

Financial Statements
31 December 2011

Registered No: 01615598

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Financial Statements

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Directors' report for the year ended 31 December 2011

Principal activities

The Company's principal activity is to act as an investment holding company and as such does not carry out any investment management business on its own behalf, as well as being a provider of seed investments. No change in the Company's principal activities is anticipated.

Business review

During the year the Company continued to carry out its role as the head office and global business development centre for HSBC's Global Asset Management businesses.

On 9 September 2011, Halbis Capital Management (UK) Limited ('ALUK'), a subsidiary of the Company, affected a capital reduction of £17.8m. The Company recognised an impairment of £17.8m against the investment in ALUK. The Company received a dividend of £17.8m from ALUK.

During the year the company amended its Net Interest Income ('NII') methodology to reflect the Effective Interest Rate ('EIR') on its Available For Sale ('AFS') securities. During prior years only contractual interest income was recognised. This resulted in a life to date catchup of £10.7m gain.

The Directors continually review and agree policies for managing risk exposures. There are rigorous risk monitoring processes in place on the Company's exposure to equity and market risk arising through its seed and other investments. There are also policies covering credit risk, interest rate risk, market risk, operational risk and financial risk. Further detail is included in Note 20 to the accounts.

Performance

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

The Company made a profit before tax of £73.6 million (2010: £18.8 million loss). Net assets increased by £39.7 million to £191.9 million (2010: £152.2 million).

The Directors consider that the Company's financial key performance indicators ('KPIs') are those that communicate the Company's financial performance and position. Monitoring performance against KPIs enables the Company to measure its success in achieving targets and includes the following:

Measure	2011	2010	Change
Profit / (loss) before tax (£000)	73,612	(18,815)	491%
Operating profit (£000) (a)	6,851	(58,367)	88%
Net assets (£000)	191,943	152,199	26%
Return on equity (excl. dividend received) (%) (b)	(2%)	(29%)	27%
Return on equity (incl. dividend received) (%) (b)	36%	(1%)	37%
Annualised cost/income ratio (%) (c)	69%	(256%)	325%

For clarification purposes the following indicators are defined:

- (a) Operating profit excludes financing income/costs and dividend income.
- (b) Return on equity is the profit after tax (including or excluding dividends) as a percentage of total shareholders' equity.
- (c) The annual cost/income ratio measures the ratio of operating costs to operating income.

Risk management

The Board is responsible for risk and is responsible for oversight of the risk management process. The Board has considered the principal risks facing the Company and the exposure in relation to each of those risks. The Company operates within the governance and priority framework of HSBC Holdings plc. It also has its own established governance framework, with clear terms of reference for the Board and Risk Management Committee and a clear organisation structure, with documented delegated authorities and responsibilities. The Company is also monitored by the Global Banking and Markets Audit Committee which includes shareholder representatives.

The Risk Management Committee has approved a risk management framework and structure established by the Company's Risk function. The framework defines the principal risk categories and sets out the methodology for the identification, assessment, mitigation and reporting of risks. A risk management structure is in place which embeds risk management into the business.

The Risk Management Committee reviews the key corporate risks facing the Company and receives regular reports as to the current status of each risk.

Directors' report for the year ended 31 December 2011 (continued)

The financial services industry remains closely regulated and the UK regulators may take actions that could result in changes to industry practices, sales and pricing. The Company maintains a strong compliance culture and monitors the regulatory environment closely to proactively adapt to changes and reduce risks to the business.

The Company has robust processes in place to identify, evaluate and manage the operational risk inherent in its business activities. Operational losses are closely monitored and assessed to ensure that business improvements are identified and implemented. The Company also has financial risk management policies in place, further details of which can be found in Note 20.

There are formal compliance, internal audit and operational risk functions. These departments conduct regular monitoring of various business areas and control procedures. In line with a plan agreed by the Board any issues of significance are brought to the attention of the Board. Planned corrective actions are independently monitored for timely completion and reviewed by the Global Banking and Markets Audit Committee.

Pillar 3 of the Basel II framework of the Basel Committee on Banking Supervision ('Basel II') is related to market discipline and aims to make firms more transparent by requiring them to publish specific, prescribed details of their risks, capital and risk management under the Basel II framework. In accordance with these requirements the Company is relying on the HSBC Holdings plc's statement on the disclosure of Basel II Pillar 3. HSBC Holdings plc has published Pillar 3 disclosures for 31 December 2011, including quantitative tables, during the first half of 2011 on the Investor Relations section of its website, www.hsbc.com.

Internal control

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness on a regular basis. Management's role is to implement and operate the Board policies on internal control and internal control management. The system of internal control is designed to manage rather than eliminate the risks of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material errors, losses or fraud.

Future developments

The Company is committed as a provider of seed investments for future launch of HSBC funds in order to facilitate their establishment and launch. Further, the Company will continue to provide management and other central services to other Global Asset Management businesses.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 2011 (2010: £Nil).

Going concern basis

The Financial Statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions.

Directors

The Directors who served during the year were as follows

Name	Appointed	Resigned
S Assaf		24 June 2011
C S Cheetham		
G A Efthimiou		
J M Flint		31 December 2011
M D W Kay		07 December 2011
R B M Heyworth	30 June 2011	
J M Munro		20 May 2011
E R Stokes	30 June 2011	

Directors' report for the year ended 31 December 2011 (continued)

The following individuals were appointed as Directors after the year end

Name	Appointed
S Chandrasekharan	01 January 2012
A J Coates	20 March 2012
J M Munro	01 March 2012
S J Williams	01 March 2012

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

Supplier payment policy

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

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

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC Group to provide necessary capital resources which are therefore managed on a group basis.

The Company defines capital as total shareholder's 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 Company's approach to capital management during the year.

Disclosure of information to auditors

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

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

Directors' report for the year ended (continued) 31 December 2011

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

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 6, is made with a view to distinguishing for the shareholder the respective responsibilities of the Directors and of the Auditor in relation to the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently,
- make judgements 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 inappropriate to presume that the Company will continue in business. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

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.

