
| Adjustment for prior years | **(81)** | - |
| *Total deferred tax* | **155** | (145) |
| **Total income tax expense in statement of total comprehensive income** | **26,136** | 35,464 |

*(b) Reconciliation of effective tax rate*

*The tax assessed for the year is different to the standard rate of corporation tax in the UK (28%) The differences are explained below*

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Profit before tax | **94,053** | 123,754 |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28 5%) | **26,335** | 35,270 |
| Effects of | | |
| - Expenses not deductible for tax purposes | **18** | 272 |
| - Adjustment for prior years | **(217)** | (78) |
| | **26,136** | 35,464 |

## 11 Dividends

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| First interim paid of £500,000 per share (2008 £500,000) | **50,000** | 50,000 |
| Second interim paid of nil pound per share (2008 £500,000) | **-** | 50,000 |
| | **50,000** | 100,000 |

# Notes to the Financial Statements (continued)

## 12 Property, plant and equipment

| | Equipment | Premises Improvements | Fixtures and Fittings | Total |
|---|---|---|---|---|
| **COST** | £'000 | £'000 | £'000 | **£'000** |
| At 1 January 2009 | 1,806 | 323 | 1,250 | **3,379** |
| Disposals | (1,806 ) | (323 ) | (1,250 ) | **(3,379 )** |
| At 31 December 2009 | - | - | - | - |
| **DEPRECIATION** | | | | |
| At 1 January 2009 | 1,806 | 310 | 1,245 | **3,361** |
| Charge for year | - | 13 | 5 | **18** |
| Disposals | (1,806 ) | (323 ) | (1,250 ) | **(3,379 )** |
| At 31 December 2009 | - | - | - | - |
| **NET BOOK VALUE** | | | | |
| At 31 December 2009 | - | - | - | - |
| At 31 December 2008 | - | 13 | 5 | 18 |

## 13 Trade and other receivables

| | | 2009 £000 | 2008 £000 |
|---|---|---|---|
| **Analysis of other assets** | | | |
| **Non Current Assets** | | | |
| Profit share due from insurers | - Greater than 1 year | **15** | 1,042 |
| Profit share due from group undertakings | - Greater than 1 year | **20** | 226 |
| **Total Non Current Assets** | | **35** | 1,268 |
| **Current Assets** | | | |
| Profit share due from group undertakings | - Current Year | **1,259** | 3,116 |
| Profit share due from insurers | - Current Year | **42,149** | 60,158 |
| Commission due from insurers | | **8,187** | 17,553 |
| Commission due from group undertakings | | **202** | 440 |
| Premium due from insurers | | **550** | 2,034 |
| Premium due from group undertakings | | **24** | 60 |
| Other debtors | | **109** | 6,033 |
| **Total Current Assets** | | **52,480** | 89,394 |
| | | **52,515** | 90,662 |

## 14 Insurance, other payables and deferred income

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Due to group undertakings | **4,098** | 2,185 |
| Amounts due to insurers | **3,200** | 3,785 |
| Deferred Income | **498** | 1,196 |
| Accrual expenses | **913** | 4,979 |
| | **8,709** | 12,145 |

# Notes to the financial statements (continued)

## 15 Cash and cash equivalents

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Bank and cash balances | **705** | 789 |
| Group treasury deposits | **80,000** | - |
| Call deposits | **12,914** | 61,127 |
| Accrued interest | **11** | 133 |
| **Cash and cash equivalents** | **93,630** | 62,049 |

| | Maturity within 1 month | Maturity between 1 and 3 months |
|---|---|---|
| | £000 | £000 |
| Bank and cash balances | **705** | - |
| Group Treasury Deposits | **80,000** | - |
| Call deposits | **12,914** | - |
| Accrued interest | **11** | - |
| | **93,630** | - |

The interest rate range for the financial year was from 0 25% to 1 5%

## 16 Deferred tax asset

Deferred tax assets are attributable to the following

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Accelerated capital allowances | **26** | 32 |
| Provisions | **-** | 149 |
| **Deferred tax assets** | **26** | 181 |

## 17 Share capital

| | 2009 | 2008 |
|---|---|---|
| | **£** | £ |
| 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

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Retained earnings | **105,438** | 87,521 |

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company except for £8,046,000 (2008 £5,846,000), which is not distributable and must be kept in compliance with the FSA solvency capital regulations that the Company is subject to All such regulations were complied with during the period

The Company's capital policy is to retain sufficient capital to meet future anticipated regulatory and business requirements Surplus capital is distributed to the Company's parent through dividend payments

### 19 Directors' remuneration

The emoluments of the five directors in respect of their services to the Company are shown below

| | 2009 £000 | 2008 £000 |
|---|---|---|
| Emoluments | **209** | 351 |
| Pension scheme contributions | **13** | 15 |
| | **222** | 366 |
| Highest paid director | | |
| Emoluments | **126** | 276 |
| Pension scheme contributions | **4** | 15 |
| | **130** | 291 |

One director (2008 1 director) exercised share options in HSBC Holding plc ordinary shares of US$0 50 each 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 one director under defined benefit schemes and to two directors under money purchase schemes at 31 December 2009 (2008 one 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

# Notes to the financial statements (continued)

Transactions with related parties are summarised as follows

**a) Income**

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Interest receivable | | |
| - Parent | **420** | 3,381 |
| Fees and commission receivable | | |
| - other group companies | **1,528** | 5,765 |
| | **1,948** | 9,146 |

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**

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Recharges of staff costs | | |
| - Parent | **2,381** | 11,128* |
| Administration expenses | | |
| - Parent | **37,848** | 25,528 |
| - other group companies | **63** | 579 |
| | **40,292** | 37,235 |

* The comparative was included in Note 9 in the prior year Accounts

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

| | 2009 | 2008 |
|---|---|---|
| | **£000** | £000 |
| Salaries and other short-term employee benefits | **209** | 351 |
| Post-employment benefits | **13** | 15 |
| | **222** | 366 |

# Notes to the Financial Statements (continued)

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

| | 2009 | 2008 |
|---|---|---|
| | £000 | £000 |
| **Assets** | | |
| Loans and advances to banks | | |
| - Parent | **93,630** | 62,049 |
| Prepayments and accrued income | | |
| - other group companies | **1,505** | 3,842 |
| | **95,135** | 65,891 |
| **Liabilities** | | |
| Other payable | | |
| - Parent | **4,098** | 2,101 |
| - other group companies | **-** | 84 |
| | **4,098** | 2,185 |