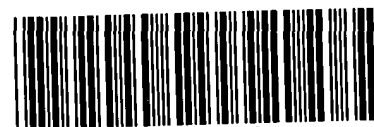


HSBC Trust Company (UK) Limited
Registered No: 106294

Financial Statements for the year ended 31 December 2015

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HSBC Trust Company (UK) Limited
Registered No: 106294

Financial Statements for the year ended 31 December 2015

Contents

| | |
|--|----|
| Strategic Report | 3 |
| Directors' Report | 6 |
| Statement of Directors' Responsibilities | 9 |
| Independent Auditors' report to the members of HSBC Trust Company (UK) Limited | 10 |
| Income statement | 12 |
| Statement of comprehensive income | 12 |
| Statement of financial position | 13 |
| Statement of cash flows | 14 |
| Statement of changes in equity | 15 |
| Notes on the financial statements | 16 |

HSBC Trust Company (UK) Limited

Strategic Report

Principal activities

The Entity is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the PRA. The Entity's principal activity is to provide wealth management services and products to customers of HSBC Group in the UK including trusteeships. The Entity has no employees, and all related services are provided by the parent company.

Review of the Entity's business

Drawing on the strength of HSBC and the most suitable products from the marketplace, the Entity works with its clients to provide solutions to grow, manage and preserve wealth for today and for the future. The Entity continues to reposition its business in line with its stated strategy of focusing on fewer markets complying with HSBC Global Standards, including financial crime compliance and tax transparency standards.

Performance

The Entity's results for the year under review are as detailed in the income statement shown on page 12 of these financial statements.

The profitability of the Entity has declined year on year and profit before tax reduced by 19% since last year. This is primarily due to fee restructuring as at 1st March and an outflow of funds from the Premier Investment Management Service (PIMS) resulting in reduced annual management charges on this service. In addition, client funds have been moved into share classes which no longer attract rebate income for the Entity reducing the rebates received.

Funds under management as at 31 December 2015 are down 6% compared to 31 December 2014 due to the impact of market volatility and an outflow of funds on PIMS which is the biggest driver of Funds under management.

The Entity continued to make good progress on the major remediation programme and no charges were required in 2015.

In November 2015 the Entity completed the sale of its probate services business to Simplify Channel Limited. The gain from the sale contributed £1.9million to the pre-tax profits for the year. The probate services business assets and related customer liabilities for wills and estates where the Entity had commenced, but not completed, administration prior to the completion of the sale will remain with the Entity until conclusion of the administration services.

In August 2015 the Entity transferred its unit trust pensions business to another HSBC group company.

Key performance indicators

The Directors use Key Performance Indicators (KPIs) to monitor business performance. As well as the income statement and the balance sheet, these indicators include measures to identify the returns on different categories of assets and the risks to which the Entity is exposed.

HSBC Trust Company (UK) Limited

Strategic Report (continued)

Financial KPIs

| | 2015 | 2014 |
|-----------------------------------|--------|--------|
| Profit before tax (£'000) | 47,399 | 58,445 |
| Funds under management (£bn) | 10.4 | 11.1 |
| New business value (£bn) | 1.0 | 0.9 |
| Lost funds under management (£bn) | 0.9 | 0.8 |
| Common Equity Tier 1 (£m) | 62 | 79 |

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in note 20 of the financial statements.

The most important non-financial types of risk are operational risk, conduct and regulatory risk, including Financial Crime compliance and reputational risk. The Directors have put in place procedures to monitor and manage these risks.

Operational risk is relevant to every aspect of the Entity's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omissions, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the Entity's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the Entity's risk appetite, as defined by the Board.

Regulators in the UK have continued to increase their focus on 'conduct' matters relating to fair outcomes for customers, orderly and transparent markets, including, for example, attention to sales processes and incentives, products and investment suitability, product governance, employee activities and accountabilities.

In the UK, the FCA is making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. The FCA is also regulating areas of activity not previously regulated by them, such as consumer credit, and considering competition issues in the markets they regulate. Additionally, the FCA increasingly take actions in response to customer complaints or where they see poor customer outcomes and/or market abuses, either specific to an institution or more generally in relation to a particular product.

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions may significantly alter the competitive landscape.

HSBC Trust Company (UK) Limited

Strategic Report (continued)

In respect of regulatory risk, the UK regulators may take further actions that could result in changes in industry practices, sales and pricing. On 1 January 2014 Capital Requirements Directive IV ('CRD IV') came into effect, which introduced in the EU the Basel III measures. Further information can be found in the Directors' Report - Capital Management.

The Entity maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

The financial statements on pages 12 to 40 were approved by the board of directors on 5 April 2016 and signed on its behalf by



D J Coke
Director

5 April 2016

Registered Office
8 Canada Square
London
E14 5HQ

HSBC Trust Company (UK) Limited

Directors' Report

Directors

The Directors who were in office during the year and up to the date of signing the financial statements were:

| Name | Appointed | Resigned |
|-------------|---------------|--------------|
| D J Coke | | |
| J B Hackett | | 1 March 2016 |
| J Coyle | 1 March 2016 | |
| D Morse | 16 March 2016 | |

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

Dividends

An interim dividend of £55m (2014: £48m) was declared and paid during the year.

Significant events since the end of the financial year

The Entity's Directors will propose an interim dividend of £38m, on 5 April 2016, in respect of the year ended 31 December 2015. No other important events affecting the Entity have occurred since the end of the financial year.

Restatement of comparative information

During 2015 the Entity identified that it had incorrectly applied Client Money protection to structured deposits from a period from 2004 to 2014. This affected monies held before the date at which the product was invested, interest received during the fixed term and the matured balances which were incorrectly held as Client Money instead of being held under the banking exemption on the Entity's balance sheet before being paid back to the clients. This is a breach of Client Asset (CASS) regulations as there was a co-mingling of client and customer monies held by the firm under the banking exemption. This item, affecting non-ISA Structured Deposit accounts, was identified during a firm wide review of client agreements and communicated to the Financial Conduct Authority (FCA) during 2015. Remediation was completed and maturing balances will be held by the Entity as banker and not as Client Money going forward. The balance sheet has been restated to include these balances on the balance sheet.