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

On behalf of the Board



S Chandrasekharan
Director

Registered Office
8 Canada Square
London
E14 5HQ

Date 24 September 2012

Independent Auditor's Report to the Members of HSBC Global Asset Management Limited

We have audited the financial statements of HSBC Global Asset Management Limited for the year ended 31 December 2011 set out on pages 7 to 29. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



M Davies (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London, England

24 September 2012

Financial Statements

Income statement for the year ended 31 December 2011

	<i>Notes</i>	2011 £'000	2010 £'000
Fee income	3	33,818	23,775
Interest income	6	35,863	7,653
Interest expense	6	(9,504)	(9,101)
Dividend income		71,900	41,000
		<u>132,077</u>	<u>63,327</u>
Net gains from financial investments	4	1,676	(42,789)
		<u>133,753</u>	<u>20,538</u>
Other operating income	5	10,630	2,619
		<u>144,383</u>	<u>23,157</u>
Administrative expenses	7	(52,975)	(41,972)
Impairment losses on subsidiary	12	(17,796)	-
Profit/(loss) before tax		<u>73,612</u>	<u>(18,815)</u>
Tax (expense)/credit	10	(5,364)	17,516
Profit/(loss) for the year		<u>68,248</u>	<u>(1,299)</u>

There were no acquisitions, discontinued or discontinuing operations during the year

The accounting policies and notes on pages 12 to 29 form an integral part of these financial statements

Financial Statements (continued)**Statement of comprehensive income for the year ended 31 December 2011**

	2011 £'000	2010 £'000
Profit/(loss) for the year	68,248	(1,299)
Other comprehensive (expense)/income		
Available-for-sale investments		
– fair value (losses)/gains	(28,504)	58,579
– amounts transferred to the income statement in respect of impairment losses	-	537
Other comprehensive (expense)/income for the year, net of tax	(28,504)	59,116
Total comprehensive income for the year	39,744	57,817
Total comprehensive income for the year attributable to the shareholders	39,744	57,817

Financial Statements (continued)**Statement of financial position as at 31 December 2011**

	<i>Notes</i>	2011 £'000	2010 £'000
ASSETS			
Current assets			
Cash and cash equivalents held with other group undertakings		27,586	36,412
Receivables	<i>14</i>	9,915	17,848
Current tax assets		3,586	-
Deferred tax assets	<i>15</i>	1,540	558
		42,627	54,818
Non-current assets			
Intangible assets	<i>11</i>	6,062	4,730
Investments in subsidiaries	<i>12</i>	220,049	237,845
Financial investments	<i>13</i>	521,742	564,599
		747,853	807,174
Total assets		790,480	861,992
LIABILITIES AND EQUITY			
Current liabilities			
Other financial liabilities	<i>16</i>	596,608	701,952
Current tax liabilities		-	5,243
		596,608	707,195
Non-current liabilities			
Other financial liabilities	<i>16</i>	1,929	2,598
		1,929	2,598
Total liabilities		598,537	709,793
Equity			
Called up share capital	<i>17</i>	146,275	146,275
Available-for-sale fair value reserve		(18,469)	10,939
Capital contribution reserve		1,015	111
Retained earnings/(deficit)		63,122	(5,126)
Total shareholders' equity		191,943	152,199
Total equity and liabilities		790,480	861,992

The accounting policies and notes on pages 12 to 29 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 24 September 2012 and were signed on its behalf by



A J Coates
Director

Company Registered Number 01615598

Financial Statements (continued)**Statement of cash flows for the 31 December 2011**

	2011 £'000	2010 £'000
Cash flows from operating activities		
Profit/(loss) before tax	73,612	(18,815)
Adjustments for		
– Amortisation of intangible assets	1,185	728
– Interest income	(5,641)	(7,653)
– Interest expense	9,504	9,101
– Change in operating assets	3,634	(2,910)
– Change in operating liabilities	(50,810)	(13,745)
– Tax (paid) / received	(15,175)	17,207
– Dividend income	(71,900)	(41,000)
Net cash generated from operating activities	(55,591)	(57,087)
Cash flows from investing activities		
Purchase of financial investments	(112,694)	(138,641)
Proceeds from sale of financial investments	143,939	150,876
Purchase of intangible assets	(2,517)	(2,287)
Dividend income	71,900	41,000
Interest paid	(9,504)	(9,101)
Interest received	5,641	7,653
Net cash from investing activities	96,765	49,500
Cash flows from financing activities		
Repayment of other financial liabilities	(50,000)	-
Net cash from financing activities	(50,000)	-
Net decrease in cash and cash equivalents	(8,826)	(7,587)
Cash and cash equivalents brought forward	36,412	43,999
Cash and cash equivalents carried forward	27,586	36,412

The accounting policies and notes on pages 12 to 29 form an integral part of these financial statements

Financial Statements (continued)**Statement of changes in equity for the year ended 31 December 2011**

	Called up share capital	Retained earnings	Capital contribution reserve	Available-for- sale fair value reserve	Total shareholder's equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2011	146,275	(5,126)	111	10,939	152,199
Profit for the year	-	68,248	-	-	68,248
Other comprehensive income (net of tax)	-	-	904	(29,408)	(28,504)
Available-for-sale investments	-	-	904	(29,408)	(28,504)
Total comprehensive income/(expense) for the year	-	68,248	904	(29,408)	39,744
At 31 December 2011	146,275	63,122	1,015	(18,469)	191,943

	Called up share capital	Retained earnings	Capital contribution reserve	Available-for- sale fair value reserve	Total shareholder's equity
	£'000	£'000	£'000	£'000	£'000
At 1 January 2010	146,275	(4,364)	561	(48,090)	94,382
Loss for the year	-	(1,299)	-	-	(1,299)
Other comprehensive income (net of tax)	-	537	(450)	59,029	59,116
Available-for-sale investments	-	537	(450)	59,029	59,116
Total comprehensive (expense)/income for the year	-	(762)	(450)	59,029	57,817
At 31 December 2010	146,275	(5,126)	111	10,939	152,199

The accounting policies and notes on pages 12 to 29 form an integral part of these financial statements

Shareholder's equity is wholly attributable to equity shareholders

Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs have not been endorsed by the EU. At 31 December 2011, there were no unendorsed standards effective for the year ended 31 December 2011 affecting these financial statements, and there was no difference between IFRSs endorsed by the EU and IFRSs issued by the IASB in terms of their application to the Company. Accordingly, the Company's financial statements for the year ended 31 December 2011 are prepared in accordance with IFRSs as issued by the IASB.

