Turquoise Credit Card Backed Securities plc

Report of the Directors and Financial Statements

For the year ended 31 December 2013

Registered number **07408152**

Turquoise Credit Card Backed Securities plc

Strategic Report

Principal activities and business review
Turquoise Credit Card Backed Securities plc ("the Company") was incorporated on 14 October 2010 as Oakmarsh plc. It changed its name to Turquoise Credit Card Backed Securities on 3 March 2011.

The Company is a special purpose vehicle that forms part of the HSBC Bank Plc ("the Bank") credit card securitisation programme. In addition to the Company, the programme consists of the following main entities: Turquoise Funding 1 Limited ("the Loan Note Issuer"), Turquoise Receivables Trustee Limited ("the Receivables Trustee") and Turquoise Receivables Trust ("the Receivables Trust"). The only activity of the Company is to issue debt securities and use the proceeds thereof to acquire floating rate notes issued by the Loan Note Issuer. The Company issues sequential series of floating rate notes, providing investors with exposure to HSBC originated or acquired revolving credit card receivables in the United Kingdom.

On 23 May 2006 and 1 December 2013, HSBC transferred receivables from designated accounts to the Receivables Trust. On 13 October 2011 and 28 June 2012, the Company issued a series of floating rate notes, comprising classes A, B, and C, the proceeds of which were swapped (where required) into British pounds sterling and used to purchase loan notes issued by the Loan Note Issuer. The Loan Note Issuer used the funds to purchase a beneficial interest in the Receivables Trust. In addition, HSBC is a beneficiary of the Receivables Trust, to the extent trust assets exceed the beneficial interest owed to the Loan Note Issuer.

Under the terms of the 13 October 2011 and 28 June 2012 issuances, the notes pay interest monthly on the 15th day of each month at a margin over USD LIBOR (class A) and GBP LIBOR (classes B and C). Both issuances are structured with a revolving period followed by a controlled accumulation period. During the revolving period, principal collections will be available to purchase additional receivables that have arisen under the designated accounts. The controlled accumulation period for Series 2011-1 started on 1 April 2014 and for Series 2012-1 it is estimated to commence in the first quarter of 2017, when cash will begin to be retained by the Company, building up to the principal owed on the GBP and USD bonds as the floating rate notes approach maturity.

The Company will continue current activities throughout 2014.

Results for 2013
The Company's results along with its financial position for the year under review are as detailed in the statement of comprehensive income and the statement of financial position as shown in these accounts. The Company incurred a profit for the year ended 31 December 2013 amounting to £2,151,000 (2012: loss of £3,530,000).

The Directors do not recommend payment of a dividend in respect of the year ended 31 December 2013 (2012: nil).

Risk Management
The financial risk management objectives and policies of the Company together with an analysis of the exposure to such risks as required under the Companies Act are set out in note 12 of these financial statements.

By order of the Board
For Wilmington Trust SP Services (London) Limited

Mark Filer

Dated: 28th May 2014
Director

Registered Office: Third Floor 1 King's Arms Yard, London, EC2R 7AF

Turquoise Credit Card Backed Securities plc

Report of the Directors

Directors
Listed below are the names of the Directors who served on the Board during the year:

Name
Mark Howard Filer
Martin McDermott
Wilmington Trust SP Services (London) Limited

Directors' interests
None of the Directors, or their immediate family, had any interest in the shares in the Company during the year.

Going concern
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.

Disclosure of information to Auditors
The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves 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 418 of the Companies Act 2006.

Auditor
Pursuant to section 487 of the Companies Act 2006, KPMG Audit plc was appointed during the year and has indicated its willingness to continue in office.

By order of the Board
For Wilmington Trust SP Services (London) Limited

Mark Filer

Dated: 28th May 2014
Director

Registered Office: Third Floor 1 King's Arms Yard, London, EC2R 7AF

Turquoise Credit Card Backed Securities plc

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report, and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements and estimates that are reasonable and prudent;
• state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

By order of the Board
For Wilmington Trust SP Services (London) Limited

Mark Filer

Dated: 28th May 2014

Director

Registered Office: Third Floor 1 King's Arms Yard, London, EC2R 7AF

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TURQUOISE CREDIT CARD BACKED SECURITIES PLC

We have audited the financial statements of Turquoise Credit Card Backed Securities plc for the year ended 31 December 2013 set out on pages 5 to 20. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 3, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2013 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 Strategic Report and the Directors' Report for the financial period 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.

