3581552

HSBC INSURANCE (UK) LIMITED

Financial Statements

31 December 2007

HSBC Insurance

HSBC Insurance (UK) Limited

Directors' Report and Financial Statements

Contents

Company Registered No. 3581552

HSBC Insurance (UK) Limited

Report of the Directors for the year ended 31 December 2007

The Directors present their report and the audited financial statements for the year ended 31 December 2007

Business Review

The Company reported a pre tax loss for the year of £7 1m compared with a profit of £5 6m in 2006 Results for the period were significantly impacted by flood claims and by competitive pressure in the motor market, which limited the scope for rate increases

Motor Division

Gross earned premium for the year of £170 8m compared to £162 6m in 2006 Underwriting strategy during the period focused on retaining good quality business, but opportunities for improving business margins were constrained by difficult trading conditions, which prevailed for most of 2007, and by losses on flood claims The profit before tax for the year was £0 3m compared with £5 5m in 2006

There was evidence of a firmer market towards the end of the trading period and a material improvement in margins is anticipated during 2008

Household Division

Gross earned premium for the year declined by £1 8m to £14 6m Performance for 2007 was severely affected by flood losses and by a number of significant claims which arose during the period As a result, the division reported a loss before tax for the year of £9 5m, which compares with a loss of £1 4m in 2006

School Fees

Gross earned premiums for the year was £7 1m compared with £7 5m in 2006 The division performed ahead of expectations, reporting a profit before tax of £2 1m compared with £1 5m in 2006

Key Performance Indicators.

The main performance indicators are relevant to all divisions KPIs are monitored and reviewed on a regular basis and can be summarised as follows

- Average premium per risk in relation to the type of risk underwritten
- Number of risks underwritten relative to the expected risk profile
- Claims frequency analysed by claim type
- Average cost of claims analysed by claim type
- Broker performance

HSBC Insurance (UK) Limited

Report of the Directors for the year ended 31 December 2007 (continued)

Risk Management

The Company has a formal risk management process which is an integral part of its governance structure and consistent with procedures used elsewhere within the HSBC Group A summary of the risk management process is included at Note 4

Future Prospects

The Company continues to develop opportunities within the HSBC Group and externally through its broker base

Post Balance Sheet Event

The Company will cease to underwrite household business during 2008 The Company estimates that this restructuring will incur costs of £2m

Results and Dividends

The Company's results for the year under review are as detailed in the income statement shown in these accounts The Directors do not recommend the payment of a dividend in respect of the year ending 31 December 2007 (2006 nil)

Directors

The Directors who served during the year were as follows

	Appointed	Resigned
S G Troop (Chairman)		21-Jun-07
N R Boardman		
M S Capewell (Chief Executive)		
A M M Dixon		31-May-07
P P C Gregory	14-Jun-07	
R J Masters		
C Schnor	03-Jul-07	
R W Peek		
A S Watson	10-Sep-07	
S J Young	13-Feb-07	14-Aug-07

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 1985 Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors

HSBC Insurance (UK) Limited

Report of the Directors for the year ended 31 December 2007 (continued)

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 auditors are unaware, and the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985

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 are available from The Department of Trade and Industry, No 1 Victoria Street, London, SW1H 0ET

The amount due to the Company's trade creditors at 31 December 2007 represented 30 days' average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 1985, as amended by Statutory Instrument 1997/571

HSBC Insurance (UK) Limited

Statement of Directors' responsibilities in respect of the Directors' Report and 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 IFRS as adopted by the EU and applicable laws

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 judgments and estimates that are reasonable and prudent,
• state whether they have been prepared in accordance with IFRS 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 The Directors 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

By Order of the Board

R J Masters
Director
Registered Office
8 Canada Square
London E14 5HQ

27 March 2008

Independent auditors' report to the members of HSBC Insurance (UK) Limited

We have audited the financial statements of HSBC Insurance (UK) Limited for the year ended 31 December 2007 which comprises the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in 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

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5

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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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

HSBC Insurance (UK) Limited

Independent auditors' report to the members of HSBC Insurance (UK) Limited

Opinion

In our opinion

• the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,

• the financial statements have been properly prepared in accordance with the Companies Act 1985, and

• the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

28 March 2008

HSBC Insurance (UK) Limited

Income statement for the year ended 31 December 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Gross written premiums		212,799		180,945	
Reinsurance premiums		(15,385)		(66,165)	
Net written premiums			197,414		114,780
Gross change in unearned premium provision		(20,303)		5,563	
Reinsurers' share		(25,584)		(2,838)	
Net change in unearned premium provision			(45,887)		2,725
Net earned premium			151,527		117,505
Investment income	5		12,243		9,741
Other operating income	6		275		842
Net revenue from operations			164,045		128,088
Gross claims paid		(148,185)		(124,958)	
Reinsurers' share		42,105		48,288	
		(106,080)		(76,670)	
Gross change in claims provisions		(15,927)		(8,926)	
Reinsurers' share		(15,943)		(8,397)	
		(31,870)		(17,323)	
Net claims incurred	16		(137,950)		(93,993)
Net expenses incurred in insurance activities	7		(27,335)		(27,179)
Other operating expenses	7		(5,840)		(1,218)
Profit from operations			(7,080)		5,698
Impairment of goodwill	8		-		(80)
Profit before taxation			(7,080)		5,618
Income tax credit /(expense)	9		2,133		(1,918)
Profit attributable to the equity shareholders of the Company			(4,947)		3,700