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

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

The Company is exempt from the requirement to prepare group financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

(b) Future accounting developments

At 31 December 2011, a number of standards and interpretations, and amendments thereto, had been issued by the IASB, which are not effective for the company's as at 31 December 2011. Those which are expected to have a significant effect on the Company's financial statements are discussed below.

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

Standards applicable in 2013

In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements' ('IFRS 10'), IFRS 11 'Joint Arrangements' ('IFRS 11') and IFRS 12 'Disclosure of Interests in Other Entities' ('IFRS 12'). The standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRSs 10 and 11 are to be applied retrospectively.

Under IFRS 10, there will be one approach for determining consolidation for all entities, based on the concept of power, variability of returns and their linkage. This will replace the current approach which emphasises legal control or exposure to risks and rewards, depending on the nature of the entity. IFRS 11 places more focus on the investors' rights and obligations than on structure of the arrangement, and introduces the concept of a joint operation. IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements and associates and introduces new requirements for unconsolidated structured entities.

The company is currently assessing the impact of IFRS 10 and 11, but it is impracticable to quantify their effect as at the date of publication of these financial statements.

In May 2011, the IASB also issued IFRS 13 'Fair Value Measurement' ('IFRS 13'). This standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. The disclosure requirements of IFRS 13 do not require comparative information to be provided for periods prior to initial application.

IFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. The standard clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions, and enhances disclosures about fair value measurement.

The company is currently assessing the impact of IFRS 13 and it is not practical to quantify the effect as at the date of publication of these financial statements.

Financial Statements (continued)

In June 2011, the IASB issued amendments to IAS 19 'Employee Benefits' ('IAS 19 revised'). The revised standard is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted. IAS 19 revised must be applied retrospectively.

The most significant amendment for the company is the replacement of interest cost and expected return on plan assets by a finance cost component comprising the net interest on the net defined benefit liability or asset. This finance cost component is determined by applying the same discount rate used to measure the defined benefit obligation to the net defined benefit liability or asset. The difference between the actual return on plan assets and the return included in the finance cost component in the income statement will be presented in other comprehensive income. The effect of this change is to increase the pension expense by the difference between the current expected return on plan assets and the return calculated by applying the relevant discount rate.

Based on an initial estimate of the impact of this particular amendment on the 2010 financial statements, the change would decrease pre-tax profit, with no effect on the pension liability. The effect on total operating expenses and pre-tax profit is not expected to be material. The effect at the date of adoption will depend on market interest rates, rates of return and the actual mix of scheme assets at that time.

In December 2011, the IASB issued amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' which requires the disclosures about the effect or potential effects of offsetting financial assets and financial liabilities and related arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendments are required to be applied retrospectively.

Standards applicable in 2014

In December 2011, the IASB issued amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' 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 company is currently assessing the impact of these clarifications but it is impracticable to quantify their effect as at the date of publication of these financial statements.

Standards applicable in 2015

In November 2009, the IASB issued IFRS 9 'Financial Instruments' ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued additions to IFRS 9 relating to financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.

Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.

The second and third phases in the IASB's project to replace IAS 39 will address the impairment of financial assets measured at amortised cost and hedge accounting.

The IASB did not finalise the replacement of IAS 39 by its stated target of June 2011, and the IASB and the US Financial Accounting Standards Board have agreed to extend the timetable beyond this date to permit further work and consultation with stakeholders, including reopening IFRS 9 to address practice and other issues. The EU is not expected to endorse IFRS 9 until the completed standard is available. Therefore, the company remains unable to provide a date by which it plans to apply IFRS 9 and it remains impracticable to quantify the impact of IFRS 9 as at the date of publication of these consolidated financial statements.

(c) Going concern

The financial statements have been prepared under the going concern basis.

(d) General information

HSBC Global Asset Management Limited is a company domiciled and incorporated in England and Wales.

Financial Statements (continued)

2 Summary of significant accounting policies

(a) Fee Income

Income earned on the execution of a significant act is recognised as revenue when the act is completed. Income earned from the provision of services is recognised as revenue as the services are provided and income earned from exceeding a performance benchmark is only recognised when it can be reliably determined at the end of the period in which the benchmark is measured and the performance fee becomes payable.

(b) 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 method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

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. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

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.

(c) Income Tax

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

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

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

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

Deferred tax relating to fair value remeasurement of available-for-sale investments which is charged or credited directly to other comprehensive income, is also credited or charged to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

(d) Foreign currencies

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 ruling at the end of the reporting period. 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 exchange component of a gain or loss on a non-monetary item is recognised in other comprehensive income if the gain or loss on the non-monetary item is

Financial Statements (continued)

recognised in other comprehensive income. Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement.

(e) Dividend income

Dividend income from investments is recognised in the income statement when the right to receive payment is established.

(f) Intangible assets

IT software are stated at cost less any impairment losses and amortisation calculated on a straight-line basis to write-off the assets over their useful lives, which runs to 5 years.

IT software is subject to an impairment review if there are events or changes in circumstances which indicate that the carrying amount may not be recoverable.

(g) Subsidiaries

The Company classifies investments in entities in which it controls as subsidiaries. The subsidiaries are stated at cost less any impairment losses. Any impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised.

(h) Financial assets and liabilities

(i) Receivables

Receivables are recognised when cash is advanced to borrowers. They 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.

(ii) Available-for-sale assets

Available-for-sale financial assets are initially measured at fair value plus direct and incremental transaction costs. They are subsequently re-measured at fair value and changes therein are recognised in other comprehensive income in 'Available-for-sale investments – fair value gains/(losses)' until the investments are either sold or become impaired. When available-for-sale financial assets are sold, cumulative gains or losses previously recognised in other comprehensive income are recognised in the income statement.

(iii) Financial liabilities

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company current account.

(iv) Cash and cash equivalents

For the purpose of the cash flow statement, 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, and include cash.

