HSBC GENERAL INSURANCE SERVICES (UK) LIMITED

Financial Statements
31 December 2010

Registered No 1798474

Financial Statements
31 December 2010

Contents

Director's report for the year ended 31 December 2010

Principal activities

The Company's principal activity is to carry on the business of a general insurance intermediary, providing household, travel, motor, and protection products to the customers of its parent, HSBC Bank plc No change in the Company's activities is anticipated

Business review

The principal activities of the Company are set out above The Company's revenue for the year is £6 4m (5%) below 2009 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 This was partially offset by increased profit share as claims on PPI were lower than expected

Operating expenses have decreased from 2009 by £2 8m (7%) reflecting lower management expenses following the closure of the motor administration centre and a lower commission payment to HSBC Bank plc in respect of sales of the Company's products

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

During 2011 the proposition will be reviewed based on customer insight, working with the Bank's Customer Propositions Team and our Insurance Partners It is anticipated that developments required will extend in to 2012 Whilst this is in progress, the current propositions will be maintained

Staff details

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

Stakeholders

The Company has no stakeholders other than its parent company

Risk management

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 insourced 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

Performance

Management consider the key performance indicators (KPIs) to be

KPI	2010	2009
Fees and commission receivable	£128 4 m	£134 8 m
Operating expenses	£38 4 m	£41 2 m
New Business Volumes		
• Home Insurance	46,904	76,560
• Motor Insurance	37,719	90,093
• Cardguard	25,330	52,345

Director's report for the year ended (continued) 31 December 2010

Dividends

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

An interim dividend of £98,000,000 was paid on 28 September 2010 in respect of the year ended 31 December 2010 (2009 first interim £50,000,000) The Directors do not propose a second interim dividend in respect of the year ended 31 December 2010 (2009 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 served during the year were as follows

Name	Appointed	Resigned
S M Coombes	2 February 2010	
P C Keenan	9 February 2010	
J W R Davies	17 March 2010	
I S J Martin	22 July 2010	
A R Mielcarek	19 March 2010	30 November 2010
A M Tomlinson		29 January 2010
A K A Ferguson		
R A Lang		

R A Lang resigned as a director of the company on 1 January 2011

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

Supplier payment policy

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

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

Capital management

The Company defines capital as total shareholders' equity

It is the Company's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times

Director's report for the year ended (continued) 31 December 2010

Disclosure of information to auditors

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

Auditors

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

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

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 5, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the Auditor in relation to the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('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 affairs of the company and of the profit or loss of the company for that period In preparing these 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

K E Hudson
Secretary

Date 1 March 2011

Registered Office
8 Canada Square
London
E14 5HQ

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

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

We have audited the financial statements of HSBC General Insurance Services (UK) Limited for the year ended 31 December 2010 set out on pages 6 to 19 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

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

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the financial statements

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

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 2010 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

NB Prestley

N B Priestley (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL

Date 4 March 2011

Financial Statements

Income statement for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Revenue			
Commission income	4	128,386	134,768
		128,386	134,768
Other operating expenses	5	(38,384)	(41,191)
Finance income			
Interest income	3	431	476
Operating profit		90,433	94,053
Profit before tax		90,433	94,053
Tax expense	7	(25,309)	(26,136)
Profit for the year		65,124	67,917

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Statement of comprehensive income for the year ended 31 December 2010

There has been no comprehensive income or expense other than the profit for the year as shown above (2009 Nil)

Financial Statements (continued)

Statement of financial position as at 31 December 2010

	Notes	2010 £'000	2009 £'000
ASSETS			
Non-current assets			
Trade and other receivables	*10*	177	35
Deferred tax assets	*8*	19	26
		196	61
Current assets			
Cash and cash equivalents held with other group undertakings		52,658	93,630
Trade and other receivables	*10*	43,925	52,480
		96,583	146,110
Total assets		96,779	146,171
LIABILITIES AND EQUITY			
Current liabilities			
Other financial liabilities	*11*	5,497	7,468
Accruals and deferred income		2,272	1,241
Current tax liabilities		12,456	14,744
		20,225	23,453
Non-current liabilities			
Provisions for liabilities and charges	*12*	3,992	17,280
		3,992	17,280
Total liabilities		24,217	40,733
Equity			
Called up share capital	*13*	-	-
Retained earnings	*14*	72,562	105,438
Total shareholders' equity		72,562	105,438
Total equity and liabilities		96,779	146,171