The notes on pages 12 to 34 form part of these financial statements

HSBC Insurance (UK) Limited

Balance Sheet for the year ended 31 December 2007

	Notes	2007		2006	
		£000	£000	£000	£000
Assets					
Intangible assets	8		488		488
Reinsurance contracts	10		101,101		142,628
Trade and other receivables	11		28,039		27,364
Prepayments and accrued income	12		25,137		24,789
Financial instruments	14		264,278		210,748
Cash and cash equivalents	15		27,082		22,292
			446,125		428,309
Liabilities					
Deferred tax	13		-		-
Insurance contracts	16		369,205		332,975
Trade and other payables	17		7,564		20,109
Current income tax			2,495		1,212
Accruals and deferred income	18		8,226		13,051
			387,490		367,347
Capital and Reserves					
Issued share capital	19	32,500		32,500	
Share premium account	19	6,900		6,900	
Profit and loss account		19,235		21,562	
			58,635		60,962
			446,125		428,309

The notes on pages 12 to 34 form part of these financial statements

Approved and authorised for issue by the Board of Directors on 27 March 2008

R J Masters, Director

HSBC Insurance (UK) Limited

Cash flow Statement for the year ended 31 December 2007

	Notes	2007 £000	2007 £000	2006 £000	2006 £000
Cash flows from operating activities					
(Loss)/Profit for the year,adjusted by			(4,947)		3,700
Tax charge		(2,133)		1,918	
Impairment of goodwill		-		80	
Investment income		(12,243)		(9,741)	
			(14,376)		(7,743)
Changes in operating assets & liabilities					
Increase in technical provision		77,756		14,597	
Increase in debtors and prepayments		112		543	
Decrease in creditors and accruals		(13,464)		(4,086)	
			64,404		11,054
Income tax paid			(311)		(1,815)
			44,770		5,196
Cash flows from investing activities					
Net investment income received		10,999		8,656	
Net increase in financial instruments		(50,979)		(13,830)	
			(39,980)		(5,174)
Cash flow from financing activites					
Dividends paid		-		-	
			-		-
Net increase in cash and cash equivalents			4,790		22
Cash and cash equivalents at 1 January			22,292		22,270
Cash and cash equivalents at 31 December			27,082		22,292

The notes on pages 12 to 34 form part of these financial statements

HSBC Insurance (UK) Limited

Statement of changes in equity for the year ended 31 December 2007

	Notes	Issued share capital £000	Share premium account £000	Retained earnings £000	Total equity attributable to shareholders £000
As at 1 January		32,500	6,900	19,237	58,637
Profit for the year 2006		-	-	3,700	3,700
Items taken directly to equity		-	-	-	-
Unrealised loss on financial instruments held as available for sale		-	-	(1,963)	(1,963)
Corporation tax on unrealised loss		-	-	588	588
As at 31 December 2006		32,500	6,900	21,562	60,962
Profit for the year 2007		-	-	(4,947)	(4,947)
Items taken directly to equity		-	-	-	-
Unrealised profit on financial instruments held as available for sale		-	-	3,743	3,743
Corporation tax on unrealised profit		-	-	(1,123)	(1,123)
As at 31 December 2007		32,500	6,900	19,235	58,635

The notes on pages 12 to 34 form part of these financial statements

HSBC Insurance (UK) Limited

Notes to the accounts

1. General information

HSBC Insurance (UK) Limited (the Company) is a limited liability company incorporated and domiciled in England and Wales The address of its registered office is 8 Canada Square, London E14 5HQ Its immediate parent company is HSBC Insurance Brokers Holdings Limited and its ultimate parent company is HSBC Holdings plc

The Company's principal activity is underwriting general insurance risks, including motor, household and school fees protection Its business is conducted principally in the UK

2. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below These policies have been applied consistently to all years presented, unless otherwise stated

2.1 Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) Conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are discussed in the Notes to the financial statements Balance sheet assets and liabilities are analysed between those that are considered current and those that are considered non-current in the Notes to the financial statements

All amounts are shown in thousands of Pounds Sterling, rounded to the nearest thousand, unless otherwise stated The Company transacts in Pounds Sterling and does not hold assets or liabilities in any currency other than Pounds Sterling

2.2 Revenue recognition

Revenue comprises gross earned premium, investment income and other operating income

2.3 Premiums

Written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period Premiums are disclosed gross of commission payable to intermediaries and exclude taxes and levies based on premiums

Premiums written include adjustments to premiums written in prior accounting periods and estimates for 'pipeline' premiums An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums or commissions Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance to which they relate

The provision for unearned premiums is calculated on a 365 $^{\text{ths}}$ basis for Motor and a 13$^{\text{ths}}$ basis for Household For School Fees protection, all premiums are fully earned at the balance sheet date

HSBC Insurance (UK) Limited

Notes to the accounts

2.4 Expenses incurred in insurance activities (acquisition costs)

Acquisition costs comprise all direct and indirect marketing and sales costs arising from the conclusion of insurance contracts Deferred acquisition costs represent the proportion of acquisition costs incurred that corresponds to the proportion of premiums written which are unearned at the balance sheet date

2.5 Claims incurred

Claims incurred include all claims and claims settlement expense payments made in respect of the financial period and the movement in provision for outstanding claims and settlement of expenses, and includes claims incurred but not reported, net of salvage and subrogation recoveries

Claims outstanding comprise provisions for the estimated cost of settling all claims incurred up to but not paid at the balance sheet date, whether reported or not, together with related internal and external claims settlement expenses.

Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share having regard to collectability

2.6 Unexpired risks

Where appropriate, the provision for unexpired risks is the estimated excess of future claims on policies in force at the end of the period and deferred acquisition costs over unearned premiums The provision is calculated separately by classes that are managed together, after taking into account relevant future investment income This test meets the minimum requirements for a liability adequacy test under IFRS 4, Insurance Contracts

2.7 Guarantee fund levies

Provision is made at the balance sheet date for levies declared by the Financial Services Compensation Scheme and the Motor Insurers' Bureau before completion of the financial statements Provision is also made if it is more likely than not that a levy will be raised based on premium income that has already been recognised in the financial statements

2.8 Reporting Segments

The Company is a UK based insurance company whose insureds are principally UK based The Company underwrites three major classes of business namely motor, household and school fee protection These business classes are the basis upon which the Company is managed and operates and as such form the primary segments for reporting purposes The Company operates principally in the UK

HSBC Insurance (UK) Limited

Notes to the accounts

2.9 Investment income

The Company earns interest on cash and cash equivalents as well as gains and income from term deposits and fixed income instruments

2.10 Other operating income

Other operating income derives from overriders and commissions, that are accounted for as earned

2.11 Expenses

Expenses are accounted for on an accruals basis and are allocated between insurance activities and other operating expenses

2.12 Intangible assets and impairment

Intangible assets relate to goodwill acquired through business combinations Goodwill is the excess of the cost of an acquisition over and above the fair value of the Company's share of net identifiable assets acquired Under IAS 38, goodwill arising from business combinations is no longer amortised but is subjected to an (at least) annual impairment review Goodwill is recognised at original cost less accumulated amortisation at the date of transition

2.13 Income tax expense

Income tax on the profit and 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 it is recognised in equity

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

2.14 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts in Policy note 2 19 1, are classified as reinsurance contracts held

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets These assets consist of short-term balances due from reinsurers (classified within trade and other receivables) as well as long-term receivables (classified as reinsurance assets) that are dependant on the expected claims and benefits arising under the related reinsured insurance contracts Amounts recoverable from, or due to, reinsurers are measured consistently with amounts associated with the reinsured insurance contracts and in accordance with the terms and conditions of each reinsurance contract Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due

HSBC Insurance (UK) Limited

Notes to the accounts

Ceded reinsurance contains credit risk, and reinsurance recoverables are reported after impairment provisions The Company monitors the financial condition of reinsurers on an ongoing basis and reviews its reinsurance arrangements periodically The Company's parent has a reinsurance committee that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance against those criteria The committee also monitors erosion of the reinsurance programme and its ongoing adequacy The impairment loss is calculated using the method discussed in Policy note 2 21 Impairment of assets

2.15 Trade and other receivables and prepayments and accrued income

Trade and other receivables and prepayments and accrued income are stated at amortised cost less any impairment losses The balances are expected to be recovered within the 12 months following the balance sheet date

2.16 Deferred tax

Deferred tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements Deferred tax is calculated using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised

2.17 Financial investments

Financial investments are categorised at initial recognition and re-evaluated at every reporting date according to the purpose for which the investments were acquired The Company's financial investments are categorised as being "available for sale" (AFS)

Purchases and sales of investments are recognised on trade date – the date on which the Company commits to purchase or sell the asset Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the Company has also transferred all risks and rewards of ownership

AFS financial investments are subsequently carried at fair value Unrealised gains and losses arising from changes in fair values are recognised in equity When AFS assets are sold or impaired, the accumulated fair value adjustments are recognised in the income statement as net realised gains or losses

The fair value of quoted investments is based on current "bid" prices

The carrying value of all other financial assets and financial liabilities not at fair value is amortised cost The fair values of all other financial assets are not expected to be significantly different from the amortised costs

2.18 Cash and cash equivalents

Cash and cash equivalents include all cash in hand and deposits held at call with banks as well as any bank overdrafts (where there is a right of set-off), if relevant, along with any short-term highly liquid investments that serve as working capital

2.19 Insurance contracts

2 19 1 Recognition and measurement

The Company issues insurance contracts that transfer risk All insurance contracts issued are short-term insurance contracts and cover three main types of risk motor, household and school fees Motor policies are designed to protect both individuals and businesses from losses resulting from accidents, theft and damage claims resulting from motor-related risks Household policies protect individuals from losses resulting from accidents, theft and damage claims relating to household property and contents School Fees protection policies provide cover to schools where fee-paying pupils can reclaim fees for non-attendance due to illness or accident

For all these contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as the unearned premium liability Premiums are shown before deduction of commission and related acquisition costs

Claims and loss adjustment expenses are charged to income as they are incurred based on the estimated liability for compensation owed to the contract holder or to third parties damaged by the contract holder They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not been reported to the Company The Company does not discount its liabilities for unpaid claims Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company, with statistical analyses for the estimation of claims incurred but not reported, and the expected ultimate cost of more complex claims that may be affected by external factors, such as the impact of new or retrospective legislation

