MARKS AND SPENCER
FINANCIAL SERVICES PLC
FINANCIAL STATEMENTS

For the year ended 31 December 2010

Company Registration Number: 1772585

MARKS AND SPENCER

FINANCIAL SERVICES PLC

FINANCIAL STATEMENTS

CONTENTS

Report of the Directors for the Year Ended 31 December 2010
Company Registration Number : 1772585

The dırectors present theır report and the audıted financıal statements for the year ended 31 December 2010

Results and Dividends

The Company's results for the year under revıew are as detaıled ın the statement of comprehensıve ıncome shown ın these accounts

Dıvıdends totallıng £40 mıllıon were paıd durıng 2010 (2009 £80 mıllıon) £20 mıllıon was ın relatıon to dıvıdends declared for the year ended 31 December 2009 and a further £20 mıllıon of ınterım dıvıdends were paıd relatıng to 2010

On 25 March 2011 the dırectors declared a further dıvıdend of £20 mıllıon payable on 31 March 2011 ın respect of the year ended 31 December 2010 (2009 £20 mıllıon).

Business Review

Introductıon and prıncıpal actıvıtıes
The Company ıs regulated by the Fınancial Servıces Authorıty and provıdes financıal servıces to both Marks and Spencer and non-Marks and Spencer customers The maın products provıded by the Company are credıt cards, unsecured personal loans, general ınsurance, savıngs, travel money and a fee based premıum club product

Objectıves
The Company aıms to be the first choıce provıder of financıal servıces for Marks and Spencer customers, being renowned for qualıty, servıce, value, ınnovatıon and trust A 10 year relatıonshıp agreement between the ıntermedıate parent company (HSBC Bank Plc) and Marks and Spencer Plc provıdes financıal ıncentıves for the ongoıng profitable development of the Company

Strategy
The Company strategy ınvolves ıncreasıng both ıts customer base and product holdıngs per customer whılst delıverıng an ındustry-leadıng cost - ıncome ratio Thıs strategy wıll be delivered by focusıng on the followıng core themes

- Increase customer awareness of the Company and ıts product offerıngs,
- Reposıtıon and enhance the Company's product range,
- Improve presence wıthın Marks and Spencer dıstrıbutıon channels (stores, on-lıne, telephone),
- Provıde hıgh levels of servıce across all operatıons, and
- Ongoıng focus on efficıency to delıver best ın class operatıng costs

Rısk and uncertaıntıes
The maın financıal rısks faced by the Company ınclude the followıng

Credıt rısk, there ıs a rısk to the Company of financıal loss ıf a customer or counter-party faıls to pay ın full when due

Operatıonal rısk, loss may arıse through fraud, unauthorısed actıvıtıes, error, omıssıon, ınefficıency, systems faılure or from external events.

Interest rate rısk, the Company has an exposure to ınterest rate changes havıng both fixed and floatıng fundıng and advances to customers

Report of the Directors for the Year Ended 31 December 2010 (continued)

Further details of these risks and how they are managed are provided in Note 2 of the Financial Statements The Company may also be affected by changes to legislation resulting from ongoing reviews into certain industry issues

Measurement

The Company uses a range of measures to monitor progress against strategic and corporate objectives These include financial measures (e g profit before tax, cost income ratio, advances/deposits ratio), business measures, customer survey research, satisfaction measures (research, retention, cancellation rates) and risk measures (e g. credit loss ratios, present value basis point).

Performance

The Company saw a 5% increase in profit before tax in the year This was a result of a 21% decrease year-on-year in loan impairment charges which has been offset by an increase in operating expenses of 10%

The cost - income ratio increased to 46% for 2010 from 40% in 2009 reflecting additional profit share paid to Marks and Spencer Plc due to year on year profit growth. Operating income (before loan impairment charges) reduced by 4% in 2010

The customer satisfaction target of 75% was achieved during 2010 (2009 71%).