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on \ March 2011 and were signed on its behalf by

S M Coombes
Director

Company Registered Number 1798474

Financial Statements (continued)

Statement of cash flows for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit before tax		**90,433**	94,053
Adjustments for			
– Depreciation		**-**	18
– Interest income		**(431)**	(476)
– Change in operating assets		**8,421**	38,025
– Change in operating liabilities		**(940)**	(3,436)
– Provisions raised/(released)		**(13,288)**	(17,793)
– Tax paid		**(27,590)**	(29,408)
Net cash generated from operating activities		**56,605**	80,983
Cash flows from investing activities			
Interest received		**423**	598
Net cash from investing activities		**423**	598
Cash flows from financing activities			
Dividends paid		**(98,000)**	(50,000)
Net cash from financing activities		**(98,000)**	(50,000)
Net (decrease)/increase in cash and cash equivalents		**(40,972)**	31,581
Cash and cash equivalents brought forward		**93,630**	62,049
Cash and cash equivalents carried forward	9	**52,658**	93 630

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Financial Statements (continued)

Statement of changes in equity for the year ended 31 December 2010

	Called up share capital £'000	Retained earnings £'000	Total shareholders' equity £'000
Year Ended 31 December 2010			
At 1 January 2010	-	105,438	105,438
Profit for the year	-	65,124	65,124
Total comprehensive income for the year	-	65,124	65,124
Dividends to shareholders	-	(98,000)	(98,000)
At 31 December 2010	-	72,562	72,562

	Called up share capital £'000	Retained earnings £'000	Total shareholders' equity £'000
Year Ended 31 December 2009			
At 1 January 2009	-	87,521	87,521
Profit for the year	-	67,917	67,917
Total comprehensive income for the year	-	67,917	67,917
Net impact of equity-settled share-based payments	-	-	-
Dividends to shareholders	-	(50,000)	(50,000)
At 31 December 2009	-	105,438	105,438

The accounting policies and notes on pages 10 to 19 form an integral part of these financial statements

Shareholders' equity is wholly attributable to equity shareholders

Notes on the Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU') EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU At 31 December 2010, there were no unendorsed standards effective for the year ended 31 December 2010 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 2010 are prepared in accordance with IFRSs as issued by the IASB

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

During 2010, the Company adopted a number of standards, interpretations and amendments thereto which had an insignificant effect on the financial statements

(b) Future accounting developments

At 31 December 2010 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 2010 None of the standards or interpretations available for early adoption are expected to have a significant effect on the results or net assets of the Company when adopted

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where stated otherwise

(c) Going concern

As shown in note 14 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 and parent company accounts

(d) General information

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

2 Summary of significant accounting policies

(a) Revenue

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

(b) Income Tax

Income tax comprises current and deferred tax and is recognised in the income statement

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

Notes on the Financial Statements (continued)

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

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

(c) Financial assets and liabilities

(i) 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

(d) Impairment

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

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

(e) Provisions for liabilities and charges

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 participation 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

(f) 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

(g) 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

(h) Use of assumptions and estimates

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year

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 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 10)

Notes on the Financial Statements (continued)

Where the claims value in the year differ by 10% from the management's estimate, the income would increase or decrease by £5 6m (2009 £5 9m)

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 (2009 £2 4m)

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 statement of financial position date The provision will be utilised over the unexpired period of the policy term up to a maximum of 5 or 8 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 average refund amount for the year to differ by 10% from the management's estimate, the provision would increase or decrease by £0 3m (2009 £0 9m)

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 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