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Zaffarali Khakoo (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom
28th May 2014

Turquoise Credit Card Backed Securities plc

Statement of Profit and Loss and Other Comprehensive Income for the year ended 31 December 2013

	Notes	2013 £'000	2012 £'000
Interest income	4	172,547	112,099
Interest expense	5	(172,386)	(111,858)
Net interest income		161	241
Operating expenses	6	(152)	(217)
Loss on revaluation of currency swaps		(14,369)	(34,032)
Net foreign exchange gain on revaluation of Floating Rate Notes		17,216	29,420
Profit/(Loss) before tax		2,856	(4,588)
Income tax (expense)/credit	7	(705)	1,058
Profit/(Loss) after tax		2,151	(3,530)
Total comprehensive income/(loss)		2,151	(3,530)

The notes from pages 9 - 20 form an integral part of these financial statements.

All items dealt in arriving at the result for the year ended 31 December 2013 related to continuing operations.

The Company has no other items of income or expense for the year and so profit for the year represents total comprehensive income.

Turquoise Credit Card Backed Securities plc

Statement of Financial Position at 31 December 2013

	Notes	2013 £'000	2012 £'000
Assets			
Non-Current Assets			
Debtors	8	548,559	920,056
Deferred tax asset	7	317	1,020
Total Non-Current Assets		548,876	921,076
Current Assets			
Debtors	8	371, 497	-
Prepayments and accrued income	9	13,621	14,810
Cash and cash equivalents		32	68
Total Current Assets		385,150	14,878
Total Assets		934,026	935,954
Liabilities & Shareholders' Equity			
Non-Current Liabilities			
Floating rate notes issued	11	520,910	883,649
Derivative financial instruments - currency swaps	12	52,076	37,707
Unamortised Deferred Excess Interest		1,083	2,069
Total Non-Current Liabilities		574,069	923,425
Current Liabilities			
Floating rate notes issued	11	346,570	-
Creditors	10	13,632	14,816
Unamortised Deferred Excess Interest		986	1,095
Total Current Liabilities		361,188	15,911
Total Liabilities		935,257	939,336
Shareholders' Equity			
Called up share capital	14	13	13
Retained earnings		(1,244)	(3,395)
Total Shareholders' Equity		(1,231)	(3,382)
Total Liabilities & Shareholders' Equity		934,026	935,954

The notes from pages 9 – 20 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 28th May 2014 and were signed on its behalf by:

Mark Filer

A duly authorised signatory of
Wilmington Trust SP Services (London) Limited
Director

Registered number 07408152

Turquoise Credit Card Backed Securities plc

Statement of Cash Flows for the year ended 31 December 2013

	2013	2012
	£'000	£'000
CASHFLOWS FROM OPERATING ACTIVITIES		
Profit / (Loss) before tax	2,856	(4,588)
Loss on revaluation of currency swaps	14,369	34,032
Net foreign exchange gain on revaluation of Floating Rate Notes	(17,216)	(29,420)
Operating profit before changes in working capital	9	24
Increase in prepayments and accrued income	1,189	(8,648)
Increase in creditors	(1,186)	8,379
Cash flows from operations	3	(269)
Income tax paid	(6)	-
NET CASH FROM OPERATING ACTIVITIES	6	(245)
CASHFLOWS FROM INVESTING ACTIVITIES		
Acquisition of loans and receivables	-	(548,546)
NET CASH FROM INVESTING ACTIVITIES	-	(548,546)
CASHFLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of Floating Rate Notes	-	548,588
Payment of unamortised deferred excess interest	(42)	-
NET CASH FROM FINANCING ACTIVITIES	(42)	548,588
Net decrease in cash and cash equivalents	(36)	(203)
CASH AND CASH EQUIVALENTS OPENING	68	271
CASH AND CASH EQUIVALENTS AT CLOSING	32	68

The notes from pages 9 – 20 form an integral part of these financial statements.