(i) Pension and other post employment benefits

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank plc, its UK subsidiaries (including the Company) and certain other employees of the Group. This scheme, assets of which are held in a separate trust fund, comprises a funded defined benefit scheme ('the principal scheme') which is closed and a defined contribution scheme, which was established on 1 July 1996 for new employees. Individual subsidiaries within the Group, whose employees participate in the principal scheme, are not able to identify their share of the

Financial Statements (continued)

underlying assets and liabilities of the principal scheme and account for the principal scheme as a defined contribution scheme

The Company has taken advantage of multi-employer plan exemptions and has not disclosed the details of the defined benefit scheme required under IAS 19, 'Employee Benefits'

Full disclosure of the principal actuarial financial assumptions used to calculate the defined benefit pension plans at the end of the reporting period, of which employees of the Company are members, are disclosed in the financial statements of HSBC Bank plc. The Company makes a regular payment to HSBC Bank plc, for HSBC Bank plc to invest in the various schemes on behalf of the Company's employees

(j) Share-based payments

The cost of share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to the 'Capital contribution reserve'. For share awards, a credit to the inter-company account with HSBC Holdings plc is recognised. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Market performance conditions are taken into account when estimating the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition is satisfied, provided all other conditions are satisfied.

Vesting conditions, other than market performance conditions, are not taken into account in the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Share awards to employees that are recharged from HSBC Holdings plc to the Company are recognised as an inter-company creditor, not as a capital contribution. Savings-related share option awards are charged over the vesting period and are recognised as a capital contribution reserve.

(k) Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds, net of tax.

Dividends payable in relation to equity shares are recognised as a liability in the period in which they are declared.

(l) Determination of fair value

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

Financial Statements (continued)**(m) Use of assumptions and estimates**

When preparing the financial statements, it is the Directors' responsibility to select suitable accounting policies and to make judgements and estimates that are reasonable and prudent

There are no accounting policies that are deemed critical to the Company's IFRS results and financial position, in terms of materiality of the items to which the policy is applied, which involve a high degree of judgement and estimation

3 Fee income

	2011 £'000	2010 £'000
Service fees receivable from other group undertakings	33,818	23,775
	<u>33,818</u>	<u>23,775</u>

4 Gains less losses on financial investments

	2011 £'000	2010 £'000
Net gains / (losses) on seed and available-for-sale investments	7,607	(33,938)
Exchange losses on revaluation of available-for-sale investments	(6,266)	(8,516)
Reversal of impairment / (Permanent impairment) of available-for-sale investments	335	(335)
	<u>1,676</u>	<u>(42,789)</u>

Unrealised gains and losses on seed and own investments are included in the available-for-sale revaluation reserves

5 Other operating income/(expenses)

	2011 £'000	2010 £'000
Exchange gain on revaluation of financing	10,630	2,619
	<u>10,630</u>	<u>2,619</u>

6 Finance income/(costs)

	2011 £'000	2010 £'000
Interest receivable on coupon interest for available-for-sale investments	35,863	7,653
Interest income	<u>35,863</u>	<u>7,653</u>
Interest expense on short term loans with other group undertakings	(9,504)	(9,101)
Interest expense	<u>(9,504)</u>	<u>(9,101)</u>

Financial Statements (continued)**7 Administrative expenses**

	2011 £'000	2010 £'000
Staff costs		
– Wages and salaries	7,927	4,451
– Social security costs	1,551	1,075
– Discretionary bonus	6,916	5,445
– Equity compensation plans	4,896	2,101
– Contribution to retirement benefit schemes	1,127	963
– Other staff costs	765	544
– Property costs	1,044	995
Contracted out services	2,056	1,306
Other administrative expenses	26,693	25,092
	52,975	41,972
	Number	Number
The average number of persons employed by the Company during the year was as follows		
– Product/investment support	32	36
– Sales and marketing	27	22
– Management and support	25	16
– Administration	23	22
	107	96
Other administrative expenses include		
Auditor's remuneration for		
– Audit fees	64	63
	64	63

8 Share-based payments

The ultimate parent company, HSBC Holdings plc, operates share options schemes and share award schemes, in which the employees of the Company participate

Share options

The share option schemes include the HSBC Share Plan, HSBC Holdings Group Share Option Plan and Savings-related Share Option Plans. These schemes are accounted for within the consolidated financial statements of HSBC Holdings plc and costs relating to these schemes have been included in the income statement. A capital contribution from the parent has been recognised in the capital contribution reserve.

The total number of shares outstanding at 31 December 2011 was 131,334 (2010: 433,155) and included 27,673 shares granted in 2011. The weighted average fair value of shares outstanding, which is calculated when transactions are contracted, was £2.02 (2010: £5.46).

Share awards

Shares are also awarded to employees through the Restricted Share Plan and the Performance Share schemes. These schemes permit for discretionary cash bonus payments to be invested in restricted HSBC Holdings plc shares, with a 2 or 3 year vesting period. Discretionary bonuses awarded in respect of service in the past are expensed over the vesting period, which in this case is the period from the date the bonus is announced until the award vests. Employer's National Insurance is payable at the vest date, and this is accrued at the relevant statutory rate on the market value of the outstanding shares and is included in the liability and expenses for the plan given below.

The total number of shares outstanding as at 31 December 2011 was 1,041,382 (2010: 824,610) and included 273,656 (2010: 426,054) shares awarded in 2011. The weighted average fair value of shares outstanding, which is based on the closing market price at 31 December 2011, was £4.91 (2010: £6.51).