Future developments

The Entity continues to work closely with its parent undertaking, HSBC Bank plc, to implement the optimum strategic solution for the provision of Wealth Management services to HSBC customers in the UK. As part of this development it is currently expected that the Premier Investment Management Service, Select Investment Fund platform, and the related Investment Funds Plan service, will be migrated to HSBC Bank plc in 2016/17. These services represent a significant proportion of the Entity's revenue.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity 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.

HSBC Trust Company (UK) Limited

Directors' Report (continued)

Financial instruments

The financial risk management objectives and policies of the Entity, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in note 20 of the Notes to the Financial Statements.

Capital management

The Entity defines capital as total shareholders' equity. It is HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Entity's approach to capital management during the year.

Pillar 3 of Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks and capital, and how these are managed. Separate Pillar 3 disclosures are not required for the Entity as the Entity is included in the consolidated Pillar 3 disclosures of HSBC Bank plc. These disclosures are published as a separate document on HSBC Bank plc's website.

The Basel III framework, similarly to Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. The CRD IV legislation implement Basel II in the EU and, in the UK, the 'PRA rulebook CRR Firms Instrument 2013' transposed the various national discretions under the CRD IV legislation into UK law. The CRD IV and PRA legislation came into force on 1 January 2014.

Regulatory capital

The Entity's capital base is made up of Common equity tier 1. Common equity tier 1 capital is the highest quality form of capital, comprising shareholders' equity. Under CRD IV various capital deductions which are treated differently for the purposes of capital adequacy.

The calculation of actual capital is shown below.

| | 2015 £'000 | 2014 £'000 |
|---|----------------|----------------|
| Tier 1 capital | | |
| Shareholders' equity | 62,367 | 79,213 |
| Common equity/ Core tier 1 capital | 62,367 | 79,213 |
| Tier 1 capital | 62,367 | 79,213 |
| Total regulatory capital | 62,367 | 79,213 |
| Risk-weighted assets (Unaudited) | | |
| Credit and counterparty risk | 8,695 | 13,298 |
| Operational risk | 133,118 | 127,177 |
| Total | 141,813 | 140,475 |
| Capital ratios (Unaudited) | | |
| Core tier 1 ratio | 44% | 56% |
| Tier 1 ratio | 44% | 56% |
| Total capital ratio | 44% | 56% |

The Entity held capital resources above the minimum requirement throughout the year.

HSBC Trust Company (UK) Limited

Directors' Report (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 Entity's auditors are unaware; and the Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Entity's auditors are aware of that information. This confirmation is given pursuant to section 418 of the Companies Act 2006 and should be interpreted in accordance therewith.

Auditor

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries that took place in 2013, PricewaterhouseCoopers LLP has been appointed as auditors of the HSBC Group entities effective for the periods ending on or after 1 January 2015.

Directors' Report (continued)

Statement of Directors' Responsibilities

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

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

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected to prepare the Entity's financial statements on the same basis.

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 Entity and of the profit or loss of the Entity for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Entity has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Entity's transactions and disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Entity and to prevent and detect fraud and other irregularities.

The financial statements on pages 12 to 40 were approved by the board of directors on 5 April 2016 and signed on its behalf by



D.J. Coke
Director

5 April 2016

Registered Office
8 Canada Square
London
E14 5HQ

HSBC Trust Company (UK) Limited

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited

Report on the financial statements

Our opinion

In our opinion, HSBC Trust Company (UK) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Entity's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2015;
- the income statement for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law. In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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 year for which the financial statements are prepared is consistent with the financial statements.

Other Matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

HSBC Trust Company (UK) Limited

Independent Auditors' Report to the Members of HSBC Trust Company (UK) Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' responsibilities set out on page 9, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.


Scott Berryman

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

7 April 2016

HSBC Trust Company (UK) Limited

Financial Statements

Income statement for the year ended 31 December 2015

| | Note | 2015 £'000 | 2014 £'000 |
|------------------------------------|------|-----------------|-----------------|
| Interest income | | 1,622 | 2,632 |
| Interest expense | | (307) | (357) |
| Net interest income | | 1,315 | 2,275 |
| Fee and commission income | | 83,516 | 99,530 |
| Fee and commission expense | | (12,417) | (13,966) |
| Net Fee income | | 71,099 | 85,564 |
| Other operating income | 3 | 1,882 | - |
| Net operating income | 2 | 74,296 | 87,839 |
| General and administrative expense | | (26,897) | (29,394) |
| Total operating expenses | | (26,897) | (29,394) |
| Profit before tax | | 47,399 | 58,445 |
| Tax expense | 6 | (9,245) | (12,558) |
| Profit for the year | | 38,154 | 45,887 |

The notes on pages 16 to 40 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2015

All operations are continuing. There has been no other comprehensive income or expenses in 2015 (2014: Nil).

HSBC Trust Company (UK) Limited
Registered No: 106294
Financial Statements (continued)

Statement of financial position as at 31 December 2015

| | <i>Note</i> | 2015 £'000 | 2014 £'000 (restated) | 2013 £'000 (restated) |
|---|-------------|-----------------------------|---|---|
| Assets | | | | |
| Loans and advances to banks | 20 | 343,193 | 533,863 | 385,602 |
| Loans and advances to customers | 9 | 2,943 | 2,160 | 2,985 |
| Prepayments and accrued income | | 4,604 | 5,078 | 4,830 |
| Investments in subsidiary undertakings | 11 | 5 | 5 | 5 |
| Deferred tax asset | 7 | - | 5 | 8 |
| Other assets | 10 | 4,934 | 11,706 | 59,727 |
| Total assets | | 355,679 | 552,817 | 453,157 |
| Liabilities and equity | | | | |
| Liabilities | | | | |
| Customer accounts | 12 | 260,864 | 408,019 | 285,221 |
| Accruals, deferred income and other liabilities | 13 | 17,379 | 28,842 | 13,010 |
| Current tax liabilities | | 9,224 | 12,561 | 17,810 |
| Provisions | 14 | 5,845 | 24,182 | 55,790 |
| Total liabilities | | 293,312 | 473,604 | 371,831 |
| Equity | | | | |
| Called up share capital | 15 | 15,000 | 15,000 | 15,000 |
| Share premium account | | 100 | 100 | 100 |
| Retained earnings | | 47,267 | 64,113 | 66,226 |
| Total equity | | 62,367 | 79,213 | 81,326 |
| Total equity and liabilities | | 355,679 | 552,817 | 453,157 |