Turquoise Credit Card Backed Securities plc

Statement of changes in equity for the year ended December 2013

	Share capital £'000	Retained Earnings £'000	Total Shareholders' Equity £'000
Balance at 31 December 2011	13	135	148
Total comprehensive income	-	(3,530)	(3,530)
Balance at 31 December 2012	13	(3,395)	(3,382)
Total comprehensive income	-	2,151	2,151
Balance at 31 December 2013	13	(1,244)	(1,231)

The notes from pages 9 – 20 form an integral part of these financial statements.

Turquoise Credit Card Backed Securities plc

Notes to the Financial Statements for the year ended 31 December 2013

1. Basis of preparation

a) Compliance with International Financial Reporting Standards

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as published by the International Accounting Standards Board ('IASB') if, at any point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2013, there were no unendorsed standards effective for 31 December 2013 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.

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.

b) Future accounting developments

At 31 December 2013, a number of standards and interpretations, and amendments thereto, had been issued by the IASB but not yet endorsed by the EU or are not effective for the Company's financial statements as at 31 December 2013. The details are as follows:

In December 2011, the IASB issued amendments 'Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)' which clarified the requirements for offsetting financial instruments and addressed inconsistencies in current practice when applying the offsetting criteria in IAS 32 'Financial Instruments: Presentation'. The amendments are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted and are required to be applied retrospectively. The amendments to IAS 32 are not expected to have a material effect on the financial statements.

In November 2009, the IASB issued IFRS 9 'Financial Instruments' which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement.' IFRS 9 classification and measurement requirements are to be applied retrospectively but prior periods need not be restated. In November 2013, The IASB issued proposed amendments to IFRS 9 in respect of classification and measurement. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effects of IFRS 9 as at the date of publication of these financial statements.

The second phase in the IASB's project to replace IAS 39 will address the impairment of financial assets. It is proposed to replace the 'incurred loss' approach to the impairment of financial assets carried at amortised cost in IAS 39 with an expected credit loss approach, and require that the expected credit loss approach be applied to other categories of financial instrument, including loan commitments and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014. It remains impracticable to quantify the effects of IFRS 9 as at the date of publication of these financial statements.

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. In November 2013, the IASB issued amendments to IFRS 9 in respect of the general hedge accounting requirements, transition and effective date. As a result of these amendments, it is confirmed that all phases of IFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. The revised hedge accounting requirements are applied prospectively and the group is currently assessing the impact they may have on the financial statements. The IASB has tentatively decided that an entity apply IFRS 9 for annual periods beginning on or after 1 January 2018.

Notes to the Financial Statements (continued)

c) General information

Turquoise Credit Card Backed Securities plc is a company domiciled and incorporated in England and Wales.

As the principal currency in which the Company's business is conducted (which is its functional currency) is GBP, these accounts are presented in that currency.

In preparing the financial statements, judgments, estimates and assumptions have been made which affect the reported income, expenses, assets, liabilities and disclosures. The members consider that these estimates and assumptions have been based on the most recent available information. Actual results may differ from these estimates. In particular, the most significant area of estimation is the valuation of derivatives.

Management discussed the development, selection and disclosure of the Company's critical accounting policies (note 2) and estimates and the application of these policies and estimates.

2. Principal accounting policies

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

(a) Accounting for foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Currency swaps and currency options are accounted for as derivative contracts at fair value through profit and loss.

Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in profit or loss for the period. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

(b) Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments are recognised in 'Interest income' and 'Interest expense' in the Statement of Profit and Loss and other Comprehensive Income using the effective interest rates of the financial assets or financial liabilities to which they relate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Such cash payments will include any incremental costs, such as structuring and legal fees (note 2(c)) that are directly attributable to the acquisition or issue of a financial instrument.

(c) Amortisation of issue costs

The Company incurred structuring and legal fees directly attributable to the acquisition of the financial liabilities at launch.