2 19 2 Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are carried as an asset and amortised over the life of the contract as the premiums are earned All other costs are recognised as expenses as they are incurred

2 19 3 Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of DAC assets In performing these tests, the current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used Any deficiency is immediately charged to the profit and loss by establishing an unexpired risk provision

2.20 Trade and other payables and accruals and deferred income

Trade and other payables and accruals and deferred income are stated at amortised cost and are expected to be settled within the following 12 months from the balance sheet date

2.21 Impairment of assets

All financial assets include an allowance for impairment where there is objective evidence that the recoverability of an asset is in doubt. The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment The recoverable amount is estimated at each balance sheet date and an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount Impairment losses are recognised in the income statement Events that may give rise to a risk of impairment include

a) Significant financial difficulty of the issuer or debtor
b) A breach of contract, such as a default or delinquency in payments
c) It becoming probable that an issuer or debtor will enter bankruptcy or other financial reorganisation
d) The disappearance of an active market for a financial asset because of financial difficulties

Goodwill is tested at least annually for subsequent impairment An impairment loss in respect of goodwill is not reversed

2.22 Share capital

Shares are classified as equity when there is no obligation to transfer cash or assets and results in the equity holder having a residual interest in the Company's net assets Dividends are reflected in the financial statements once the dividend is formerly declared

2.23 Share premium account

Share premium represents the excess of share issue proceeds over the nominal value of the shares issued

2.24 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously

3. Critical accounting estimates and judgements in applying accounting policies

There are two areas where management makes critical accounting estimates and judgements in applying accounting policies These relate to insurance loss reserves and impairment provisions for reinsurance contracts and trade and other receivables and are discussed below

Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is used in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, from a range of possible outcomes, taking account of all the uncertainties involved

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, primarily the chain ladder method Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each underwriting year, based upon the observed development of earlier years and expected loss ratios

The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs Judgement is used to assess the extent to which past trends may not apply in future The adopted approach takes into account, inter alia, the nature and materiality of the business and the type of data available Judgement is also used to assess the extent to which provisions should be made against irrecoverable reinsurance, having regard to rating agencies' views on the financial strengths of the reinsurers and any additional specific information known to management

While Directors consider that the gross provisions for claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided

Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made The methods used, and the estimates made, are reviewed regularly

Impairment of reinsurers' share of insurance liabilities is considered by the Company's management quarterly and provision made on the basis of credit risk associated with the counter-party Impairment of amounts owed by policyholders arising out of direct insurance operations is also considered by the Company's management monthly and provision made on the basis of an aged analysis of balances recoverable The factors taken in to consideration for each counter-party include

a) The current security rating
b) Changes to the security rating over the previous three years
c) Current trading status
d) Settlement performance in relation to recoverable amounts
e) Projected cash flows
f) Collateral held, eg letters of credit

4. Management of insurance and financial risk

The management of insurance and financial risk is a critical aspect for the business For insurance contracts, the objective is to select assets with a duration and maturity value that match the expected cash flows and claims on the insurance portfolios Management is responsible for setting and monitoring the Company's asset and liability position with the objective of ensuring that the Company can always meet its obligations without undue cost and in accordance with the Company's internal and regulatory capital requirements

Insurance risk

The Company issues insurance contracts that effect the transfer of risk from the insured to the Company The principal risks assumed are motor related and may relate to property, liability, accident or other perils that may arise from an insurable event The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under the contracts

The Company manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines, centralised management of reinsurance and by monitoring emerging issues

The Company uses several methods to assess and monitor insurance risk exposures both for individual types of risk insured and overall risks These methods include internal risk measurement models, scenario analyses and stress testing

HSBC Insurance (UK) Limited

Notes to the accounts

The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts The principal risk is that the frequency or severity of claims is greater than expected In addition, for some contracts, there is uncertainty about the timing of insured events Insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques

Concentration risk is the risk that the Company is exposed to additional loss as a result of accumulations of policyholders The Company monitors concentration risk by reference to postcodes that, according to market definition, are in flood areas Reinsurance programs are selected so that concentration risk is reasonably addressed

Motor insurance risks

The Company's loss reserves are significantly weighted towards motor risks, as this is the major component of the Company's underwriting business Gross loss reserves for the Motor business represent 94% of total gross loss reserves carried at the year end The risks associated with the motor business are considered in more detail in the following sections

Underwriting strategy

The underwriting strategy is set out in an annual business plan that establishes the classes of business to be written This strategy is cascaded to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write All insurance contracts are annual in nature and underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal Adherence to underwriting authorities is measured through a series of exception reports An underwriting committee meets on a regular basis to review underwriting activity

Reinsurance strategy

The Company reinsures a portion of the risks it underwrites in order to manage its exposures to losses and optimise the use of capital resources

The reinsurance arrangements for prior years have included a quota share programme for both motor and households business For the 2007 underwriting year the quota share for motor business has been eliminated The quota share for household business has been reduced to 22 5% The Company's reinsurance strategy includes the purchase of excess of loss policies that limit exposure to any one loss For the year ended 31 December 2007, the maximum loss per claim for motor risks was capped at £1m, and the maximum loss for household risks was capped at £750,000 (£581,250 net of quota share) The excess of loss policies protects both the Company and, at the retained level the quota share reinsures where applicable