With respect to new business, the Company grew savings deposits by 18% through the launch of new products and the re-pricing of existing products The number of general insurance policies in force increased by 1% and premium club policies increased by 51%

Future Trends

In delivering its strategic goals, the Company will continue to drive growth in its core product lines (e g credit card, general insurance, travel money, savings) whilst introducing new products. The Company will aim to increase its awareness through delivery of the strategy where its offers fit Marks & Spencer brand values and it focuses on 'Make, Sell, Keep'

Going Concern

The financial statements are prepared on a going concern basis

Directors

The directors of the Company who served during the year were as follows

C M Kersley	Chief Executive Officer	
M J J R Golby		Resigned 25 March 2011
C D Haslam		Resigned 28 February 2011
C P Prentice		Appointed 4 March 2010
P W Scott		
K Culley	Non Executive & Chairman	
J D Garner	Non Executive	Resigned 2 February 2011
S P O'Sullivan	Non Executive	Resigned 31 January 2011

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

Report of the Directors for the Year Ended 31 December 2010 (continued)

Financial Instruments

The financial risk management objectives and policies of the Company, 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 2 of the Notes to the Financial Statements

Employment of disabled persons

The Company is committed to providing equal opportunities to employees. The employment of disabled persons is included in this commitment and the recruitment, training, career development and promotion of disabled persons is based on the aptitudes and abilities of the individual Should employees become disabled during employment, every effort would be made to continue their employment and, if necessary, appropriate training would be provided

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance

Charitable and Political Contributions

Direct donations to charitable organisations amounted to £65,235 (2009 £85,514) No political contributions were made during the period

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 those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment, and to abide by the terms of payment

The amount due to the Company's trade creditors at 31 December 2010 represented 5 days' (31 December 2009 7 days') average daily purchases of goods and services received from those creditors, calculated in accordance with the Companies Act 2006

Disclosure of information to auditor

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

Report of the Directors for the Year Ended 31 December 2010 (continued)

Auditor

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting

Statement of Directors' Responsibilities in relation to financial statements

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities, 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 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 judgments and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

By order of the Board

K Hudson
Secretary

25 March 2011

Kings Meadow
Chester
Cheshire
United Kingdom
CH99 9FB

Independent Auditor's report to the Members of Marks and Spencer Financial Services Plc

We have audited the financial statements of Marks and Spencer Financial Services Plc for the year ended 31 December 2010 set out on pages 6 to 47 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters 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 that we require for our audit

Richard Gabbertas (Senior Statutory Auditor)
for and on behalf of **KPMG Audit Plc, Statutory Auditor**

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

25 March 2011

MARKS AND SPENCER FINANCIAL SERVICES PLC

Statement of Comprehensive Income
For the Year Ended 31 December 2010

	Notes	2010 £000	2009 £000
Interest and similar income	5	334,707	343,781
Interest expense and similar charges	5	(86,472)	(84,448)
Net interest income		248,235	259,333
Fee and commission income	6	193,295	190,698
Fee and commission expense	6	(23,022)	(15,499)
Net fee and commission income		170,273	175,199
Other operating income	7	5,005	-
Other operating charges	7	(47,399)	(43,763)
		(42,394)	(43,763)
Net operating income before loan impairment charges and other credit risk provisions		376,114	390,769
Loan impairment charges and other credit risk provisions	8	(128,932)	(162,462)
Net operating income		247,182	228,307
Employee compensation and benefits	9	(44,847)	(46,219)
General and administrative expenses	10	(118,757)	(102,610)
Depreciation of property, plant and equipment	12 & 20	(2,819)	(3,695)
Amortisation of intangible assets	12 & 19	(5,933)	(4,655)
Total operating expenses		(172,356)	(157,179)
Profit before tax		74,826	71,128
Tax expense	13 & 14	(21,379)	(20,275)
Profit for the period		53,447	50,853
Total comprehensive income for the year		53,447	50,853

All operations are continuing
The notes on pages 10 to 47 are an integral part of these accounts

MARKS AND SPENCER FINANCIAL SERVICES PLC

Statement of Financial Position
For the Year Ended 31 December 2010

	Notes	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
ASSETS			
Cash and balances with central banks	15	1,300	1,880
Loans and advances to banks	16	1,426,257	535,857
Loans and advances to customers	17	2,935,536	3,100,814
Financial investments		77	56
Deferred tax assets	14	1,960	2,134
Other assets	18	32,802	50,559
Intangible assets	19	18,107	23,650
Property, plant and equipment	20	4,309	5,625
Total assets		4,420,348	3,720,575
LIABILITIES AND EQUITY			
Liabilities			
Deposits by banks	21	1,436,949	1,131,747
Due to customers	22	2,439,652	2,066,407
Other liabilities	23	115,113	107,381
Current tax liability		9,580	10,240
Provisions for liabilities and charges			
- other provisions	24	2,883	2,873
Other borrowed funds	25	94,266	94,249
Total liabilities		4,098,443	3,412,897
Equity			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	35,000	35,000
Retained earnings		284,092	270,645
Other reserves		2,813	2,033
Total equity		321,905	307,678
Total equity and liabilities		4,420,348	3,720,575