These fees are amortised in the Statement of Profit and Loss and other Comprehensive Income on an effective interest rate basis and are included within 'Interest expense'. The unamortised balance carried forward is netted against 'Floating rate notes issued' within note 11.

(d) Debtors

The debtors, categorised as loans and receivables under IAS 39, are disclosed as non-current assets and are held at amortised cost.

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated.

If there is an indication that a loan is considered to be impaired, the asset's recoverable amount is estimated, and impairment loss is recognised, whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of Profit and Loss and other Comprehensive Income.

(e) Derivatives

Derivatives are recognised initially and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques. Any gain or loss on remeasurement to fair value is recognised in the Statement of Profit and Loss and other Comprehensive Income.

If the fair value of a derivative becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or until it is extinguished.

Derivative assets and liabilities on different transactions are only netted if transactions are with the same counterparty, a legal right of set off exists, and cash flows are intended to be settled on a net basis.

(f) Cash and cash equivalents

Cash and cash equivalents include cash held in the bank account.

(g) Creditors

Creditors are held at amortised cost.

(h) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

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

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

Notes to the Financial Statements (continued)

(i) Floating Rate Notes

Floating Rate Notes ("the Notes") are initially measured at fair value less any transaction costs that are directly attributable to the issue. The Company derecognises the Notes when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, the Notes are measured at amortised cost using the effective interest rate method.

(j) 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.

3. Directors' emoluments and employees

Corporate services fees amounting to £7,281 (2012: £7,344) were paid to Wilmington Trust SP Services (London) Limited during the year. The directors of the Company, Mark Howard Filer and Martin McDermott, are also directors of Wilmington Trust SP Services (London) Limited. The Company did not have any employees during the year (2012: Nil).

4. Interest income

	2013 £'000	2012 £'000
Coupon interest income from the Loan Note Issuer	13,130	9,972
Further interest income from the Loan Note Issuer	159,417	102,127
	172,547	112,099

Interest income includes coupon interest receivable from the Loan Notes Issuer on the notes purchased by the Company see note 8 for details. It also includes "Further Interest" received from the Loan Notes Issuer as defined in the deal documents.

5. Interest expense

	2013 £'000	2012 £'000
Interest expense on loans from the Bank	-	8
Interest expense on debt securities issued	13,130	9,972
Deferred Subscription payable to the Loan Note Issuer	159,256	101,878
	172,386	111,858

Interest expense includes amounts payable to Loan Note Issuer, as defined in the transaction documentation as Deferred Subscription.

6. Operating expenses

Operating expenses include fees of £10,500 (2012:£10,500) in relation to the statutory audit for the year payable to the auditor.

Notes to the Financial Statements (continued)

7. Income tax expense

	2013	2012
Current Tax	**£'000**	**£'000**
UK Corporation Tax		
- on current year Profit	2	6
- adjustments in respect of prior periods	-	-
	2	6
Deferred Tax		
Origination and reversal of temporary differences	662	(1,130)
Effect of changes in tax rates	41	66
	703	(1,064)
Tax Expense / (Credit)	705	(1,058)

The following table provides a reconciliation between the tax expense which would apply if all profits had been taxed at the UK Corporation Tax rate and the actual tax expense.

	2013	2012
		£'000
Profit / (loss) before tax	2,856	(4,588)
Tax at UK corporation Tax rate of 23.25% (2012:24.5%)	664	(1,124)
Effect of changes in tax rates	41	66
Tax expense / (credit)	705	(1,058)

The entity used IFRS to prepare its financial statements. However, under current UK tax legislation, the Company computes its taxable profits by reference to Regulation 14 SI 2006/3296.