	2010	2009
	£'000	£'000
Movements in profit share accrual		
At beginning of year	**43,442**	64,542
Additional receipts to Income Statement	**24,675**	20,113
Additional accrual	**40,959**	47,071
Settlements	**(68,158)**	(88,284)
At end of year	**40,918**	43,442

Notes on the Financial Statements (continued)

3 Finance income

	2010 £'000	2009 £'000
Interest income from parent undertakings	431	420
Other interest income	-	56
Interest income	431	476

4 Fees and commission income

	2010 £'000	2009 £'000
Commission income		
Agency commission	62,832	72,582
Profit share	65,554	62,186
	128,386	134,768

5 Other operating expenses

	2010 £'000	2009 £'000
Group recharges - staff costs	1,062	2,381
Premises and equipment	52	82
Bad debts	(1)	6
Administrative expenses	3,727	8,168
Auditors remuneration - audit services	45	44
- other accounting advice	-	-
- other services pursuant to legislation	5	5
Depreciation	-	18
Commission payable to group companies	33,494	30,487
Total other operating expenses	38,384	41,191

6 Directors' emoluments

	2010 £'000	2009 £'000
Directors' emoluments for services to the Company	270	209
Company contributions to money purchase pension plans	24	13
	294	222
Highest paid director		
Emoluments	102	126
Pension scheme contributions	14	4
	116	130

No directors (2009 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

Notes on the Financial Statements (continued)

Retirement benefits are accruing to the directors under schemes operated by their employing companies No retirement benefits are accruing to directors under defined benefit schemes and to five directors under money purchase schemes at 31 December 2010 (2009 one and two respectively) The Directors are members of retirement benefit schemes operated by HSBC Bank plc Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the directors and staff It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs charged to the Company in future periods

7 Tax expense

	Notes	2010 £'000	2009 £'000
Current tax			
UK Corporation tax			
– on current year profit		**25,303**	26,117
– adjustments in respect of prior years		**(1)**	(136)
Total current tax		**25,302**	25,981
Deferred tax			
Origination and reversal of temporary differences		**19**	236
Effect of changes in tax rates		**1**	-
Adjustment in respect of prior years		**(13)**	(81)
Total deferred tax	*8*	**7**	155
Tax expense		**25,309**	26,136

The UK corporation tax rate applying to the Company was 28 per cent (2009 28 per cent)

The following table reconciles the tax expense

	2010 £'000	**Percentage of overall profit before tax** %	2009 £'000	Percentage of overall profit before tax %
Taxation at UK corporation tax rate of 28% (2009 28%)	**25,321**	**28 0**	26,335	28 0
Adjustments in respect of prior years	(14)	-	(217)	(0 2)
Amounts not deductible for tax purposes	**1**	-	18	-
Changes in tax rates	**1**	**-**	-	-
Overall tax expense	**25,309**	**28 0**	26 136	27 8

Notes on the Financial Statements (continued)

8 Deferred tax assets/liabilities

	2010 £'000	2009 £'000
At 1 January	**26**	181
Income statement charge	**(7)**	(155)
At 31 December	**19**	26

	2010 £'000	2009 £'000
Deferred tax assets		
Property, plant and equipment	**19**	26
	19	26

9 Cash and cash equivalents

	2010 £'000	2009 £'000
Bank and cash balances	**721**	705
Group treasury deposits	**45,000**	80,000
Call deposits	**6,917**	12,914
Accrued interest	**20**	11
Cash and cash equivalents	**52,658**	93,630

Maturity analysis

	Maturity within 1 month £'000	Maturity between 1 and 3 months £'000
Bank and cash balances	**721**	**-**
Group treasury deposits	**14,000**	**31,000**
Call deposits	**6,917**	**-**
Accrued interest	**20**	**-**
	21,658	**31,000**

The interest rate range for the financial year was from 0 25% to 0 55%

10 Trade and other receivables

	2010 £'000	2009 £'000
Analysis of other assets		
Non Current Assets		
Profit share due from insurers - greater than 1 year	**38**	15
Profit share due from group undertakings - greater than 1 year	**139**	20
Total Non Current Assets	**177**	35