Impact of restricted share plan on the financial statements

Financial Statements (continued)

	2011 £'000	2010 £'000
Available-for-sale assets		
Cost of shares awarded to employees	5,465	4,359
Cumulative (decrease)/increase in fair value	(372)	1,010
Fair value of available-for-sale assets	5,093	5,369
Employee share scheme liabilities		
Current liabilities	2,817	580
Non-current liabilities	1,929	2,598
Total liability to employees	4,746	3,178
Expense		
Expense for the year	4,896	2,161

9 Directors' emoluments

	2011 £'000	2010 £'000
Directors' emoluments for qualifying services to the company	1,943	2,573
Amounts receivable under long-term incentive schemes	2,206	1,683
Company contributions to money purchase pension plans	111	29
	4,260	4,285

Not all directors are paid remuneration by the Company

The aggregate of emoluments and amounts received under long term incentive schemes of the highest paid Director was £2,191,884 (2010 £2,079,865), and company pension contributions of £78,432 were made to the money purchase scheme on his behalf (2010 £Nil)

During the year, the highest paid Director received shares under a long term incentive scheme

Retirement Benefits

	2011 No.	2010 No.
Retirement benefits are accruing to the following number of Directors under		
– Money purchase schemes	3	2
– Defined benefit schemes	2	2
The number of Directors in respect of whose qualifying service shares were received/receivable under long term incentive schemes	4	4
The number of Directors who exercised share options over HSBC Holdings plc ordinary shares	-	2

Comparative figures for retirement benefits have been amended to ensure consistent presentation with the current year

Retirement benefits are accruing to 2 Directors under defined benefit schemes at 31 December 2011 (2010 2 Directors) The Directors are members of retirement benefit schemes operated by HSBC Bank plc Details of these schemes can be found in the Annual Report and Accounts of HSBC Bank plc The Company does not receive any explicit charges in respect of the costs of contributions to the retirement benefit schemes for the Directors and staff It has no liability in respect of any deficit within the scheme, although any surplus or deficit may affect the level of costs recharged to the Company in future periods

Financial Statements (continued)**10 Tax expense**

	<i>Notes</i>	2011 £'000	2010 £'000
Current tax			
UK Corporation tax			
– on current year profit		5,310	(17,954)
– adjustments in respect of prior years		581	122
Total current tax		5,891	(17,832)
Deferred tax			
Origination and reversal of temporary differences		(21)	1,286
Effect of changes in tax rates		123	(46)
Adjustment in respect of prior years		(629)	(924)
Total deferred tax	<i>15</i>	(527)	316
Tax expense/(credit)		5,364	(17,516)

The UK corporation tax rate applying to the Company was 26.5 per cent (2010: 28 per cent)

The following table reconciles the tax expense

	2011	Percentage of	2010	Percentage of
		overall profit		overall profit
	£'000	before tax	£'000	before tax
		%		%
Taxation at UK corporation tax rate of 26.5% (2010: 28.0%)	19,507	26.5%	(5,268)	28.0%
Adjustments in respect of prior years	(48)	(0.1)%	(802)	4.3%
Amounts not deductible for tax purposes	4,794	6.5%	155	(0.8)%
Income not taxable for tax purposes	(19,054)	(25.9)%	(11,480)	61.0%
Changes in tax rates	114	0.2%	(46)	0.2%
Other items	51	0.1%	(75)	0.4%
Overall tax expense/(credit)	5,364	7.3%	(17,516)	93.1%

In addition to the amount credited to the income statement, the aggregate amount of current and deferred tax, relating to components of other reserves, was a £10,827,226 increase in other reserves (2010: £23,544,544 decrease in other reserves)

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. It is not expected that the proposed future rate reductions will have a significant effect on the net UK deferred tax position at 31 December 2011 of £1,540,176.

11 Intangible assets

	2011 £'000	2010 £'000
IT Software		
Cost		
At 1 January	5,927	3,640
Additions	2,517	2,287
At 31 December	8,444	5,927
Accumulated amortisation and impairment		
At 1 January	(1,197)	(469)
Amortisation for the year	(1,185)	(728)
At 31 December	(2,382)	(1,197)
Net carrying amount 31 December	6,062	4,730

Financial Statements (continued)**12 Investments in subsidiaries**

	2011 £'000	2010 £'000
Cost		
At 1 January	237,845	239,145
Redemption of preference shares	-	(1,300)
At 31 December	237,845	237,845
Provision for impairment		
At 1 January	-	-
Movement in impairment provisions	(17,796)	-
At 31 December	(17,796)	-
Net carrying amount 1 January	237,845	239,145
Net carrying amount 31 December	220,049	237,845

The principal subsidiary undertakings of the Company at the end of the reporting period were

Name of Undertaking	Class of Capital	Country of Incorporation	Type of business	Ownership Percentage 2011	Ownership Percentage 2010
HSBC Global Asset Management (UK) Ltd	Ordinary Shares	UK	Management of investment portfolios on behalf of institutional and retail clients	100%	100%
Halbis Capital Management (UK) Ltd	Ordinary Shares	UK	Specialist management of active investments on behalf of institutional, retail clients and high net worth individuals	100%	100%
HSBC Specialist Investments Ltd	Ordinary Shares	UK	Principal and investment management	100%	100%

13 Financial investments

	2011 £'000	2010 £'000
Available-for sale		
At 1 January	564,599	517,043
Additions - acquisitions	112,694	142,003
Disposal	(117,154)	(41,551)
Revaluation	(38,397)	(52,896)
At 31 December	521,742	564,599

The Company has made investments in a range of HSBC funds in order to facilitate their establishment and launch. Under IFRS these are treated as available-for-sale investments and are included in the statement of financial position at fair value. These comprise

2011 2010

Financial Statements (continued)