Deferred Tax

The following are the major deferred tax assets/ (liabilities) recognised by the Company and movements thereon during the current and prior periods:

	Other temporary differences	Total
	£'000	**£'000**
At 31 December 2011	**(44)**	**(44)**
Income statement credit	1,064	1,064
At 31 December 2012	**1,020**	**1,020**
Income statement expense	(703)	(703)
At 31 December 2013	**317**	**317**

Deferred tax arises in respect of temporary differences between the IFRS basis of preparing the financial statements and the tax basis under Regulation 14 SI 2006/3296. A rate of 20% has been applied on the basis that this is the rate enacted at the end of the reporting period

The UK Government announced that the main rate of corporation tax for the year beginning 1 April 2013 would reduce from 24% to 23% to be followed by a further 2% reduction to 21% for the year beginning 1 April 2014 and a further 1% reduction to 20% for the year beginning 1 April 2015. The reduction in the corporation tax rate to 23% was enacted through the 2012 Finance Act and this results in a weighted average rate of 23.25% for 2013 (2012: 24.5%). The reductions to 21% and 20% that were announced in the 2012 Autumn Statement and 2013 Budget respectively became enacted through the 2013 Finance Act on 17 July 2013.

Notes to the Financial Statements (continued)

8. Debtors

	2013 £'000	2012 £'000
Loans and receivables due within one year	371,497	-
Loans and receivables due more than one year	548,559	920,056
	920,056	920,056

The Company issued debt securities on 13 October 2011 under Series 2011-1 and 28 June 2012 under Series 2012-1, and used the proceeds to acquire floating rate notes issued by the Loan Notes Issuer, who in turn acquired a beneficial interest in the Receivables Trust.

The Receivables Trust holds a beneficial interest in certain present and future credit card receivables securitised by the Bank. These credit card receivables are denominated in GBP. The average yield earned on the receivables for the period ended 31 December 2013 was 20.09% (2012: 19.35%). This beneficial interest in present and future loans is treated as a limited recourse loan to the Bank and is expected to mature in line with the scheduled repayment date for FRN's issued i.e. September 2014 for Series 2011-1 and June 2017 for Series 2012-1

9. Prepayments and accrued income

	2013 £'000	2012 £'000
Net Interest receivable from the Loan Note Issuer	13,621	14,810

10. Creditors

	2013 £'000	2012 £'000
Interest accrued on debt securities issued	539	504
Other expenditure accruals	37	11
Deferred subscription payable to the Loan Note Issuer	13,054	14,295
Corporation tax payable	2	6
	13,632	14,816

11. Floating rate notes issued

	Note Issued	Margin (over LIBOR)	2013	2012
	US$'000	**bp**	**£'000**	**£'000**
Series 2011-1, Class A	500,000	0.75	302,462	309,348
Series 2012-1, Class A	750,000	0.80	453,693	464,023
	GBP £'000			
Series 2011-1, Class B	20,500	1.50	20,500	20,500
Series 2011-1, Class C	24,200	2.00	24,200	24,200
Series 2012-1, Class B	33,000	1.50	33,000	33,000
Series 2012-1, Class C	35,700	2.00	35,700	35,700
			869,555	886,771
Unamortised/ Capitalised launch costs			(2,075)	(3,122)
Total Floating Rate Notes Issued			867,480	883,649
Current			346,570	-
Non-current			520,910	886,649
Total			867,480	883,649

The floating rate notes are secured by an interest in the Receivables Trust. Interest payable on the above floating rate notes is based on the above margins over 1 month USD and GBP LIBOR. Interest is payable monthly in arrears and accrued interest payable as at the year end is shown in Note 10. The weighted average margin on the USD Notes for the year ended 31 December 2013 was 0.78% (2012: 0.78%) above LIBOR. The weighted average margin on the GBP Notes for the year ended 31 December 2013 was 1.76% (2012: 1.76%) above LIBOR. The scheduled and final redemption dates for Series 2011-1 are 15 September 2014 and 15 September 2016 respectively. The scheduled and final redemption dates for Series 2012-1 are 15 June 2017 and 15 June 2019 respectively.

Movement in Notes

	2013	2012
	£'000	**£'000**
Opening Balance	883,649	365,766
Notes issued during the period	-	548,546
Foreign exchange revaluation	(17,216)	(29,420)
Movement in unamortised launch costs	1,047	(1,243)
Balance at 31 December	867,480	883,649

12. Financial risk management

The Company was set up 14 October 2010 to transfer the credit risk on a portfolio of credit card receivables from the Bank to note holders of the Company. The floating rate notes were assigned ratings by certain rating agencies ranging from AAA rated to Not Rated.