The notes on pages 16 to 40 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 5 April 2016 and were signed on its behalf by:


D J Coke
Director

HSBC Trust Company (UK) Limited

Financial Statements (continued)

Statement of cash flows for the year ended 31 December 2015

| | <i>Note</i> | 2015 £'000 | 2014 £'000 (restated) |
|---|-------------|-----------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Profit before tax | | 47,399 | 58,445 |
| Adjustments for: | | | |
| - change in operating assets | 16 | 6,463 | 48,598 |
| - change in operating liabilities | 16 | (214,867) | 107,022 |
| - tax paid | | (12,577) | (17,804) |
| Net cash (used in)/generated from operating activities | | (173,582) | 196,261 |
| Cash flows from financing activities | | | |
| Dividends paid | | (55,000) | (48,000) |
| Net cash (used in)/generated from financing activities | | (55,000) | (48,000) |
| Net (decrease)/increase in cash and cash equivalents | | (228,582) | 148,261 |
| Cash and cash equivalents brought forward | | 533,863 | 385,602 |
| Cash and cash equivalents carried forward | 16 | 343,193 | 533,863 |

The notes on pages 16 to 40 form an integral part of these financial statements.

HSBC Trust Company (UK) Limited

Financial Statements (continued)

Statement of changes in equity for the year ended 31 December 2015

| | Called up share capital £'000 | Share premium account £'000 | Retained earnings £'000 | Total equity £'000 |
|---|----------------------------------|--------------------------------|----------------------------|-----------------------|
| 2015 | | | | |
| At 1 January 2015 | 15,000 | 100 | 64,113 | 79,213 |
| Profit for the year | - | - | 38,154 | 38,154 |
| Total comprehensive income for the year | - | - | 38,154 | 38,154 |
| Dividends to shareholders | - | - | (55,000) | (55,000) |
| At 31 December 2015 | <u>15,000</u> | <u>100</u> | <u>47,267</u> | <u>62,367</u> |

| | Called up share capital £'000 | Share premium account £'000 | Retained earnings £'000 | Total equity £'000 |
|---|----------------------------------|--------------------------------|----------------------------|-----------------------|
| 2014 | | | | |
| At 1 January 2014 | 15,000 | 100 | 66,226 | 81,326 |
| Profit for the year | - | - | 45,887 | 45,887 |
| Total comprehensive income for the year | - | - | 45,887 | 45,887 |
| Dividends to shareholders | - | - | (48,000) | (48,000) |
| At 31 December 2014 | <u>15,000</u> | <u>100</u> | <u>64,113</u> | <u>79,213</u> |

The notes on pages 16 to 40 form an integral part of these financial statements.

Equity is wholly attributable to equity shareholders.

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

International Financial Reporting Standards ('IFRSs') comprise accounting standards issued or adopted by the International Accounting Standards Board ('IASB') as well as interpretations issued or adopted by the IFRS Interpretations Committee ('IFRS IC').

The financial statements of the Entity have been prepared in accordance with IFRSs as issued by the IASB and as endorsed by the EU. EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at any point in time, new or amended IFRSs were not to be endorsed by the EU.

At 31 December 2015, there were no unendorsed standards effective for the year ended 31 December 2015 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 Entity. Accordingly, the Entity's financial statements for the year ended 31 December 2015 are prepared in accordance with IFRSs as issued by the IASB.

Standards adopted during the year ended 31 December 2015

There were no new standards applied during the year ended 31 December 2015.

During 2015, HSBC adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Entity.

(b) Future accounting developments

Standards and amendments issued by the IASB and endorsed by the EU but effective after 31 December 2015

During 2014, the EU has endorsed the amendments issued by IASB through the Annual improvements to IFRSs 2010-2012 Cycle and the 2011-2013 Cycle, as well as a narrow-scope amendment to IAS 19 Employee Benefits. The Entity has not early applied any of these amendments and it expects they will have an immaterial impact, when applied, on the financial statements of the Entity.

Standards and amendments issued by the IASB but not endorsed by the EU

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Entity is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12 month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Transition

The Entity is currently assessing the impact that the rest of IFRS 9 will have on the financial statements and it is not possible at this stage to quantify the potential effect.

(c) Changes to the presentation of the Financial Statements and Notes on the Financial Statements

In order to make the financial statements and notes thereon easier to understand, the Entity has changed the location and the wording used to describe certain accounting policies within the notes, removed certain immaterial disclosures and changed the order of certain sections.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2015 are as follows:

- Credit risk: the order of the section has been changed to improve understanding and rationalised certain disclosures to remove duplication and focus on material information.
- Note 1 Summary of significant accounting policies: accounting policies have been placed, whenever possible, within the relevant Notes on the financial statements, and the changes in wording are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.
- Critical accounting policies: replaced 'Critical accounting policies' with 'Critical accounting estimates and judgements' and placed them within the relevant Notes alongside the significant accounting policy to which they relate. The new approach meets the reporting requirements of IAS 1 'Presentation of Financial Statements'.

(d) Presentation of information

Capital disclosures under IAS 1 'Presentation of Financial Statements' ('IAS 1') have been included in the sections of the 'Report of the Directors: Capital Management' on page 7.

The financial statements present information about the Entity as an individual undertaking and not about its group. The Entity is not required to prepare consolidated financial statements by virtue of the exemption conferred by Section 400 of the Companies Act 2006.

The functional currency of the Entity is Sterling, which is also the presentational currency of the financial statements of the Entity.