The financial statements on pages 6 to 47 were approved by the Board of Directors on 25 March 2011 and signed on its behalf by

Phillip Scott
Chief Financial Officer

The notes on pages 10 to 47 are an integral part of these accounts

MARKS AND SPENCER FINANCIAL SERVICES PLC

Statement of Cash Flows
For the Year Ended 31 December 2010

	Notes	2010 £000	2009 £000
Cash flows from operating activities			
Profit before tax		74,826	71,128
Adjustments for			
Non-cash items included in net profits	29 (a)	42,121	73,947
Change in operating assets	29 (b)	150,324	(32,966)
Change in operating liabilities	29 (c)	381,773	781,513
Tax paid		(21,868)	(20,518)
Net cash from operating activities		627,176	873,104
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,590)	(1,246)
Purchase of intangible fixed assets		(389)	(6,716)
Net cash used in investing activities		(1,979)	(7,962)
Cash flows from financing activities			
Increase/(decrease) in loan from intermediate parent undertaking		222,130	(275,765)
Dividends paid		(40,000)	(80,000)
Net cash from financing activities		182,130	(355,765)
Net increase in cash and cash equivalents		807,327	509,377
Cash and cash equivalents at the beginning of the period	29 (d)	200,901	(308,476)
Cash and cash equivalents at the end of the period	29 (d)	1,008,228	200,901

MARKS AND SPENCER FINANCIAL SERVICES PLC

Statement of Changes in Equity
For the Year Ended 31 December 2010

	Share Capital £000	Retained earnings £000	Other reserves £000	Total equity £000
Balance at 1 January 2010	35,000	270,645	2,033	307,678
Profit or loss	-	53,447	-	53,447
Total comprehensive income for the period	-	53,447	-	53,447
Share-based payment transactions	-	-	758	758
Available for sale reserve	-	-	22	22
Dividends to equity holders	-	(40,000)	-	(40,000)
Total contributions by and distributions to owners	-	(40,000)	780	(39,220)
Balance at 31 December 2010	35,000	284,092	2,813	321,905

	Share Capital £000	Retained earnings £000	Other reserves £000	Total equity £000
Balance at 1 January 2009	35,000	299,792	1,075	335,867
Profit or loss	-	50,853	-	50,853
Total comprehensive income for the period	-	50,853	-	50,853
Share-based payment transactions	-	-	958	958
Available for sale reserve	-	-	-	-
Dividends to equity holders	-	(80,000)	-	(80,000)
Total contributions by and distributions to owners	-	(80,000)	958	(79,042)
Balance at 31 December 2009	35,000	270,645	2,033	307,678

1 Summary of significant accounting policies

Basis of preparation

The Company has prepared its financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the EU and effective for the Company's reporting for the year ended 31 December 2010 IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

These financial statements comply with all current IFRSs. Current IFRSs include certain amendments that have yet to be endorsed by the EU, but are expected to be endorsed

The preparation of financial information requires the use of estimates and assumptions about future conditions Use of available information and application of judgement are inherent in the formation of estimates Actual results may differ from those reported

In the opinion of management, all normal adjustments considered necessary for a fair presentation of the Company's net income, financial position and cash flows for the year ended 31 December 2010 have been made

The accounting policies below were in force during the prior period and remain unchanged unless otherwise stated

New Accounting Standards

IFRS 3, Business Combinations (Revised) This standard replaces IFRS 3, Business Combinations (2004) and is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 The main changes in this standard are that the cost of investment will comprise the consideration paid to the vendors for equity with acquisition costs being expensed immediately, goodwill will be accounted for only upon the acquisition of a subsidiary as subsequent changes in interest will be recognised in equity and only upon the loss of control will any profit or loss be recognised in the Income Statement Further, any pre-existing holding within the acquired entity will, where control is subsequently gained, be re-valued with any profit or loss arising being credited / charged through the Income Statement This standard has had no impact on these financial statements in 2010

IAS 27, Consolidated and Separate Financial Statements (2008) The amended standard must be applied for annual periods beginning on or after 1 July 2009 The amendments to this standard require the effects of all transactions with non-controlling interests to be recorded in equity if there has been no change in control The changes also specify the accounting where control of an entity is lost This standard has had no impact on these financial statements in 2010