Frequency and severity of claims

The frequency and severity of claims can be affected by a number of factors, including the type of business written and the level of medical costs associated with accidents involving third parties The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling

HSBC Insurance (UK) Limited

Notes to the accounts

Sources of uncertainty in the estimation of future claims payments

Claims on motor contracts are payable on a claims-occurrence basis The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term As a result, claims are settled over a longer period of time than the year of the insurance contract coverage

The estimated cost of claims includes direct expenses incurred in settling claims, net of the expected subrogation value and other recoveries The Company takes all reasonable steps to ensure it has appropriate information regarding its claims exposures, but given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established The liability for motor contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risk at the balance sheet date

In calculating the estimated cost of unpaid claims (both reported and IBNR), the Company's estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual experience using predetermined formulae where greater weight is given to actual claims experience as time passes

The initial loss ratio is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims information

The estimation of the IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available

Note 16 Insurance contracts presents the development of estimates of net claims costs in a given year This gives an indication of the accuracy of the Company's estimation techniques for claims payments

Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts The most important components of financial risk to the Company are interest rate risk and credit risk The Company does not operate or hold assets and liabilities in currencies other than Pounds Sterling and does not hold financial assets comprising equity instruments or derivatives and is therefore not exposed to currency and equity price risks

The Company's parent has developed a group-wide approach to risk management for its insurance operations This approach seeks to identify risks facing the Company, assesses their potential impact, manages risk through mitigation (where appropriate), and reports any failures in risk management An important issue is interest rate risk

HSBC Insurance (UK) Limited

Notes to the accounts

Credit risk

The Company's principle financial assets are cash and cash equivalents, together with trade receivables
Credit risk refers to the risk of loss if another party fails to perform its obligations or fails to perform them in a timely manner

There are three main areas where there is exposure to credit risk,

- Reinsurer credit risk is where the financial failure of a reinsurer results in financial loss to the operation
  The Company's reinsurance programme is only placed with reinsurers that are approved by the HSBC Group reinsurance committee

- Investment credit Risk is where the failure, or credit rating downgrade, of a bond provider results in a loss or decrease in the value of an investment
  The Company's investment credit mandate is reviewed annually by the ALCO committee and approved by Group Credit Risk Cash and cash equivalents are held by HSBC Group companies or by other counterparties permitted by the investment credit mandate The high quality of the counterparties involved minimises the risk that a counterparty will fail to meet its obligations

- Other Credit Risk may arise where there is financial failure of a distributor (intermediary) results in financial loss to the operation
  All intermediaries must be approved by the FSA Another Group company provides a financial guarantee on a significant number of intermediary accounts

Interest rate risk

Financial assets and liabilities can be identified as those that are exposed to

- Fair value interest rate risk such as financial assets and liabilities with a fixed interest rate
- Cash flow interest rate risk such as financial assets and liabilities with a floating interest rate that is reset as the market rates change

The Company's material exposure to interest rate risk relates to insurance liabilities, net of reinsurance assets, and the supporting financial assets, principally gilts and other fixed income instruments and certificates of deposits The Company's insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing However, due to the time value of money and the impact of interest rates on the level of injury-related claims (where a reduction in interest rates would normally produce a higher insurance liability), the Company matches the cash flows of assets and liabilities by estimating their mean duration

Sensitivity analysis

The Company holds financial assets that are exposed to interest rate risk An increase in 100 basis points in interest yields, with all other variables constant would result a capital loss on financial investments amounting to an estimated £3 0m

The Company does not enter into derivative contracts for speculative or hedging purposes

The table below presents the effective interest rate for the Company's income-earning financial assets, excluding unrealised gains and losses, as at the balance sheet date (there are no financial assets or financial liabilities held at fair value

HSBC Insurance (UK) Limited

Notes to the accounts

	2007 Years	2006 Years
Financial instruments available for sale	5 24%	5 58%
Cash and cash equivalents	4 38%	3 88%

The table below shows the maturity profile (mean duration) of the Company's financial instruments

	2007 Years	2006 Years
Financial investments available for sale	1 3	1 26

The table below shows the period over which the Company's financial investments (including cash and cash equivalents) are due to mature as measured from the respective balance sheet dates:

	2007 £000	2006 £000
Within 6 months	137,409	123,642
After 6 months and within 12 months	-	-
After 12 months and within 18 months	25,415	-
After 18 months and within 24 months	-	-
After 24 months and within 36 months	13,803	26,278
After 36 months and within 48 months	48,937	21,207
After 48 months	52,808	61,911
	278,372	233,038

Capital management policies and objectives

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating shareholder value

The level of capital required by the Company is determined using the Individual Capital Assessment (ICA) process. This process involves undertaking a comprehensive assessment of the risks faced in the business and then quantifying the amount and composition of capital the Company needs to hold to mitigate these risks to an agreed level of confidence of survival

The Company's ICA process uses a stochastic model, where distributions of possible outcomes are specified, giving the relative probability of occurrence of certain events The model is specified centrally to provide consistency between business units and to achieve a minimum standard

The Finance Committee oversees the capital computations and maintains the optimal capital structure by consulting with the Board on capital related issues such as business performance, future business plans, risk issues and dividend payments

HSBC Insurance (UK) Limited

Notes to the accounts

5. Investment income

Investment income derives wholly from interest earned on cash and cash equivalents as well as realised gains and income from financial instruments held as "available for sale"