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2015 Financial Statements. Management's selection of the Entity's accounting policies which contain critical estimates and judgements is listed below; it reflects the materiality of the items to which the policies are applied, the high degree of judgement involved and estimation uncertainty involved:

- Provisions: refer to Note 14;

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Entity 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, including future projections of profitability, cash flows and capital resources.

(g) Foreign exchange

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at 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. Any foreign exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the income statement depending where the gain or loss on the underlying non-monetary item is recognised.

(h) Loans and advances to banks and customers

These include loans and advances originated by the Entity, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment allowance.

(i) Impairment of loans and advances to banks and customers

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Losses for impaired loans are recognised when there is objective evidence that impairment of a portfolio of loans has occurred. Impairment allowances are calculated on both an individual and group basis, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics; and,
- management's experienced judgment as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery.

Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

(j) Operating income

Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

Fee income and expense

Fee income is earned from a diverse range of services provided by the Entity to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, annual management charges, asset management, portfolio and other management advisory and service fees)

(k) General information

HSBC Trust Company (UK) Limited is an entity domiciled and incorporated in England and Wales.

(l) Historical cost convention

These financial statements have been prepared on a historical cost basis.

2 Operating Profit

Operating profit is stated after the following items of income, expense:

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Income | | |
| Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers | 61,993 | 70,421 |
| Expense | | |
| Interest on financial instruments, excluding interest on financial liabilities held for trading or designated at fair value | 307 | 357 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

3 Other operating income

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Gain on sale of probate services business | 1,882 | - |
| Other operating income | 1,882 | - |

4 Remuneration of Directors

The aggregate emoluments of the Directors of the Entity, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No.410, were:

| | 2015 £'000 | 2014 £'000 |
|-------------------------------|---------------|---------------|
| Salaries and other emoluments | 241 | 379 |
| Year ended 31 December | 241 | 379 |

One Director exercised share options over HSBC Holdings plc ordinary shares during the year (2014: three).

Retirement benefits are accruing to two (2014: three) Directors under money purchase schemes in respect of Directors' qualifying services. Contributions of £25,691 were made during the year to money purchase arrangements in respect of Directors' qualifying services (2014: £41,460).

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the Entity's ultimate parent entity, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') are recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc for the year ended 31 December 2015.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

| | 2015 £'000 | 2014 £'000 |
|-------------------------------|---------------|---------------|
| Salaries and other emoluments | 215 | 226 |
| Year ended 31 December | 215 | 226 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

The highest paid Director did not exercise share options over HSBC Holdings plc ordinary shares during the year. Pension contributions of £25,691 (2014: £39,373) were made by the Entity in respect of services by the highest paid Director during the year.

5 Auditors' remuneration

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Audit fees for HSBC Trust Company (UK) Limited statutory audit: | | |
| - Fees relating to current year | 41 | 46 |
| Fees for other services provided to the Entity: | | |
| - Other audit-related services pursuant to such legislation | 47 | 42 |
| Total fees payable | 88 | 88 |

6 Tax

Accounting policy

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in the same statement in which the related item appears.

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

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

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

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

Tax charged to the income statement

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Current tax | | |
| - for this year | 9,598 | 12,560 |
| - adjustments in respect of prior periods | (358) | (5) |
| Total current tax | 9,240 | 12,555 |
| Deferred tax | | |
| Origination and reversal of temporary differences | 5 | 3 |
| Total deferred tax | 5 | 3 |
| Total tax charged to income statement | 9,245 | 12,558 |

Tax reconciliation

The tax charged to the income statement differs to the tax charge that would apply if all profits had been taxed at the UK Corporation tax rate as follows:

| | 2015 £'000 | Percentage of overall profit before tax | 2014 £'000 | Percentage of overall profit before tax |
|--|---------------|---|---------------|---|
| Profit before tax | 47,399 | | 58,445 | |
| Tax at 20.25%(2014: 21.50%) | 9,598 | 20.25% | 12,560 | 21.50% |
| Adjustments in respect of prior period liabilities | (358) | (0.75%) | (5) | - |
| Permanent disallowables | 5 | - | - | - |
| Impact due to changes in tax rates | - | - | 3 | - |
| Total tax charged to income statement | 9,245 | 19.50% | 12,558 | 21.50% |

The UK Corporation tax rate applying to the Entity was 20.25% (2014: 21.5%).

The government announced that the main rate of corporation tax for the year beginning 1 April 2017 will reduce from 20% to 19% to be followed by a further 1% reduction to 18% for the year beginning 1 April 2020. These reductions in the corporation tax rate were enacted in the Finance (No 2) Act 2015.

The UK government introduced a surcharge on banking companies in the Finance (No 2) Act 2015 to apply with effect from 1 January 2016. This company meets the definition of a banking company and will therefore be subject to the 8% bank surcharge.

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

7 Deferred tax

The following table shows the gross deferred tax assets and liabilities recognised in the statement of financial position and the related amounts recognised in the Income Statement:

| | Property, plant and equipment £'000 | Total £'000 |
|----------------------------|---|----------------|
| At 1 January 2015 | 5 | 5 |
| Income statement expense | (5) | (5) |
| At 31 December 2015 | - | - |

| | Property, plant and equipment £'000 | Total £'000 |
|----------------------------|---|----------------|
| At 1 January 2014 | 8 | 8 |
| Income statement expense | (3) | (3) |
| At 31 December 2014 | 5 | 5 |

8 Dividends

| | £ per share | 2015 £000's | £ per share | 2014 £000's |
|--|-------------|----------------|-------------|----------------|
| Dividends declared on ordinary shares | | | | |
| Interim dividend in respect of the previous year | 18.33 | 55,000 | 16.00 | 48,000 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

9 Loans and advances to customers

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Gross loans and advances to customers | 2,943 | 2,160 |
| Loans and advances to customers | 2,943 | 2,160 |

The following table analyses loans and advances to customers by industry sector:

| | 2015 Gross loans and advances to customers £'000 | Gross loan by industry as % of total gross loans % | 2014 Gross loans and advances to customers £'000 | Gross loan by industry as % of total gross loans % |
|-----------------------|--|---|--|---|
| Personal | | | | |
| Other personal | 2,943 | 100 | 2,160 | 100 |
| As at December | 2,943 | 100 | 2,160 | 100 |

10 Other assets

| | 2015 £'000 | 2014 £'000 |
|---------------------------------------|---------------|---------------|
| Amounts due from other Group entities | 3,249 | 8,664 |
| Other assets | 1,685 | 3,042 |
| | 4,934 | 11,706 |

Amounts due from other Group entities are unsecured and repayable on demand.