The risk profile of the Company is such that market, credit, liquidity and other risks of the loans and receivables and derivatives are borne fully by the note holders.

Whilst the Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, this obligation has been allocated and managed in accordance with the transaction documents.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

(a) Credit risk

The risk of default on the loans and receivables is borne in the first instance by the Bank by virtue of the excess spread payable to the Bank. Any default and delinquency over 180 days is deducted at the Trust level and the residual amount is distributed as 'excess funding' (i.e. the excess spread) to the Loan Note Issuer and subsequently distributed to the Company as 'interest receivable'. Should the excess spread be fully used, the risk is then borne by the note holders as described within the transaction documentation.

Management use delinquency and default levels to manage credit risk. Delinquency rates of credit card receivables held at the Trust level are provided in the table below. Delinquencies of balances over 180 days are treated as a default. The rates of defaults are also provided in the table below.

	2013	2012
	%	%
Part due up to 29 days	1.12	1.30
30 – 59 days	0.27	0.50
60 – 89 days	0.19	0.40
90 – 179 days	0.39	0.70
	1.97	2.90
Defaults (180+ Days)	1.25	2.55

The Company has credit risk with the swap counterparty. This risk is mitigated by entering into such contracts with counterparties with a minimum credit rating as defined within the transaction documents.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

(b) Liquidity Risk

Liquidity risk is the risk that the Company does not have sufficient liquid assets to meet its obligations as they fall due.

The company is exposed to liquidity risk, if finance charge collections in a year do not meet required expenses. The programme has reserve account triggers and a required retained principal collection feature to manage this risk.

The following is an analysis of the contractual cost flows of liabilities by remaining contractual maturities at the balance sheet date for assets and liability line items that combines amounts expected to be recovered or settled in under one year, and after one year.

	At 31 December 2013		
	Due within one year	**Due after more than one year**	**Total**
	£'000	**£'000**	**£'000**
Liabilities			
Floating rate notes issued and accrued interest	383,060	567,878	950,938
Derivatives	52,076	-	52,076
Unamortised Deferred Excess Interest	986	1,083	2,069
Creditors	13,632	-	13,632

	At 31 December 2012		
	Due within one year	**Due after more than one year**	**Total**
	£'000	**£'000**	**£'000**
Liabilities			
Floating rate notes issued and accrued interest	12,713	925,681	938,394
Derivatives	37,707	-	37,707
Unamortised Deferred Excess Interest	1,095	2,069	3,164
Creditors	14,816	-	14,816

(c) Market risk

Interest rate risk

The Company is not exposed to interest rate risk as its interest income from the Loan Note Issuer and payments to the currency swap counterparty are linked to the same floating rate bases (1 month GBP LIBOR) and payments from the currency swap counterparty and interest expense on the debt securities issued are linked to the same interest rate bases (1 month USD LIBOR). Any changes in interest rates will not have a material impact on the Company's financial position.

Currency risk

The Company is subject to currency risk with regard to the USD debt securities issued. Therefore, the Company has entered into currency swaps of a notional value of USD 1,250 million (2012: USD 1,250 million) to swap the US Dollar proceeds of the issued debt securities into Sterling. Under these arrangements, the Company pays the swap counterparty 1 month GBP LIBOR plus margin per annum and receives 1 month USD LIBOR plus margin per annum, in respect of the floating rate notes. The currency swaps for Series 2011-1 and Series 2012-1 mature in September 2016 and June 2019 respectively. The currency swaps are balance guaranteed and will mature in line with the maturity profile of the loans and receivables subject to the associated transaction documentation. As at 31 December 2013, the mark-to-market value of the currency swaps represents a net liability of £52.1 million (2012:£37.7 million).

Notes to the Financial Statements (continued)

13. Fair values of financial instruments

(a) Fair values of financial instruments carried at fair value

The following table represents the financial instruments that are measured at fair value:

	Level 1 Quoted market price £000	Level 2 Using observable inputs £000	Level 3 With significant un-observable inputs £000	Total £000
As At 31 December 2013				
Liabilities				
Derivative financial instruments - currency swaps	-	52,076	-	52,076
As At 31 December 2012				
Liabilities				
Derivative financial instruments - currency swaps	-	37,707	-	37,707

Derivatives are carried at fair value as described in note 2 and consequently there is no difference between carrying value and fair value.