	2007 £000	2006 £000
Interest	11,958	9,990
Realised (loss)/gain	285	(249)
	12,243	9,741

6. Other operating income

	2007 £000	2006 £000
Commissions and other operating income	275	842

7. Expenses

	2007 £000	2006 £000
Management services (See Note 21 Related parties)	18,339	17,030
Other expenses	18,981	23,405
Reinsurers' share	(4,145)	(12,038)
	33,175	28,397
Presented as		
Net expenses incurred in insurance activites	27,335	27,179
Other operating expenses	5,840	1,218
	33,175	28,397

Included in the above expenses is auditors' remuneration for audit work of £56,000 (2006 £56,000)

Included in the above expenses are costs incurred by a related party and recharged by way of a management services charge to the Company All staff are employed by HSBC Insurance Management Services Limited, a related party Directors are not directly remunerated for their services to the Company

HSBC Insurance (UK) Limited

Notes to the accounts

8. Intangible assets

	2007 £000	2006 £000
Cost at 1 January and 31 December	960	960
Impairment provision at 1 January	(472)	(392)
Change in impairment provision for the year	-	(80)
Impairment provision at 31 December	(472)	(472)
Net book amount at 1 January	488	568
Net book amount at 31 December	488	488

The carrying amount of goodwill has been reduced to its recoverable amount through the recognition of an impairment charge of Nil (2006 £80,000) shown separately on the face on the income statement The impairment reflects the element of goodwill that was generated during a business combination that was identified with income producing relationships that are no longer evident Intangible assets are considered non-current

9. Income tax expense

	2007 £000	2006 £000
Current tax charge	(2,124)	1,903
Adjustment in respect of prior years	(9)	(8)
Deferred tax release	-	23
	(2,133)	1,918

Tax on the Company's profit before tax differs from the theoretical amount that would arise using the ruling tax rate of 30% (2006 30%) as follows

	2007 £000	2006 £000
Profit on ordinary activities before taxation	(7,080)	5,618
Income tax at 30% (2006 30%)	(2,124)	1,685
Effect of expenses not deductible for tax purposes	-	24
S107 reserves adjustment	-	194
Current tax charge	(2,124)	1,903
Adjustment in respect of prior years	(9)	(8)
Deferred tax release	-	23
	(2,133)	1,918

HSBC Insurance (UK) Limited

Notes to the accounts

10. Reinsurance contracts

	2007 £000	2006 £000
Reinsurers' share of insurance liabilities	102,027	144,866
Less impairment provision	(926)	(2,238)
See Note 16 Insurance contracts	101,101	142,628
Current	62,709	84,222
Non-current	38,392	58,406

Amounts due from reinsurers in respect of claims already paid by the Company (where reinsured) are included in trade and other receivables

11. Trade and other receivables

Trade and other receivables include amounts due from policyholders arising out of direct insurance operations as well as amounts due from reinsurers arising out of reinsurance operations and are analysed as follows

	2007 £000	2006 £000
Receivables arising from insurance and reinsurance contracts		
- due from contract holders	24,632	26,773
- less provision for impairment	(35)	-
- due from reinsurers	3,781	1,354
- less provision for impairment	(339)	(763)
Current	28,039	27,364

12. Prepayments and accrued income

	2007 £000	2006 £000
Accrued investment income	2,831	1,587
Deferred acquisition costs	16,161	12,937
Other		
- prepaid excess of loss premiums	6,102	9,421
- levies recoverable from reinsurers	43	844
Current	25,137	24,789

HSBC Insurance (UK) Limited

Notes to the accounts

13. Deferred tax

	2007 £000	2006 £000
Balance as at 1 January	-	(207)
Adjustment in respect of prior year	-	207
Balance as at 31 December - non-current	-	-

14. Financial instruments

All the Company's financial investments are categorised and measured as "available for sale" and are analysed as follows

	£000	£000
Government bonds	115,548	108,503
Other fixed income securities	148,730	102,245
Current	264,278	210,748

Purchases and sales are accounted for at the trade date

15. Cash and cash equivalents

	£000	£000
Deposits with related parties (see Note 22 Related parties) - current	27,082	22,292

HSBC Insurance (UK) Limited

Notes to the accounts

16. Insurance contracts

	£000	£000
Gross		
Claims reported	197,070	169,744
Claims incurred but not reported	49,887	66,538
Loss adjustment expenses	6,236	5,337
Unearned premiums	105,391	85,089
Unexpired risk provision	10,621	6,267
Total insurance liabilities gross	369,205	332,975
Current	229,001	196,624
Non-current	140,204	136,351
Recoverable from reinsurers		
Claims reported	84,171	82,697
Claims incurred but not reported	13,989	28,815
Loss adjustment expenses	1,452	1,932
Unearned premiums	1,527	27,112
Uexpired risk provision	(38)	2,072
	101,101	142,628
Current	62,709	84,222
Non-current	38,392	58,406
Net		
Claims reported	112,899	87,047
Claims incurred but not reported	35,898	37,723
Loss adjustment expenses	4,784	3,405
Unearned premiums	103,864	57,977
Uexpired risk provision	10,659	4,195
Total insurance liabilities net	268,104	190,347

Gross insurance liabilities are stated after expected recoveries from salvage and subrogation