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

11 Investment in subsidiaries

Accounting policy

The Entity classifies investments in entities which it controls as subsidiaries.

The Entity's investments in subsidiaries are stated at cost less impairment losses. Impairment losses recognised in prior periods are reversed through the income statement if, there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised.

| | Country of incorporation | Interest in Equity Capital | Share Class | No. of shares |
|------------------------------|-----------------------------|-------------------------------|----------------|---------------|
| Midland Nominees Limited | England | 100% | Ordinary £1.00 | 100 |
| Turnsonic (Nominees) Limited | England | 100% | Ordinary £1.00 | 2 |
| St. Cross Trustees Limited | England | 100% | Ordinary £1.00 | 5000 |

The investments in Midland Nominees Limited, Turnsonic (Nominees) Limited and St. Cross Trustees Limited are held at cost, totalling £5,102 (2014: £5,102). The investment in HSBC Executor & Trustee Company (UK) Limited was written down to nil value in a previous period.

12 Customer accounts

| | 2015 £'000 | 2014 £'000 (restated) |
|-------------------|----------------|-----------------------------|
| Retail customers | | |
| Customer deposits | 260,864 | 408,019 |
| | <u>260,864</u> | <u>408,019</u> |

Customer savings deposits have variable interest rates and are repayable on demand.

13 Accruals, deferred income and other financial liabilities

| | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Accruals and deferred income | 1,986 | 2,963 |
| Amounts owed to immediate parent undertaking | 1,645 | 18,336 |
| Amounts owed to other Group entities | 2,909 | 1,445 |
| Other liabilities | 10,839 | 6,098 |
| | <u>17,379</u> | <u>28,842</u> |

Amounts repayable to other Group entities are unsecured, interest free and have no fixed date of repayment.

14 Provisions

Accounting policy

Provisions are recognised when it is probable that an outflow of economic benefit will be required to settle a current legal or constructive obligation, which has arisen as a result of past event, and for which a reliable estimate can be made.

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation and similar obligations.

Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, for example, the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Customer redress provision

| | Total £'000 |
|----------------------------|----------------|
| At 1 January 2015 | 24,182 |
| Increase in provision | 1,687 |
| Provision utilised | (19,914) |
| Amounts reversed | (110) |
| At 31 December 2015 | 5,845 |

Customer redress provision

| | Total £'000 |
|----------------------------|----------------|
| At 1 January 2014 | 55,790 |
| Increase in provision | 216 |
| Provision utilised | (31,443) |
| Amounts reversed | (381) |
| At 31 December 2014 | 24,182 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

Customer redress - Trusts Charging

In 2007 the Company commenced a review in respect of over-charging trust fees in prior years. Work on this project is progressing and further remediation payments to customers were provided during the year. The total provision is based on a calculation extrapolated from a sample of cases, and the key assumptions relate to traceability of customers, average redress per customer and achievability of the redress calculation. Uncertainties arise from factors affecting the timing and achievability of notifying and reimbursing those affected. It is possible that outcomes arising within the next financial year could change the carrying value of this provision.

15 Called up share capital

Accounting policy

Financial instruments issued are generally 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 the proceeds, net of tax.

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| Issued, allotted and fully paid up | | |
| 3,000,000 Ordinary shares of £5 each | | |
| As at 1 January and 31 December | <u>15,000</u> | <u>15,000</u> |
| Authorised: | | |
| 3,000,000 Ordinary shares of £5 each | | |
| As at 1 January and 31 December | <u>15,000</u> | <u>15,000</u> |

16 Reconciliation of profit before tax to net cash flow from operating activities

Accounting policy

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

| | 2015 £'000 | 2014 £'000 |
|---|---------------|---------------|
| a) Change in operating assets | | |
| Change in prepayments and accrued income | 474 | (248) |
| Change in loans and advances to customers | (783) | 825 |
| Change in other assets | <u>6,772</u> | <u>48,021</u> |
| | <u>6,463</u> | <u>48,598</u> |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

| | 2015 £'000 | 2014 £'000 |
|--|------------------|----------------|
| b) Change in operating liabilities | | |
| Change in accruals and deferred income | (977) | (1,656) |
| Change in customer accounts | (185,067) | 122,798 |
| Change in other liabilities and provisions | (28,823) | (14,120) |
| | <u>(214,867)</u> | <u>107,022</u> |

| | 2015 £'000 | 2014 £'000 |
|--|----------------|----------------|
| c) Cash and cash equivalents comprise | | |
| Loans and advances to banks of one month or less | <u>343,193</u> | <u>533,863</u> |
| | <u>343,193</u> | <u>533,863</u> |

17 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost.

The following table analyses the carrying amount of financial assets and liability by category as defined in IAS 39 and by balance sheet heading:

| At 31 December 2015 | Loans and receivables £'000 | Financial assets and liabilities at amortised cost £'000 | Total £'000 |
|---|-----------------------------------|---|----------------|
| Assets | | | |
| Loans and advances to banks | 343,193 | - | 343,193 |
| Loans and advances to customers | 2,943 | - | 2,943 |
| Other assets | - | 4,934 | 4,934 |
| Accrued income | - | 4,604 | 4,604 |
| Total financial assets | <u>346,136</u> | <u>9,538</u> | <u>355,674</u> |
| Total non financial assets | | | <u>5</u> |
| Total assets | | | <u>355,679</u> |
| Liabilities | | | |
| Customer accounts | - | 260,864 | 260,864 |
| Accruals, deferred income and other liabilities | - | 17,379 | 17,379 |
| Provisions | - | 5,845 | 5,845 |
| Total financial liabilities | <u>-</u> | <u>284,088</u> | <u>284,088</u> |
| Total non financial liabilities | | | <u>9,224</u> |
| Total liabilities | | | <u>293,312</u> |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