	Fair value £'000	Fair value £'000
Equity securities		
ABS Opportunities Fund	26,160	26,331
ABS Special Opportunities Fund	6,968	6,558
Amanah GCC Equity Portfolio	-	3,403
Amanah Saudi Equity Portfolio	-	1,689
China A Shares fund	-	15,992
HGIF ASIAN CURRENCIES BOND (AC) DIS	3	-
HGIF ASIAN CURRENCIES BOND Z DIS	13,002	-
HGIF ASIAN CURRENCIES BOND (AD) DIS	3	-
HGIF Brazil Bond Class Z CAP	-	-
HGIF CIVETS A CAP EUR	3	-
HGIF CIVETS I CAP EUR	3	-
HGIF CIVETS A CAP	3	-
HGIF CIVETS I CAP	3	-
HGIF CIVETS Z CAP	10,859	-
HGIF GEM Corporate Debt AC	3	3
HGIF GEM Corporate Debt IC	3	3
HGIF GEM Corporate Debt ZC	6,549	6,435
HGIF GEM Elite Y CAP	-	4
HGIF GEM Elite Z CAP	-	2,645
HGIF GEM Equity Alpha MIC	64	67
HGIF GEM Equity Alpha ZC	13,008	13,266
HGIF GEM Equity Alpha LICH	66	70
HGIF GEM Equity Alpha MICH	65	70
HGIF GEM Equity Alpha LIC	64	67
HGIF GEM Investment Grade Bond ZC	7,686	13,009
HGIF GEM Investment Grade Bond AC	3	3
HGIF GEM Investment Grade Bond IC	-	3
HISF Global Aggregate Bond Fund	4	3
HISF Global Aggregate Bond Fund	-	3
HGIF Global Core Credit Bond A Cap	3	3
HGIF Global Core Credit Bond I Cap	3	3
HGIF Global Core Credit Bond X Cap	3	3
HGIF Global Core Credit Bond ACHEUR	314	319
HGIF Global Core Credit Bond ICHEUR	318	321
HGIF Global Core Credit Bond Z Cap	9,760	9,584
HGIF Global Currency Fund L1 Cap	1,635	3,311
HGIF Global Currency Fund CHF	1,683	3,438
HGIF Global Currency Fund JPY	-	3,444
HGIF Global Currency Fund GBP	1,473	2,987
HGIF Global Equity SRI Z CAP	3	3
HGIF Global European Equity Alpha LIC	61	61
HGIF Global European Equity Alpha MIC	60	61
HGIF Global European Equity Alpha ZC	13,102	12,941
HGIF Global European Equity Alpha LICH	57	57
HGIF Global European Equity Alpha MICH	56	56
HGIF Global Flex Allocation LIC	4	4
HGIF Global Flex Allocation MIC	4	4
HGIF Global Flex Allocation RIC	4	4
HGIF Global Flex Allocation ZC	12,931	13,027
HGIF Global Inflation Linked Bond Fund IC Share Class	732	655
HGIF Global Inflation Linked Bond Fund AC Share Class	4	3
HGIF Global Inflation Linked Bond Fund ZC Share Class	15,833	14,108
HGIF Global Inflation Linked Bond Fund AC Hedged EUR	1,893	1,733
HGIF Global Inflation Linked Bond Fund IC Hedged EUR	1,911	1,739
HGIF Global Inflation Linked Bond Fund IC Hedged GBP	1,907	1,694
HGIF Halbis Global Macro LIC Fund	-	6,055
HGIF LATIN AMERICAN LOCAL DEBT A CAP	3	-
HGIF LATIN AMERICAN LOCAL DEBT I CAP	3	-
HGIF LATIN AMERICAN LOCAL DEBT Z CAP	11,611	-
HGIF MENA A Cap	3	3
HGIF MENA I Cap	3	3
HGIF MENA Z Cap	2,905	3,353
HGIF RMB AC Class	3	-
HGIF RMB IC Class	3	-
HGIF RMB ZC Class	6,536	-

Financial Statements (continued)

HGIF RMB A RMB CAP	6	-
HGIF Global Currency Fund L1 Hedged	1,754	3,656
HISF Multialpha China Equity A Cap	2	-
HISF Multialpha China Equity I Cap	3	-
HISF Multialpha China Equity X Cap	3	-
HISF Multialpha China Equity Z Cap	15,200	-
HSBC Distressed Opportunities	23,019	38,917
HSBC EMERGING MARKETS LOCAL DEBT FD CL-A	59	-
HSBC EMERGING MARKETS LOCAL DEBT FD CL-I	14,560	-
HSBC EMERGING MARKETS LOCAL DEBT FD CL-S	59	-
HSBC EMERGING MARKETS DEBT FUND CL-A	66	-
HSBC EMERGING MARKETS DEBT FUND CL-I	16,274	-
HSBC EMERGING MARKETS DEBT FUND CL-S	66	-
HSBC European Alpha Fund	6,768	6,897
HSBC Frontier Markets Fund Class A	59	-
HSBC Frontier Markets Fund Class I	8,854	-
HSBC Indian Alpha Fund	6,119	7,363
HSBC Portfolios - World Selection 1	60	319
HSBC Portfolios - World Selection 2	65	323
HSBC Portfolios - World Selection 3	-	328
HSBC Portfolios - World Selection 4	-	257
HSBC Portfolios - World Selection 5	113	335
Global Macro 2 - Z Cap	5,829	9,765
Global Macro 2 - M1 Cap	4	4
Global Macro 2 - L1 Cap	4	4
Open Global Property Fund	1,486	5,548
World Index Cautious Portfolio	5,320	-
World Index Balanced Portfolio	5,074	-
World Index Dynamic Portfolio	5,052	-
	285,226	242,317
Debt securities		
Telemaque Securites	49,352	71,870
Ex Orion PIK Securities	50,999	53,386
Ex Serpentine PIK Securities	42,130	81,528
Ex VFNC PIK Securities	87,993	107,638
	230,474	314,422
SIV Holdings		
VFNC Stub Note	605	1,511
Serpentine Stub Note	344	980
	949	2,491
Equity compensation plan (see Note 8)		
HSBC Holdings plc	5,093	5,369
	521,742	564,599

The fair value of assets is determined with reference to published price quotations from the recognised stock exchange. Where an illiquid or distressed market exists which has artificially depressed prices and these securities are to be held to maturity then a model approach has been used to mark these investments to market. The final published bid price of shares in HSBC Holdings plc at 2011 was £4.91 (2010: £6.51).

The increase / (decrease) in fair value relates to the movement in valuation of the underlying investments. Any price movements are taken to other comprehensive income unless the investment is deemed to be impaired.

14 Receivables

Financial Statements (continued)

	2011 £'000	2010 £'000
Related parties	7,736	12,035
Amounts due from other group undertakings	7,736	12,035
Other receivables	2,179	5,813
	9,915	17,848

15 Deferred tax assets

	2011 £'000	2010 £'000
At 1 January	558	874
Income statement credit/charge	527	(316)
Other comprehensive income		
– share-based payments	455	-
At 31 December	1,540	558
	2011 £'000	2010 £'000
Deferred tax assets		
Intangibles	(200)	(181)
Share-based payments	1,740	739
	1,540	558

16 Other financial liabilities

	2011 £'000	2010 £'000
Current liabilities		
Related parties	578,048	693,190
Amounts due to parent undertakings	-	50,000
Amounts due to other group undertakings	578,048	643,190
Accruals and deferred income	15,743	8,442
Employee share scheme liability	2,817	320
	596,608	701,952
Non-current liabilities		
Employee share scheme liability	1,929	2,598
	1,929	2,598

The loan from HSBC Holdings plc bears interest at the rate of 3 month Libor plus 15 bps. The loan matured on 30 December 2011.