1 Summary of significant accounting policies (continued)

Eligible Hedged Items (Amendment to IAS 39 Financial Instruments Recognition and Measurement) The amended standard must be applied for annual periods beginning on or after 1 July 2009 The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item and inflation in a financial hedged item This amendment has had no impact on these financial statements in 2010

Interest income and expense

Interest income and expense are recognised in the statement of comprehensive income using the effective interest rates of the financial assets and liabilities to which they relate The effective interest method calculates the amortised cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period This discounts the estimated future cash flows 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 does not consider future credit losses The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

Under IFRSs, loan origination fees are amortised over the estimated life of the loan as part of the effective interest calculation

Fee and commission income

Fees and commissions are recognised as services are provided

Insurance commission income is credited to the statement of comprehensive income net of cancellations and accounted for when the related premiums are due from the customer A provision is made to cover the potential obligation to refund commission income on early terminations of loans insurance

Insurance profit share

Insurance profit share in respect of creditor insurance is based on premiums earned and claims incurred over the period for which cover is provided. In the event that in any scheme year there is a deficit, any such deficit is carried forward into subsequent scheme years and no payment of profit is made until all deficits have been cleared These financial statements include the profit share to the year end date

1 Summary of significant accounting policies (continued)

Financial assets

Available-for-sale

A financial asset that does not fall into the category of (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss is classified as 'available-for-sale'

The Company has received a distribution of shares which meets this classification. The shares have initially been recognised as dividend income

Any change to the fair value of an asset classified as 'available-for-sale' is recorded directly in equity until the financial asset is sold, when the cumulative charge is removed from equity and recognised in the statement of comprehensive income.

Fair value is determined by reference to the share valuation

Loans and receivables

The Company classifies all remaining financial assets as loans and receivables Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivable

Loans and advances are recognised when cash is advanced to borrowers or there is entitlement to receive economic benefit from a debtor They are initially recorded at fair value plus any directly attributable costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses

Financial liabilities

The Company classifies all financial liabilities as 'other' liabilities, using the IAS39 classification These are initially recorded at fair value less transaction costs, and subsequently measured at amortised cost using the effective interest method

Impairment of financial assets

The Company recognises losses for impaired financial assets promptly where there is objective evidence that a financial asset or group of financial assets is impaired

1 Summary of significant accounting policies (continued)

The Company first assesses whether objective evidence exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics To calculate collective impairments on a group of financial assets the Company utilises a net flow rate methodology This methodology utilises a statistical analysis of historical trends of the probability of default and amount of consequential loss, assessed at each time period for which the customer's contractual payments are overdue The amount of loss is measured as the difference between the group of financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the group of financial assets' original effective interest rate The carrying amount of the group of financial assets is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income

Loans and advances write-offs

Loans and advances (and the related impairment allowance accounts) are written off when there is no realistic prospect of recovery of these amounts Subsequent recoveries of amounts previously written off decrease the amount of provision for loans and advances impairment in the statement of comprehensive income.

Intangible assets

Intangible assets, all of which are internally generated software, are stated at cost less amortisation and are amortised over their estimated useful lives of five years Assets are subject to regular impairment reviews which compare the carrying value to the expected value in use Any impairment losses are recognised in the statement of comprehensive income Amortisation does not commence until the asset is brought into operational use.

1 Summary of significant accountıng policıes (continued)

Property, plant and equipment

Property, plant and equıpment is stated at hıstorıc cost less accumulated deprecıatıon Hıstorıc cost ıncludes expendıture that ıs dırectly attrıbutable to the acquısıtıon of the ıtems Subsequent costs are included ın the asset's carryıng amount or are recognısed as a separate asset as approprıate, only when ıt ıs probable that future economıc benefits assocıated wıth the ıtem wıll flow to the Company and the cost of the ıtem can be measured relıably All other repaırs and maıntenance are charged to the statement of comprehensıve ıncome durıng the financıal perıod ın which they are ıncurred Deprecıatıon ıs calculated usıng the straıght-lıne method to wrıte off the cost of assets to theır resıdual values over theır estımated useful lıves as follows

Leasehold ımprovements	Lease term
Fıxtures, fittings and caterıng equıpment	2 – 10 years
Computer equıpment and vehıcles	2 – 5 years

The assets' resıdual values and useful lıves are reviewed, and adjusted ıf approprıate, at each statement of financıal posıtıon date

Income tax

Income tax on the profit or loss for the year comprıses current tax and deferred tax Income tax ıs recognısed ın the statement of comprehensive income except to the extent that ıt relates to ıtems recognısed dırectly ın shareholders' equıty