| At 31 December 2014 | Loans and receivables £'000 | Financial assets and liabilities at amortised cost £'000 | Total £'000 |
|---|--------------------------------|---|----------------|
| Assets | | | |
| Loans and advances to banks | 533,863 | - | 533,863 |
| Loans and advances to customers | 2,160 | - | 2,160 |
| Other assets | - | 11,706 | 11,706 |
| Accrued income | - | 5,078 | 5,078 |
| Total financial assets | 536,023 | 16,784 | 552,807 |
| Total non financial assets | | | 10 |
| Total assets | | | 552,817 |
| Liabilities | | | |
| Customer accounts | - | 408,019 | 408,019 |
| Accruals, deferred income and other liabilities | - | 28,842 | 28,842 |
| Provisions | - | 24,182 | 24,182 |
| Total financial liabilities | - | 461,043 | 461,043 |
| Total non financial liabilities | | | 12,561 |
| Total liabilities | | | 473,604 |

18 Fair value of financial instruments not carried at fair value

For all financial instruments, the fair value is equal to the carrying value in the Balance Sheet, that is because they are short-term in nature or reprice to current market rates frequently.

Determination of 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.

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

| | Carrying amount | Fair values | | | Total |
|---------------------------------|-----------------|----------------------|-------------------------|--------------------------------------|---------|
| | | Valuation techniques | | | |
| | | Quoted market price | Using observable inputs | With significant unobservable inputs | |
| | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | |
| At 31 December 2015 | | | | | |
| Assets | | | | | |
| Loans and advances to customers | 2,943 | - | 2,943 | - | 2,943 |
| Loans and advances to banks | 343,193 | - | 343,193 | - | 343,193 |
| Liabilities | | | | | |
| Customer accounts | 260,864 | - | 260,864 | - | 260,864 |

| | Fair values | | | | |
|---------------------------------|----------------------|---------------------|-------------------------|--------------------------------------|---------|
| | Valuation techniques | | | | |
| | Carrying amount | Quoted market price | Using observable inputs | With significant unobservable inputs | Total |
| | | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | £'000 |
| At 31 December 2014 | | | | | |
| Assets | | | | | |
| Loans and advances to customers | 2,160 | - | 2,160 | - | 2,160 |
| Loans and advances to banks | 533,863 | - | 533,863 | - | 533,863 |
| Liabilities | | | | | |
| Customer accounts | 408,019 | - | 408,019 | - | 408,019 |

Notes on the Financial Statements (continued)

19 Offsetting of financial assets and financial liabilities

Accounting policy

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

The balances below are not subject to legally enforceable rights to offset.

| | | | | Amounts not offset in the balance sheet | | | |
|--|------------------------|-------------------------|--|---|---------------------------------|--------------------------|---------------------|
| | Gross amounts £'000 | Amounts offset £'000 | Amounts reported in the balance sheet £'000 | Financial Instruments £'000 | Non-cash collateral £'000 | Cash collateral £'000 | Net amount £'000 |
| Financial assets | | | | | | | |
| Customer accounts at amortised cost | 2,943 | - | 2,943 | 2,943 | - | - | 2,943 |
| At 31 December 2015 | <u>2,943</u> | <u>-</u> | <u>2,943</u> | <u>2,943</u> | <u>-</u> | <u>-</u> | <u>2,943</u> |
| Financial assets | | | | | | | |
| Customer accounts at amortised cost | 2,160 | - | 2,160 | 2,160 | - | - | 2,160 |
| At 31 December 2014 | <u>2,160</u> | <u>-</u> | <u>2,160</u> | <u>2,160</u> | <u>-</u> | <u>-</u> | <u>2,160</u> |
| | | | | | | | |
| | | | | Amounts not offset in the balance sheet | | | |
| | Gross amounts £'000 | Amounts offset £'000 | Amounts reported in the balance sheet £'000 | Financial Instruments £'000 | Non-cash collateral £'000 | Cash collateral £'000 | Net amount £'000 |
| Financial liabilities | | | | | | | |
| Customer accounts at amortised cost | 260,864 | - | 260,864 | 260,864 | - | - | 260,864 |
| At 31 December 2015 | <u>260,864</u> | <u>-</u> | <u>260,864</u> | <u>260,864</u> | <u>-</u> | <u>-</u> | <u>260,864</u> |
| Financial liabilities | | | | | | | |
| Customer accounts at amortised cost | 408,019 | - | 408,019 | 408,019 | - | - | 408,019 |
| At 31 December 2014 | <u>408,019</u> | <u>-</u> | <u>408,019</u> | <u>408,019</u> | <u>-</u> | <u>-</u> | <u>408,019</u> |

20 Management of financial risk

All of the Entity's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The principal risk for the entity is financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Entity as a going concern.

a) Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty of the Entity fails to meet a payment obligation under a contract.

Within the overall framework of the Group policy, the Entity has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures.

The management of the Entity is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Entity's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The majority of the Entity's exposure to credit risk is to the parent undertaking, HSBC Bank plc.

I. Maximum exposure to credit risk

| | 2015 | | | 2014 | | |
|---------------------------------------|---------------------------|-----------------|---|---------------------------|-----------------|---|
| | Maximum exposure £'000 | Offset £'000 | Exposure to credit risk (net) £'000 | Maximum exposure £'000 | Offset £'000 | Exposure to credit risk (net) £'000 |
| Loans and advances at amortised costs | 346,136 | - | 346,136 | 536,023 | - | 536,023 |
| Other assets | 9,538 | - | 9,538 | 16,784 | - | 16,784 |
| At at 31 December | 355,674 | - | 355,674 | 552,807 | - | 552,807 |

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 8). The group uses a number of controls and measures to minimise undue concentration of exposure in the group's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls and stress testing.

96.5% (2014: 96.6%) of the credit risk exposure is to the parent undertaking, HSBC Bank plc.