The terms and conditions of the loans were as follows

2011	Year of maturity	Nominal Interest Rate	Currency	Face Value	GBP Equivalent
HSBC Holdings plc	30 December 2011	3 month LIBOR + 15 bps	GBP	0	0
HSBC Bank plc	13 January 2012	1 month LIBOR + 100 bps	USD	355,000,000	229,291,135
HSBC Bank plc	13 January 2012	1 month LIBOR + 100 bps	USD	235,000,000	151,784,273
HSBC Bank plc	13 January 2012	1 month LIBOR + 100 bps	EUR	50,000,000	41,771,355
HSBC Bank plc	13 January 2012	1 month LIBOR + 100 bps	EUR	110,000,000	91,896,980
HSBC Bank plc	13 January 2012	1 month LIBOR + 100 bps	GBP	50,000,000	50,000,000
					564,743,743
2010	Year of	Nominal Interest Rate	Currency	Face Value	GBP Equivalent

Financial Statements (continued)

	maturity				
HSBC Holdings plc	30 June 2011	3 month LIBOR + 15 bps	GBP	50,000,000	50,000,000
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	USD	58,000,000	37,361,505
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	USD	20,000,000	12,883,278
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	USD	10,000,000	6,441,639
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	USD	15,000,000	9,662,458
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	USD	600,000,000	386,498,325
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	30,000,000	25,845,143
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	122,000,000	105,103,582
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	4,000,000	3,446,019
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	7,000,000	6,030,533
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	4,000,000	3,446,019
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	9,000,000	7,753,543
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	EUR	15,000,000	12,922,572
HSBC Bank plc	11 January 2011	1 month LIBOR + 100 bps	GBP	15,000,000	15,000,000
					682,394,615

17 Share capital

	2011	2010
	£'000	£'000
Allotted, called up and fully paid		
146,275,476 Ordinary shares of £1 each	146,275	146,275
	146,275	146,275

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to repayment of capital.

The concept of authorised share capital was abolished under the UK Companies Act 2006 with effect from 1 October 2009 and consequential amendments to HSBC Global Asset Management Limited Articles of Association were approved by shareholder resolution on the 31 March 2011.

18 Dividends

For the year ended 31 December 2011 no dividend has been paid or declared (2010: £Nil)

19 Analysis of financial assets and liabilities by measurement basis

The following tables analyse the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by heading in the statement of financial position.

At 31 December 2011	Available-for-sale securities £'000	Loans and receivables £'000	Total £'000
Assets			
Financial investments	521,742	-	521,742
Cash and cash equivalents	-	27,586	27,586
Other receivables	-	9,915	9,915
Total financial assets	521,742	37,501	559,243
Total non financial assets			231,237
Total assets			790,480
Liabilities			
Amounts owed to parent undertakings	-	4,746	4,746
Amounts owed to other group undertakings	-	578,048	578,048

Financial Statements (continued)

Accruals and deferred income	-	15,743	15,743
Total financial liabilities	-	598,537	598,537
Total non financial liabilities			-
Total liabilities			598,537
At 31 December 2010	Available-for-sale securities £'000	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000
Assets			
Financial investments	564,599	-	564,599
Cash and cash equivalents	-	36,412	36,412
Other receivables	-	17,848	17,848
Total financial assets	564,599	54,260	618,859
Total non financial assets			243,133
Total assets			861,992
Liabilities			
Amounts owed to parent undertakings	-	52,918	52,918
Amounts owed to other group undertakings	-	643,190	643,190
Accruals and deferred income	-	8,442	8,442
Total financial liabilities	-	704,550	704,550
Total non financial liabilities			5,243
Total liabilities			709,793

20 Risk Management

The Company's risk management framework and processes for identifying risks, including strategic and operational risks, are described in the Directors' Report on Risk Management on page 2. These processes include identification and control of financial risks.

As an asset management business, the Directors consider it appropriate to differentiate between those financial risks which directly impact the Company and those which indirectly impact the Company due to risks borne by the Company's clients and the subsequent impact on the Company's revenues.

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

- Credit risk
- Market risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The financial instruments of the Company (excluding short-term debtors and creditors) comprise cash, liquidity funds and equity shares.

Exposure to credit, market rate and liquidity risk arises in the normal course of the Company's business. The Directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged since the beginning of the reporting period ending 31 December 2011.

Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It is managed within limits approved by the Board and delegated to individuals as appropriate.

Financial Statements (continued)

HSBC Holdings plc is responsible for the formulation of high-level credit policies. It also reviews the application of the HSBC Group's universal facility grading system. Within the overall framework of the HSBC Group policy, the Company 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 Company 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 build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The Company's only credit exposure is to securities and debtors, which are frequently monitored for size and age. Balances with other companies within the HSBC Group have minimal credit risk. The nature of the Company's business and counterparties means that it is not exposed to significant credit risk. This is because its receivables are mainly short-term trading items or inter-company balances.

The Company's exposure to credit risk is represented by the carrying amount of the assets.

Market risk management

Market risk is the risk that interest rates, foreign exchange rates or equity and commodity prices will move and result in profits or losses to the Company. Market risk arises on financial instruments which are valued at current market prices (mark-to-market basis) and those valued at cost plus any accrued interest (accruals basis).

The Company manages market risk through risk limits approved by the HSBC Group Executive Committee. An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

The Company is exposed to currency risk in respect of income and cash balances denominated in a currency other than Sterling. The Company's exposure is kept to an acceptable level by managing the level of non-sterling cash balances on a regular basis.

Interest on short term borrowings with HSBC Bank had an effective interest rate during 2011 of 1.61% (2010 1.42%).