Fair values are determined according to the following hierarchy:

- *Level 1 – quoted market price*: financial instruments with quoted prices for identical instruments in active markets.
- *Level 2 – valuation technique using observable inputs*: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- *Level 3 – valuation technique with significant unobservable inputs*: financial instruments valued using models where one or more significant inputs are unobservable.

Notes to the Financial Statements (continued)

(b) Fair values of financial instruments not carried at fair value

The fair values of the financial instruments not carried at fair value, together with the carrying value amounts shown in the Statement of Financial Positions are as follows:

	At 31 December 2013					At 31 December 2012	
		Fair Values					
			Valuation Techniques				
	Carrying Amount 2013 £000	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With significant un-observable inputs Level 3 £000	Total £000	Carrying Amount £000	Fair Value £000
Assets							
Debtors	920,056	-	920,056	-	**920,056**	920,056	920,056
Liabilities							
Floating rate notes issued	(867,480)	-	(872,183)	-	**(872,183)**	(883,649)	(883,649)

Cash and cash equivalents, short-term debtors, and short-term creditors are excluded from these disclosures as their carrying amount is a reasonable approximation of fair value as they are short term in nature. The fair value of other financial assets and liabilities is not materially different to their carrying value.

Floating rate notes:
Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

Debtors:
The fair value of the loans and receivables has been derived from a discounted cash flow model using appropriate discount rates. Due to the short-term nature of underlying receivable pool the fair value of debtors is estimated to be approximately equal to the carrying value.

14. Called up share capital

	Authorised 2013 £'000	Issued 2013 £'000	Authorised 2012 £'000	Issued 2012 £'000
Ordinary shares of £1 each	50	13	50	13
	50	13	50	13

50,000 £1 ordinary shares, 2 fully paid up and 49,998 paid up by £0.25 each

15. Capital Management

The Company defines capital as total shareholders' equity. The Company seeks to maintain at all times a prudent relationship between total capital and the varied risks of its business. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Notes to the Financial Statements (continued)

16. Contingencies and commitments

There were no contingent liabilities or capital commitments as at 31 December 2013 (2012 £Nil).

17. Related party transactions

The Company is owned by Turquoise Holdings 2 Limited which is incorporated in England and Wales. All of the shares in Turquoise Holdings 2 Limited are held under a declaration of Trust for Charitable purposes.

HSBC Holdings plc is considered for accounting purposes to be the ultimate parent undertaking of the Company and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HSBC Holdings plc may be obtained from its head office at 8 Canada Square, London, E14 5HG.

The principal activity of the Company is to issue Floating Rate Notes and Fixed Rate Notes, and use the proceeds thereof, to acquire floating rate notes issued by the Loan Note Issuer. The Loan Note Issuer purchases an interest in the Receivables Trust. The Receivables Trust has a beneficial interest in certain present and future credit card receivables (the "Receivables") securitised by the Bank.

The investor proportion of interest income generated by the Receivables Trust is firstly payable to the Loan Note Issuer, in proportion to its share, and then to the Company.

The Company has entered into currency swaps with the Bank. The present value of these currency swaps at 31 December 2013 is a liability of £52.7m (2012:£37.7m).

During the year the Company received coupon interest of £13.1m (2012: £9.9m) and £159.4m (2012: £102.1m) of 'Further interest' from the Loan Note Issuer. The Company also had interest payable of £159.3m (2012: £101.9m) payable to the Loan Note Issuer.

Prepayments and accrued interest include amounts due by the Loan Note Issuer of £13.6m (2012:£14.8m). Creditors include amounts due to the Loan Note Issuer of £13.1m (2012:£14.3) and £0.5m (2012:£0.5m) due to the Bank.

The Bank has retained some of the notes issued by the Company. The amount held by the Bank at 31 December 2013 was £113.4m (2012:£113.4m).

18. Subsequent Events

There were no subsequent events.