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

III. Credit quality

The 5 credit quality classification defined below each encompass a range of more granular, internal credit rating grades, as well as external rating.

| Quality classification | External credit rating |
|------------------------|------------------------|
| Strong | A- and above |
| Good | BBB+ and BBB- |
| Satisfactory | BB+ and B and unrated |
| Sub-standard | A- and below |
| Impaired | Impaired |

The 5 classifications below describe the credit quality of the Entity's lending. These categories each encompass a range of more granular, internal credit rating grades assigned to corporate and personal lending business.

- Strong: exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss. Personal accounts operate within product parameters and only exceptionally show any period of delinquency.
- Good: exposures require closer monitoring and demonstrate good capacity to meet financial commitments, with low default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minimal following the adoption of recovery processes.
- Satisfactory: exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with a moderate default risk. Personal accounts typically show only short periods of delinquency, with any losses expected to be minor following the adoption of recovery processes.
- Sub-standard: exposures show varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods of generally up to 90 days past due and/or expected losses are higher due to a reduced ability to mitigate these through security realisation or other recovery processes.
- Impaired: exposures have been assessed, individually as impaired.

| | Neither past due nor impaired | | Total |
|---------------------------------|----------------------------------|--------------|----------------|
| | Strong | Good | |
| | £'000 | £'000 | £'000 |
| At 31 December 2015 | | | |
| Loans and advances to banks | 343,193 | - | 343,193 |
| Loans and advances to customers | - | 2,943 | 2,943 |
| | <u>343,193</u> | <u>2,943</u> | <u>346,136</u> |
| At 31 December 2014 | | | |
| Loans and advances to banks | 533,863 | - | 533,863 |
| Loans and advances to customers | - | 2,160 | 2,160 |
| | <u>533,863</u> | <u>2,160</u> | <u>536,023</u> |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

IV. Collateral and other credit enhancements

The Entity follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. Whilst collateral is important in mitigating credit risk, it is the Entity's practice to lend on the basis of the customer's ability to meet their obligations out of cash from resources rather than rely on the value of security offered.

A summary of the loan book analysed by collateral type is provided below:

| At 31 December | 2015 £'000 | 2014 £'000 |
|--|---------------|---------------|
| Unsecured | 346,136 | 536,023 |
| Gross loan and advances to banks and customers | 346,136 | 536,023 |

b) Liquidity risk management

Liquidity risk is the risk that the Entity does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost.

The Entity utilises customer deposits and funding from HSBC Bank plc to source its Sterling denominated funds. The Entity seeks to match availability of funding to the Entity's requirements, and any shortfalls are sourced by HSBC Bank Plc at that time. The Entity's regulatory liquidity position is managed as part of the HSBC Bank plc Defined Liquidity Group, under which members agree to provide liquidity support when necessary.

The Entity funds its asset base from a combination of capital resources, customer accounts and short term borrowings from its intermediate parent Company, HSBC Bank plc.

Since 1 April 2013 the Entity is part of the Defined Liquidity Company ('DLG') of HSBC Bank plc. The Entity has therefore no direct obligation to fulfil the liquidity requirement of the PRA. Instead, the liquid assets of the Entity support the wider liquidity buffer of the DLG. The Entity is also part of the internal liquidity control and management structure of HSBC Bank plc.

For risk monitoring purposes, management monitor the ratio of net liquid assets to customer accounts. Net liquid assets are defined as the difference between liquid assets and liabilities falling due within three months. Target and trigger liquidity ratios are set for the Entity by HSBC Bank plc.

The following is an analysis of assets and liabilities by remaining contractual maturities at the balance sheet date:

| 31 December 2015 | On demand £000's | Due within 3 months £000's | Due between 3-12 months £000's | Undated £000's | Total £000's |
|---|---------------------|----------------------------------|--------------------------------------|-------------------|-----------------|
| Assets | | | | | |
| Loans and advances to banks | 343,193 | - | - | - | 343,193 |
| Loans and advances to customers | 2,943 | - | - | - | 2,943 |
| Other assets | 4,934 | - | - | - | 4,934 |
| Accrued income and other financial assets | 4,604 | - | - | - | 4,604 |
| Non-financial assets | - | 5 | - | - | 5 |
| Total as at 31 December 2015 | 355,674 | 5 | - | - | 355,679 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

| 31 December 2015 | On demand £000's | Due within 3 months £000's | Due between 3-12 months £000's | Undated £000's | Total £000's |
|--|---------------------|----------------------------------|--------------------------------------|-------------------|-----------------|
| Liabilities and Equity | | | | | |
| Customer accounts ¹ | 260,864 | - | - | - | 260,864 |
| Accruals and other financial liabilities | 17,025 | 354 | - | - | 17,379 |
| Provisions | - | - | - | 5,845 | 5,845 |
| Non-financial liabilities | - | - | 9,224 | - | 9,224 |
| Equity | - | - | - | 62,367 | 62,367 |
| Total as at 31 December 2015 | 274,700 | 354 | 9,224 | 68,212 | 355,679 |

| 31 December 2014 | On demand £000's | Due within 3 months £000's | Due between 3-12 months £000's | Undated £000's | Total £000's |
|--|---------------------|----------------------------------|--------------------------------------|-------------------|-----------------|
| Assets | | | | | |
| Loans and advances to banks | 533,863 | - | - | - | 533,863 |
| Loans and advances to customers | 2,160 | - | - | - | 2,160 |
| Other assets | 11,706 | - | - | - | 11,706 |
| Accrued income and other financial assets | 5,078 | - | - | - | 5,078 |
| Non financial assets | 5 | 5 | - | - | 10 |
| Total as at 31 December 2014 | 552,812 | 5 | - | - | 552,817 |

| 31 December 2014 | On demand £000's | Due within 3 months £000's | Due between 3-12 months £000's | Undated £000's | Total £000's |
|--|---------------------|----------------------------------|--------------------------------------|-------------------|-----------------|
| Liabilities and Equity | | | | | |
| Customer accounts ¹ | 408,019 | - | - | - | 408,019 |
| Accruals and other financial liabilities | 28,387 | 455 | - | - | 28,842 |
| Provisions | - | - | - | 24,182 | 24,182 |
| Non financial liabilities | - | - | 12,561 | - | 12,561 |
| Equity | - | - | - | 79,213 | 79,213 |
| Total as at 31 December 2014 | 436,406 | 455 | 12,561 | 103,395 | 552,817 |

1 'Customer accounts' are repayable on demand and hence are disclosed within the '1 month or less' maturity grouping. However, in practice, these deposits are maintained for longer periods without withdrawal; hence, the effective date of repayments is later than the contractual date.

c) Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates or equity and commodity prices will impact the Entity's income or the value of its portfolios.