The Company is exposed to equity and market risk through its AFS investments. Interest on AFS investments had an effective interest rate during 2011 of 1.00% (2010 1.45%).

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due or will have to access to such resources only at an excessive cost. This risk arises from mismatches in the timing of cashflows. Funding risk (a form of liquidity risk) arises when liquidity pledged to fund illiquid assets position cannot be obtained as the expected terms when required.

The Company's policy throughout the year has been to maintain sufficient liquidity to meet its financial obligations as they fall due.

The classification of the Company's financial assets and liabilities, and their fair values (excluding accrued interest) is as follows:

	2011 £'000	2010 £'000
Financial assets		
Cash and cash equivalents at cost	27,586	36,412
Cash and cash equivalents at fair value	<u>27,586</u>	<u>36,412</u>
Available-for-sale assets at cost	533,547	532,887
Available-for-sale assets at fair value	<u>521,742</u>	<u>564,599</u>
	<u>549,328</u>	<u>601,011</u>

21 Fair value of financial assets and liabilities

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2011 and 31 December 2010.

Financial Statements (continued)**22 Related party transactions**

Particulars of transactions, arrangement and agreements involving related parties are as follows

Related party	Amount of transaction	Balance at 31 December 2011	Details of transactions
2011	£'000	£'000	
HSBC Bank plc	-	27,586	Bank balance
HSBC Bank plc	(9,504)	(565,180)	Short term borrowings/interest
HSBC Bank plc - Group Charges	(10,504)	(6,167)	Group recharges
HSBC Holdings plc	-	(6,498)	Intercompany payable
HSBC Global Asset Management (UK) Ltd	4,798	(398)	Management and support services
Halbis Capital Management (UK) Ltd	-	-	Management and support services
Halbis Capital Management (Hong Kong) Ltd	-	-	Management and support services
Halbis Capital Management (USA) Inc	-	-	Management and support services
HSBC Asset Management (India) Private Ltd	14	70	Management and support services
HSBC Bank A S - Turkey	41	46	Management and support services
HSBC Bank Canada	812	430	Management and support services
HSBC Bank USA	-	-	Management and support services
HSBC Global Asset Management (France)	5,559	285	Management and support services
HSBC Global Asset Management (Hong Kong) Ltd	3,457	585	Management and support services
HSBC Global Asset Management (Japan) K K	463	123	Management and support services
HSBC Global Asset Management (Singapore) Ltd	721	774	Management and support services
HSBC Global Asset Management (Taiwan) Ltd	78	165	Management and support services
HSBC Investment Funds (Luxembourg) S A	9	(3)	Management and support services
HSBC Latin America Holdings (UK) Ltd	-	-	Management and support services
HSBC Mexico S A	235	79	Management and support services
HSBC Private Bank (UK) Limited	712	200	Management and support services
HSBC Saudi Arabia Limited	135	108	Management and support services
HSBC Trinkaus & Burkhardt AG	2,565	4,251	Management and support services
Sinopia Asset Management (UK) Ltd	97	-	Management and support services
HSBC Bank Brasil S A - Banco Multiplo	1,635	802	Management and support services
HSBC Global Asset Management (USA) Inc	1,372	(93)	Management and support services
The Bank of Bermuda Ltd	437	249	Management and support services
HSBC Bank Argentina S A	242	61	Management and support services
HSBC Global Resourcing (UK) Limited	(491)	(200)	Group recharges
Related party	Amount of transaction	Balance at 31 December 2010	Details of transactions
2010	£'000	£'000	
HSBC Bank plc	7,653	36,412	Bank balance/interest
HSBC Bank plc	(19,048)	(643,188)	Payroll, tax, Group recharges
HSBC Holdings plc	(9,101)	(50,000)	Loan balance/interest
HSBC Global Asset Management (UK) Ltd	18,398	704	Management and support services
Halbis Capital Management (UK) Ltd	29,741	2,620	Management and support services
Halbis Capital Management (Hong Kong) Ltd	493	290	Management and support services
Halbis Capital Management (USA) Inc	388	252	Management and support services
HSBC Asset Management (India) Private Ltd	78	164	Management and support services
HSBC Bank A S - Turkey	19	18	Management and support services
HSBC Bank Canada	779	485	Management and support services
HSBC Bank USA	3,293	-	Management and support services
HSBC Global Asset Management (France)	4,094	170	Management and support services
HSBC Global Asset Management (Hong Kong) Ltd	2,262	580	Management and support services
HSBC Global Asset Management (Japan) K K	176	136	Management and support services
HSBC Global Asset Management (Singapore) Ltd	191	136	Management and support services

Financial Statements (continued)

HSBC Global Asset Management (Taiwan) Ltd	156	439	Management and support services
HSBC Investment Funds (Luxembourg) S A	9	6	Management and support services
HSBC Latin America Holdings (UK) Ltd	18	-	Management and support services
HSBC Mexico S A	75	42	Management and support services
HSBC Private Bank (UK) Limited	79	204	Management and support services
HSBC Saudi Arabia Limited	9	52	Management and support services
HSBC Trinkaus & Burkhardt AG	1,433	3,422	Management and support services
Sinopia Asset Management (UK) Ltd	398	172	Management and support services
HSBC Bank Brasil S A - Banco Multiplo	(2)	1,080	Management and support services
HSBC Global Asset Management (USA) Inc	(54)	536	Management and support services
The Bank of Bermuda Ltd	(59)	507	Management and support services
HSBC Bank Argentina S A	-	20	Management and support services

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

HSBC Investment Bank Holdings plc, its immediate parent company, is the Company's direct controlling party and HSBC Holdings plc is the Company's ultimate controlling party

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

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

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

23 Contingent liabilities

There were no contingent liabilities at 31 December 2011 (2010 £Nil)

24 Subsequent events

The company entered into a Memorandum of Understanding ('MoU') on 13 September 2012 with HSBC Investment Bank Holdings plc, its parent entity, to sell its investment in subsidiary HSBC Specialist Investments Ltd. The consideration for sale was agreed at the book cost of £77.5m, thereby resulting in £nil gain. The sale shall be effective 01 November 2012 subject to necessary approvals.

There are no other events after 31 December 2011 requiring disclosure in the financial statements