Current tax ıs expected to be payable on the taxable profit for the year, calculated usıng tax rates enacted or substantially enacted by the statement of financıal posıtıon date, and any adjustment to tax payable in respect of prevıous years Current tax assets and lıabılıtıes are offset when the Company ıntends to settle on a net basıs and the legal rıght to set off exısts

Deferred tax is recognısed on temporary dıfferences between the carryıng amount of assets and lıabılıtıes on the statement of financıal posıtıon and the amount attrıbuted to such assets and lıabılıtıes for tax purposes Deferred tax lıabılıtıes are generally recognısed for all taxable temporary dıfferences and deferred tax assets are recognısed to the extent that future taxable profits wıll be avaılable agaınst whıch deductıble temporary dıfferences can be utılısed

Deferred tax ıs calculated, wıthout dıscountıng, usıng the tax rates expected to apply ın the perıods ın whıch the assets wıll be realısed or the lıabılıtıes settled, based on tax rates and laws enacted, or substantıvely enacted, by the statement of financıal posıtıon date Deferred tax assets and lıabılıtıes are offset when they arıse ın the same tax reportıng group and relate to ıncome taxes levıed by the same taxatıon authorıty, and when a legal rıght to set off exısts ın the entıty

1 Summary of significant accounting policies (continued)

Share capital

Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

Employee benefits

Pension obligations
The Company is a member of defined benefit and defined contribution schemes operated by the HSBC Group In accordance with IAS19, the defined benefit pension contributions have not been accounted for on a defined benefit basis because it is not possible to separately identify the Company's share of the underlying assets and liabilities on a consistent and reasonable basis Accordingly, this scheme has been treated as a defined contribution scheme, and the pension cost charge in respect of both schemes represents the contributions payable in respect of the financial period

Share-based compensation
The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense The total amount to be expensed over the vesting period is determined by reference to the fair value of the options on grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable It recognises the impact of the revision of original estimates, if any, in the statement of comprehensive income, and a corresponding adjustment to equity over the remaining vesting period.

Operating leases

Contractual relationships and their related transactions are accounted for as operating leases when substantially all the risks and rewards of ownership remain with the lessor The total payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place

Foreign currency translation

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The financial statements are presented in sterling, which is the Company's functional and presentation currency

1 Summary of significant accounting policies (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and a reliable estimate can be made of the amount of the obligation

Cash and cash equivalents

For the purpose of the statement of cash flows, 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 and loans and advances to and from banks

Segment reporting

The Company does not operate in more than one geographical segment, other than an immaterial level of trading in Ireland, or in more than one class of business. For this reason, there is no additional disclosure required under IFRS 8 Operating Segments

2 Financial risk management

The Company lends to individuals in the unsecured lending market, at variable rates and terms through its Chargecard, Credit Card and Personal Reserve products, and at fixed rates and terms through unsecured Personal Loans

The main risks arising from the Company's financial instruments are credit risk, interest rate risk, operational risk, liquidity risk, and foreign currency risk The Board of Directors has overall responsibility for the establishment of risk appetite and the management of risk The Company has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures The structure is reviewed regularly by the Board The Asset and Liability Committee (ALCO) is charged with the responsibility for managing and controlling the statement of financial position exposures of the Company, and a report from each ALCO meeting is presented to the Board The Credit Committee and Operational Risk and Compliance Committee are charged with the responsibility for managing credit risk and operational risk respectively

2.1 Financial instruments

The Company's financial instruments during the period included variable rate and fixed rate loans from HSBC Bank Plc, subordinated liabilities and deposits from customers and staff

The Company does not trade in derivative financial instruments, but from time to time interest rate swaps may be used to manage interest rate risk All gains and losses from changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income

2.2 Credit risk

The Company takes on exposure to credit risk, which is the risk that financial loss arises from the failure of a counter-party to pay amounts in full when due Impairment provisions are recorded for losses that have been incurred at the statement of financial position date. Significant changes in the economy could result in losses that are different from those provided for at the statement of financial position date Management therefore carefully manages its exposure to credit risk

In making advances to customers, the Company faces credit risk All initial applications are subjected to credit scoring techniques and accounts in arrears are actively managed to minimise the Company's credit risk exposure The Company further maintains an impairment provision to recognise its estimate of potential losses arising from impaired advances

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate

Commitments to extend credit represent the unused portion of authorisations to extend credit The Company is therefore potentially exposed to loss in an amount equal to the total unused commitments However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards

The Company does not use any derivative financial instruments to manage its credit risk

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated as at 31 December 2010 is £8.4m (31 December 2009 £13 7m)

There are also restructured loans that would otherwise be past due whose terms have been renegotiated However, these accounts are treated as impaired for Collective Impairment Provisioning purposes and impairment provisions are held against these accounts accordingly All other accounts that are past due are treated as impaired for collective impairment provisioning purposes

2.2 Credit Risk (continued)

An aged analysis of the Loans and Advances to customers at the report date is shown below

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Not past due	2,789,203	2,924,390
Past due 0-30 days	52,522	61,624
Past due 31-90 days	39,473	48,499
More than 90 days	391,487	370,178
Total	3,272,685	3,404,691

An aged analysis of the allowances for losses on Loans and Advances to customers at the report date is shown below

	2010 £000	2009 £000
Not past due	13,782	14,182
Past due 0-30 days	10,188	10,922
Past due 31-90 days	19,714	21,297
More than 90 days	293,465	257,476
Total	337,149	303,877

2.3 Currency risk

The Company has a minor exposure to currency fluctuations in the Euro, due to loan advances made in Ireland. The asset and liability positions naturally hedge one another, giving a net exposure of £4 1m (2009 £4 2m) All other material trading is carried out in Sterling

2.4 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events This encompasses all of our business activities The Company manages operational risk through a process of business wide identification, maintenance of robust internal controls, appropriate staff training, and the provision of robust Business Continuity

2.5 Interest rate risk

The Company seeks to match its fixed rate funding to the fixed rate advances it provides to customers, and floating rate funding to the floating rate advances to customers

The Company uses interest rate sensitivity gap analysis and Present Value Basis Point (PVBP) as approaches to measuring interest rate risk The PVBP approach quantifies the impact on net interest income of a basis point increase/decrease in interest rates ALCO has set a PVBP tolerance limit of £25k and manages the Company's PVBP against this limit The actual PVBP for December 2010 was £10k

2.6 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations as they fall due The Company utilises customer deposits and funding from HSBC Bank Plc, to source its Sterling denominated funds. The Company seeks to match availability of funding to the Company's requirements, and any shortfalls are sourced by HSBC Bank Plc at that time The Company has an agreed overdraft denominated in Euros The Company's regulatory liquidity position is managed as part of the HSBC Bank Plc liquidity management programme

The table on page 20 analyses the Group's liabilities into relevant maturity groupings based on the remaining period at statement of financial position date to the contractual maturity date. These liabilities include future interest amounts in addition to the liabilities as stated in the statement of financial position

Notes to the Financial Statements
For the Year Ended 31 December 2010

	1 month or less	More than 1 month but not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 2 years	More than 2 years but not more than 3 years	More than 3 years but not more than 4 years	More than 4 year but not more than 5 years	More than 5 years	Undated	Total
At 31 December 2010	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Liabilities										
Deposits by banks	430	166	345	237	216	34	40	6	-	1,474
Due to customers [1]	2,440	-	-	-	-	-	-	-	-	2,440
Other liabilities	128	-	-	-	-	-	-	-	-	128
Other borrowed funds	-	-	-	-	-	101	-	-	-	101
Equity	-	-	-	-	-	-	-	-	322	322
Total liabilities	2,998	166	345	237	216	135	40	6	322	4,465
At 31 December 2009										
Liabilities										
Deposits by banks	334	41	213	257	237	52	35	18	-	1,187
Due to customers [1]	2,066	-	-	-	-	-	-	-	-	2,066
Other liabilities	121	-	-	-	-	-	-	-	-	121
Other borrowed funds	-	-	-	-	-	-	103	-	-	103
Equity	-	-	-	-	-	-	-	-	308	308
Total liabilities	2,521	41	213	257	237	52	138	18	308	3,785

1 Liabilities 'Due to customers' 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

3 Capital Management

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

The Company recognises the impact on shareholder returns of the level of equity capital employed within the business and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage

The Company manages its own capital within the context of the approved annual HSBC Group capital plan, which determines levels of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth.