The Entity's objective is to manage and control market rate exposures while maintaining a market profile consistent with its risk appetite.

The Entity manages market risk through risk limits approved by the HSBC Company Executive Committee and adopted by the Entity's Board of Directors. An independent risk unit develops risk management policies and measurement techniques and the finance unit reviews limit utilisation on a daily basis.

Disclosures on market price risk, foreign exchange risk and interest rate risk are provided below.

Market price risk

Market risk is the risk that movements in market factors, including foreign exchange rates and commodity prices, interest rates, credit spreads and equity prices will reduce the Entity's income.

The Entity is indirectly exposed to market price risk through their valuation of client investments in ISAs, structured products and managed portfolios, which impacts on the income derived from the management of these funds.

Foreign exchange risk

The Entity has no material foreign exchange risk as all balances and transactions are in Sterling.

Interest rate risk

Interest rate risk is the risk that a change in interest rates will affect the Entity's performance. Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC Bank plc. The Entity places all funds with its parent, HSBC Bank plc. The Entity manages its interest rate risk by placing deposits with its parent on call deposits or for fixed periods of up to 3 months.

A change of 100bp in interest rates at the reporting date would have increased/decreased profits by £3.4m (2014: £4.3m). This analysis assumes that other variables remain constant.

21 Legal proceedings

The Entity is party to legal proceedings arising out of its normal business operations. The Entity considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of legal proceedings is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2015 (see Note 14). Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

22 Related party transactions

a) Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity and includes members of the Board of Directors

Compensation of Key Management Personnel

The Company does not have any direct employees. The Directors and staff are all employees of other Group companies. The costs recharged to the Company include the following amounts in respect of key management compensation relating to those individuals' services to the Company:

| | 2015 £'000 | 2014 £'000 |
|------------------------------|---------------|---------------|
| Short-term employee benefits | 215 | 338 |
| Post-employment benefits | 26 | 41 |

Transactions detailed below include amounts due to/from HSBC Bank plc.

| | 2015 Balance at 31 December £'000 | 2014 Balance at 31 December £'000 |
|-----------------------------|--|--|
| Assets | | |
| Loans and advances to banks | 343,193 | 533,863 |
| Other assets | 2,365 | 4,844 |
| Liabilities | | |
| Other liabilities | 1,643 | 19,026 |

b) Transactions with other related parties

| | 2015 £'000 | 2014 £'000 |
|-------------------------------------|---------------|---------------|
| Income statement | | |
| Interest income | 1,293 | 1,615 |
| General and administrative expenses | 15,896 | 19,674 |

HSBC Trust Company (UK) Limited

Notes on the Financial Statements (continued)

Transactions and balances detailed below include amounts due to/from Other Group Companies.

| | 2015 Balance at 31 December £'000 | 2014 Balance at 31 December £'000 |
|--------------------|--|--|
| Assets | | |
| Other assets | 905 | 3,820 |
| Liabilities | | |
| Other liabilities | 2,911 | 755 |

| | 2015 £'000 | 2014 £'000 |
|-------------------------------------|---------------|---------------|
| Income statement | | |
| Fee income | 22,148 | 29,127 |
| Fee expense | 12,358 | 13,271 |
| General and administrative expenses | (4) | (5) |

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

23 Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Bank plc. All companies are registered in England and Wales.

Copies of HSBC Holdings plc and HSBC Bank plc consolidated financial statements can be obtained from:

8 Canada Square
London
E14 5HQ
www.hsbc.com

24 Events after the balance sheet date

The Entity's Directors will propose an interim dividend of £38m, on 5 April 2016, in respect of the year ended 31 December 2015. There are no other significant events after the balance sheet date.

25 Client segregated money

The Entity holds cash in respect of client investments in ISAs, structured products and managed portfolios in segregated trust accounts with HSBC Bank plc and other external banks. As at 31 December 2015 the cash amounted to £180,250,374 (2014: £315,837,827). The cash is not shown as the Entity's assets or liabilities respectively as it is held on behalf of clients.

26 Restatement of comparative information

During 2015 the Entity identified that it had incorrectly applied Client Money protection to structured deposits from a period from 2004 to 2014. This affected monies held before the date at which the product was invested, interest received during the fixed term and the matured balances which were incorrectly held as Client Money instead of being held under the banking exemption on the Entity's balance sheet before being paid back to the clients. This is a breach of Client Asset (CASS) regulations as there was a co-mingling of client and customer monies held by the firm under the banking exemption. This item, affecting non-ISA Structured Deposit accounts, was identified during a firm wide review of client agreements and communicated to the Financial Conduct Authority (FCA) during 2015. Remediation was completed and maturing balances will be held by the Entity as banker and not as Client Money going forward. The balance sheet has been restated to include these balances on the balance sheet.

Comparative balances have been restated as follows:

| Balance sheet (extract) | Prior year restatements | | | | | |
|-----------------------------|---|-----------------------------------|---|---|-----------------------------------|---|
| | Balance at 31 December 2014 (Prev. stated) £'000 | Increase / (Decrease) £'000 | Balance at 31 December 2014 (Restated) £'000 | Balance at 31 December 2013 (Prev. stated) £'000 | Increase / (Decrease) £'000 | Balance at 31 December 2013 (Restated) £'000 |
| Assets | | | | | | |
| Loans and advances to banks | 430,899 | 102,964 | 533,863 | 340,151 | 45,451 | 385,602 |
| Liabilities | | | | | | |
| Customer accounts | 305,055 | 102,964 | 408,019 | 239,770 | 45,451 | 285,221 |