Notes on the Financial Statements (continued)

	2010 £'000	2009 £'000
Current Assets		
Profit share due from group undertakings - current year	1,255	1,259
Profit share due from insurers - current year	39,486	42,149
Commission due from insurers	2,951	8,187
Commission due from group undertakings	142	202
Premium due from insurers	8	550
Premium due from group undertakings	8	24
Other debtors	75	109
Total Current Assets	43,925	52,480
	44,102	52 515

11 Other financial liabilities

	2010 £'000	2009 £'000
Amounts due to parent undertakings	2,218	4,098
Amounts due to other group undertakings	7	-
Amounts due to insurers	3,272	3,370
	5,497	7 468

12 Provisions for liabilities and charges

Provision for contingent liability in respect of indemnity commission

	2010 £'000	2009 £'000
At 1 January	17,280	35,073
Income statement charge	(10,810)	(9,204)
Utilised during the year	(2,478)	(8,589)
At 31 December	3,992	17 280

Refund provision see note 2(h)

13 Share capital

	2010 £	2009 £
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100
	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 the repayment of capital

The concept of authorised share capital was abolished under UK Companies Act 2006 with effect from 1 October 2009 and consequential amendments to HSBC General Insurance Services (UK) Limited Articles of Association were approved by shareholder resolution on 2 December 2010

On 1 January 2010 the authorised ordinary share capital of HSBC General Insurance services (UK) limited was £100 divided into 100 ordinary shares of £1 00 each

Notes on the Financial Statements (continued)

14 Other reserves

	2010 £'000	2009 £'000
Retained earnings	72,562	105,438

The retained earnings balance represents the amount available for dividend distribution to the equity shareholders of the Company except for £6,738,000 (2009 £8,046,000), 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

15 Dividends

	2010 £'000	2010 Total per share	2009 £'000	2009 Total per share
First interim	98,000	980,000	50,000	500,000
Second interim	-	-	-	-
	98,000	980,000	50,000	500 000

16 Risk Management

The Company has exposure to the following types of risk arising from its use of financial instruments credit risk, liquidity risk and market risk

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business The Company's risk management policies are consistent with the HSBC Group's risk management policies

As part of that process, the Business' management will review the monthly management accounts of the Business

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

Credit risk management

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 ratings 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 holding

Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due 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 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 unforseen circumstances

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will affect the Company's income The Company has exposure to the economic environment with respect to claims impacting profit share income Whilst this is reviewed, modelled and plans adjusted, there is little the Company can do to control this risk

17 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

a) Income

	2010 £'000	2009 £'000
Interest receivable		
- Parent	431	420
Fees and commission receivable		
- other group companies	2,887	1,528
	3,318	1,948

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

	2010 £'000	2009 £'000
Recharges of staff costs		
- Parent	1,062	2,381
Administration expenses		
- Parent	36,016	37,848
- other group companies	-	63
	37,078	40 292

Expenditure from related party transactions arises from

- Administration expenses payable to the Company's parent and associates 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 rate used to determine the administration expense 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

	2010 £'000	2009 £'000
Salaries and other short-term employee benefits	270	209
Post-employment benefits	24	13
	294	222

d) Year-end balances with related parties

	2010 £'000	2009 £'000
Assets		
Cash and cash equivalents		
- Parent	52,658	93,630
Prepayments and accrued income		
- other group companies	1,544	1,505
	54,202	95 135
Liabilities		
Other payable		
- Parent	2,218	4,098
- other group companies	7	-
	2,225	4,098

The ultimate parent undertaking (which is the ultimate controlling party) and the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member is HSBC Holdings plc

The result of the Company is included in the group financial statements of HSBC Holdings plc

Copies of the group financial statements of HSBC Holdings plc may be obtained from the following address

HSBC Holdings plc
8 Canada Square
London
E14 5HQ
www hsbc com

18 Contingent liabilities

There were no contingent liabilities at 31 December 2010 (2009 nil)

19 Subsequent events

There are no subsequent events requiring disclosure in the financial statements