HSBC Insurance (UK) Limited

Notes to the accounts

	2000 £000	2001 £000	2002 £000	2003 £000	2004 £000	2005 £000	2006 £000	2007 £000
Initial net loss reserve	19,363	26,825	30,369	30,079	40,725	50,989	59,348	87,950
Paid as of								
One year later	8,615	9,556	10,389	12,206	14,428	20,891	29,844	
Two years later	2,822	4,393	4,532	5,223	4,149	7,342		
Three years later	2,941	3,725	3,670	3,270	3,049			
Four years later	2,470	2,202	2,621	2,468				
Five years later	828	52	1,471					
Six years later	69	(298)						
Seven years later	(169)							
Net reserves re-estimated as of								
One year later	9,762	16,514	18,529	23,446	22,644	30,369	28,609	
Two years later	9,341	12,490	12,486	15,086	14,157	17,032		
Three years later	5,181	9,779	9,054	9,178	8,019			
Four years later	2,651	5,353	5,902	3,752				
Five years later	2,567	3,100	1,184					
Six years later	1,750	1,639						
Seven years later	437							
Cumulative net surplus/(deficiency) year 1	986	755	1,451	(5,573)	3,653	(271)	895	
Cumulative net surplus/(deficiency) year 2	(2,401)	(369)	1,511	3,137	4,338	5,995		
Cumulative net surplus/(deficiency) year 3	1,219	(1,014)	(238)	2,638	3,089			
Cumulative net surplus/(deficiency) year 4	60	2,224	531	2,958				
Cumulative net surplus/(deficiency) year 5	(744)	2,201	3,247					
Cumulative net surplus/(deficiency) year 6	748	1,759						
Cumulative net surplus/(deficiency) year 7	1,482							
Cumulative net surplus / (deficiency)	1,350	5,556	6,502	3,160	11,080	5,724	895	
Exclude impairment provisions held	196	386	103	0	0	0	0	
Underlying cummulative net surplus / (deficiency)	1,546	5,942	6,605	3,160	11,080	5,724	895	

The Company's net loss reserves include a provision for impairment for potential non-recoverable reinsurance assets The table above reflects the surplus/deficiency both before and after impairment

HSBC Insurance (UK) Limited

Notes to the accounts

Claims and loss adjustment expenses
Year ended 31 December 2007

	Gross £000	Reinsurance £000	Net £000
Notified claims and loss adjustment expenses	175,081	(84,629)	90,452
Incurred but not reported	66,538	(28,815)	37,723
Total at beginning of year	241,619	(113,444)	128,175
Claims paid in the year	(148,185)	42,105	(106,080)
Increase in liabilities			
- arising from current year claims	113,034	(10,737)	102,297
- arising from prior year claims	46,725	(17,536)	29,189
	253,193	(99,612)	153,581
Notified claims and loss adjustment expenses	203,306	(85,623)	117,683
Incurred but not reported	49,887	(13,989)	35,898
Total at end of year	253,193	(99,612)	153,581

Claims and loss adjustment expenses
Year ended 31 December 2006

	Gross £000	Reinsurance £000	Net £000
Notified claims and loss adjustment expenses	151,727	(83,094)	68,633
Incurred but not reported	79,725	(38,350)	41,375
Total at beginning of year	231,452	(121,444)	110,008
Claims paid in the year	(124,958)	48,288	(76,670)
Increase in liabilities			
- arising from current year claims	158,105	(50,635)	107,470
- arising from prior year claims	(22,980)	10,347	(12,633)
	241,619	(113,444)	128,175
Notified claims and loss adjustment expenses	175,081	(84,629)	90,452
Incurred but not reported	66,538	(28,815)	37,723
Total at end of year	241,619	(113,444)	128,175

HSBC Insurance (UK) Limited

Notes to the accounts

Unearned premium provision 2007	Gross £000	Reinsurance £000	Net £000
At beginning of year	85,088	(27,111)	57,977
Change in the period	20,303	25,584	45,887
Total at end of year	105,391	(1,527)	103,864
Deferred acquisition costs 2007			
At beginning of year	12,937	(4,302)	8,635
Change in the period	3,224	3,741	6,965
Total at end of year	16,161	(561)	15,600
Unexpired risk provision 2007			
At beginning of year	6,267	(2,072)	4,195
Change in the period	4,354	2,110	6,464
Total at end of year	10,621	38	10,659

Unearned premium provision 2006	Gross £000	Reinsurance £000	Net £000
At beginning of year	90,652	(29,950)	60,702
Change in the period	(5,564)	2,839	(2,725)
Total at end of year	85,088	(27,111)	57,977
Deferred acquisition costs 2006			
At beginning of year	15,058	(5,269)	9,789
Change in the period	(2,121)	967	(1,154)
Total at end of year	12,937	(4,302)	8,635
Unexpired risk provision 2006			
At beginning of year	7,509	(2,469)	5,040
Change in the period	(1,242)	397	(845)
Total at end of year	6,267	(2,072)	4,195

HSBC Insurance (UK) Limited

Notes to the accounts

17. Trade and other payables

Trade and other payables include amounts due to reinsurers arising out of reinsurance operations as well as third party liabilities and are analysed as follows

	2007 £000	2006 £000
Amounts due to related parties (see Note 22 Related parties)	1,406	2,363
Amounts due to policy holders under direct insurance operations	523	430
Amounts due to reinsurers under reinsurance operations	2,286	13,746
Other creditors	3,349	3,570
Current	7,564	20,109