Capital Measurement

From 1 January 2008 the Company's capital requirements have been defined by the Basel II framework, which replaced the previous (Basel I) regime

Basel II is structured around three 'pillars' minimum capital requirements, supervisory review process and market discipline The Capital Requirements Directive ('CRD') implements Basel II in the EU and the Financial Services Authority ('FSA') then gives effect to the CRD by including the requirements of the CRD in its own rulebooks

Basel II provides three approaches of increasing sophistication to the calculation of pillar 1 credit risk capital requirements The Company has adopted the internal ratings-based ('IRB') advanced approach for the majority of its business under this approach the Company is allowed to use its own internal assessments in determining capital requirements

Basel II also introduces capital requirements for operational risk and, again, contains three levels of sophistication The Company has adopted the standardised approach to the determination of operational risk requirements, under this approach capital required is a percentage of gross revenues allocated to each of eight defined business lines.

Capital is divided into two tiers

Tier 1 capital comprises shareholders' funds, including audited retained reserves The book value of intangible assets is deducted in arriving at tier 1 capital

Tier 2 capital comprises qualifying subordinated loan capital and certain collective impairment allowances

3 Capital Management (continued)

Pillar 2 of Basel II involves firms and regulators taking a view on whether a firm should hold additional capital against risks not covered in pillar 1 The firm carries out a self assessment of risks not captured by pillar 1 in the form of an Internal Capital Adequacy Assessment Process ('ICAAP') and is provided with Individual Capital Guidance ('ICG') by the FSA The ICG is set as a capital resources requirement higher than that required under pillar 1, generally by a specified percentage

Pillar 3 is related to market discipline and requires firms to publish prescribed details of their risks, capital and risk management under the Basel II framework.

	Basel II Actual 2010 £000	**Basel II Actual 2009 £000**
Tier 1 capital		
Share capital	35,000	35,000
Retained reserves	232,672	220,861
Intangible assets	(18,107)	(23,650)
Excess of expected losses over impairment allowances	(14,894)	(17,095)
Tier 2 capital		
Subordinated loan capital	94,000	94,000
Amortisation	(21,933)	(3,133)
Collective impairment allowances	2,113	2,295
Excess of expected losses over impairment allowances	(14,894)	(17,095)
Total regulatory capital	293,957	291,183
Total risk-weighted assets	2,249,145	2,369,920

The Company has complied with the FSA capital adequacy requirements throughout 2010 and 2009

4 Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment on a monthly basis In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Company makes a judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan on that portfolio This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience

A +/- 5% movement in recovery estimates leads to a +/- £3 64m increase/decrease to reported profit.

(b) Effective interest rate

The effective interest rate adjustment is calculated using balance and interest profiles taken from actual data and projected to the life span of the accounts The profiles are reviewed on a quarterly basis

An increase in the assumed life span of the accounts from 5 to 6 years results in a £9 6m increase to reported profit.

5 Net interest income

Interest and similar income	**2010 £000**	**2009 £000**
Loans and advances	321,277	343,781
Amounts receivable from other group undertakings	13,430	-
	334,707	343,781

Interest receivable from HSBC Bank Plc is £13.4m (2009: £4m) which was included within interest expense in 2009

Interest expense and similar charges	**2010 £000**	**2009 £000**
Deposits by banks	32,682	41,271
Due to customers	51,939	40,838
Other borrowed funds	1,819	2,284
Other interest	32	55
	86,472	84,448

Included within interest income is £0.4m (2009 £0 7m) in respect of interest income accrued on impaired financial assets

6 Net fee and commission income

Fee and commission income	**2010**	**2009**
	£000	**£000**
Insurance commission	28,344	35,496
Other fees and commission	164,951	155,202
	193,295	190,698

Fee and commission expense	**2010**	**2009**
	£000	**£000**
Other fees and commission	23,022	15,499
	23,022	15,499

7 Other operating income and charges

	2010	**2009**
	£000	**£000**
Restaurant income	509	-
Management recharge	959	-
IT staff recharge	3,537	-
	5,005	-

Restaurant income of £0 5m (2009 £0 5m) and management recharge of £0 9m (2009. £0 8m) were both included within general and administrative expenses in 2009 IT staff recharge of £3 5m (2009 £0 4m) was previously included within employee compensation and benefits

	2010	**2009**
	£000	**£000**
Loyalty charges	45,979	42,361
Other	1,420	1,402
	47,399	43,763

8 Impairment losses on loans and advances

	2010 £000	2009 £000
Impairment losses on loans and advances	128,932	162,462
	128,932	162,462

9 Employee compensation and benefits

Staff costs (including directors):	**2010 £000**	**2009 £000**
Wages and salaries	34,606	35,433
Social security costs	2,937	3,001
Other pension costs	5,605	5,985
Other staff costs	940	842
Equity-settled share-based payments	759	958
	44,847	46,219