18. Accruals and deferred income

	2007 £000	2006 £000
Deferred reinsurance commissions	561	4,302
Reinsurers' share of excess of loss premiums	640	3,079
Levies	4,685	4,504
Expenses and commissions	2,340	1,166
Current	8,226	13,051

19. Share capital and share premium

Share Capital	2007 £000	2006 £000
As at 1 January	32,500	32,500
Issued to parent	-	-
As at 31 December	32,500	32,500

All shares are authorised, allotted, issued and fully paid

	2007 £000	2006 £000
Share premium account	6,900	6,900

HSBC Insurance (UK) Limited

Notes to the accounts

20. Segmental reporting

For the year ended 31 December 2007	Motor £000	Household £000	Schools £000	Total £000
Gross premium income revenue	170,814	14,597	7,085	192,496
Insurance premium ceded to reinsurers	(34,874)	(5,718)	(377)	(40,969)
Other income	236	39	-	275
Investment income and gains	12,043	-	200	12,243
Net revenue from operations	148,219	8,918	6,908	164,045
Gross claims from insurance contracts	(141,943)	(20,203)	(1,966)	(164,112)
Claims recovered from reinsurers	19,705	6,457	-	26,162
Other expenses	(25,673)	(4,647)	(2,855)	(33,175)
Total expenses	(147,911)	(18,393)	(4,821)	(171,125)
Profit before tax	308	(9,475)	2,087	(7,080)
Income tax expense				2,133
Profit attributable to equity shareholders of the Company				(4,947)

For the year ended 31 December 2006	Motor £000	Household £000	Schools £000	Total £000
Gross premium income revenue	162,625	16,400	7,483	186,508
Insurance premium ceded to reinsurers	(58,704)	(9,903)	(397)	(69,004)
Other income	757	85	-	842
Investment income and gains	9,449	127	165	9,741
Net revenue from operations	114,127	6,709	7,251	128,087
Gross claims from insurance contracts	(120,610)	(10,332)	(2,940)	(133,882)
Claims recovered from reinsurers	34,176	5,714	-	39,890
Other expenses	(22,161)	(3,497)	(2,819)	(28,477)
Total expenses	(108,595)	(8,115)	(5,759)	(122,469)
Profit before tax	5,532	(1,406)	1,492	5,618
Income tax expense				(1,918)
Profit attributable to equity shareholders of the Company				3,700

HSBC Insurance (UK) Limited

Notes to the accounts

21. Other information

For the year ended 31 December 2007	Motor £000	Household £000	Schools £000	Total £000
Impairment of goodwill	-	-	-	-
Decrease in impairment of reinsurance contracts	(424)	-	-	(424)
Increase in impairment of trade receivables	35	-	-	35
Other information for the year ended For the year ended 31 December 2006				
Impairment of goodwill	80	-	-	80
Decrease in impairment of reinsurance	-	-	-	-
contracts	(2,634)	-	-	(2,634)
Increase in impairment of trade receivables	(66)	-	-	(66)
Segment assets and liabilities as at 31 December 2007				
Intangible	488	-	-	488
Reinsurance contracts	93,259	7,842	-	101,101
Other assets	331,057	6,915	6,564	344,536
Total assets	424,804	14,757	6,564	446,125
Insurance contracts	345,279	22,885	1,040	369,204
Other liabilities	79,525	(8,128)	5,524	76,921
Total liabilities	424,804	14,757	6,564	446,125
Segment assets and liabilities as at 31 December 2006				
Intangible	488	-	-	488
Reinsurance contracts	134,521	8,106	-	142,627
Other assets	269,620	10,613	4,960	285,193
Total assets	404,629	18,719	4,960	428,308
Insurance contracts	316,625	14,888	1,462	332,975
Other liabilities	88,004	3,831	3,498	95,333
Total liabilities	404,629	18,719	4,960	428,308

HSBC Insurance (UK) Limited

Notes to the accounts

Inter-segment transactions are not material Investment income and gains are not allocated to business segments as they are managed centrally for the benefit of the Company as a whole

On a geographic basis, less than 0 5% of gross premium income is derived from outside of the UK Total assets are managed exclusively in the UK

22. Related parties

The Company receives interest and investment income on bank balances and investments held by related parties (fellow subsidiaries of HSBC Holdings plc) and incurs expenses and charges for purchases and services received from related parties (fellow subsidiaries of HSBC Holdings plc) under inward service agreements that are charged at cost plus as follows

	2007 £000	2006 £000
Income		
Net investment return	12,244	9,742
	12,244	9,742
Purchase of goods and services		
Net expenses incurred in insurance activities	2,612	2,440
Purchase of goods and services	18,339	17,030
	20,951	19,470
Year end balances		
Receivable from other related parties - in trade and other receivables	-	1,295
Receivable from other related parties - in prepayments	2,831	1,587
Receivable from other related parties - in cash and cash equivalents	27,082	22,292
Payable to other related parties - in trade and other payables	(1,406)	(2,363)
Payable to other related parties - in accruals	(135)	(79)

All balances at year-end are due to be settled in cash within one month of the balance sheet date except deposits There are no guarantees given or received and no balance is secured No impairment provision was made or released during the year with respect to related party balances and no provision is carried at the balance sheet date