Average number of permanent employees (including Executive Directors):	**2010**	**2009**
Selling and distribution	398	374
Administration	960	904
	1,358	1,278

If the number of part-time hours worked were converted on the basis of a full working week, the equivalent average total number of full-time employees would have been 1,204 (2009· 1,146)

Equity-settled share-based payments

During 2010, £757,726 was charged to the statement of comprehensive income in respect of share-based payment transactions (2009 £958,328)

9 Employee compensation and benefits (continued)

Calculation of fair values

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using a binomial lattice methodology that is based on the underlying assumptions of the Black-Scholes model The expected life of options depends on the behaviour of option holders, which is incorporated into the options model consistent with historic observable data The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used

The significant assumptions used to estimate the fair value of the options granted in 2010 are as follows

	3 year savings-related share option schemes	5 year savings-related share option schemes
Risk-free interest rate (%)	4 5	4 5
Expected life (years)	3 0	5 0
Expected volatility (%)	30	30

The risk-free rate was determined from the government bond yield curve for Group Share Option Plan awards and UK Savings-Related Share Option Schemes A similar yield curve was used for the Overseas Savings-Related Share Option Schemes. Expected life is not a single input parameter but a function of various behavioural assumptions Expected volatility is estimated by considering both historic average share price volatility and implied volatility derived from traded options over HSBC shares of similar maturity to those of the employee options Expected dividend yield was based on historic levels of dividend growth denominated in Sterling

9 Employee compensation and benefits (continued)

Savings-Related Share Option Plans

The Savings-Related Share Option Plans invite eligible employees to enter into savings contracts to save up to £250 per month, with the option to use the savings to acquire shares in HSBC Holdings Plc. The aim of the plan is to align the interests of all employees to the creation of shareholder value The options are exercisable within six months following either the third or the fifth anniversary of the commencement of the savings contract depending on conditions set at grant The exercise price is at a 20% (2009 20%) discount to the market value at the date of grant

	2010 Number (000's)	2010 Weighted average exercise price £	2009 Number (000's)	2009 Weighted average exercise price £
Outstanding at 1 January	1,021	4 97	1,279	7 13
Granted in the year	284	5 46	585	3 31
Exercised in the year	(178)	5 03	(254)	7.67
Forfeited in the year	(132)	6 97	(589)	6 84
Outstanding at 31 December	995	4.84	1,021	4 97

The weighted average fair value of options granted in the year as at the date of grant was £1 62 (2009 £1 41).

The number of options, weighted average exercise price, and the weighted average remaining contractual life for options outstanding at the statement of financial position date, analysed by exercise price, are as follows

	2010	2009
Exercise price range (£)	3 31 – 7 67	3 31 – 7 67
Number (000's)	995	1,021
Weighted average exercise price (£)	4 84	4 97
Weighted average remaining contractual life (years)	2 3	2 6

10 General and administrative expenses

	2010 £000	2009 £000
Premises and equipment	25,251	24,720
Communication	5,940	6,550
Advertising/Marketing	12,869	12,581
Other – including Marks and Spencer Plc profit share	74,697	58,759
	118,757	102,610

11 Commitments under operating leases

At 31 December 2010 total commitments under non-cancellable operating leases were as follows

	As at 31 Dec 2010		As at 31 Dec 2009	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Expiring within one year	2,626	104	2,104	117
Expiring between one and five years	7,459	120	-	174
	10,085	224	2,104	291

12 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging	2010 £000	2009 £000
Depreciation	2,819	3,695
Amortisation	5,933	4,655
Operating lease rentals		
- plant and machinery	402	461
- buildings	2,625	2,454
Sublease rental income	(413)	(393)
Independent auditor's fees		
- Audit remuneration audit services	129	129

13 Tax expense

	2010 £000	2009 £000
Current tax		
UK Corporation Tax		
- on current year	21,289	20,496
- adjustments in respect of prior years	(84)	31
	21,205	20,527
Deferred tax		
Origination and reversal of temporary differences	95	(273)
Effect of changes in tax rates	74	-
Adjustments in respect of prior years	5	21
Tax expense	21,379	20,275

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

	2010 £000	2009 £000
Profit before tax	74,826	71,128
Tax calculated at the UK Corporation tax rate of 28% (2009 28%)	20,951	19,916
Expenses not deductible for tax purposes	424	307
Adjustment re share based payments	9	-
Adjustments in respect of prior years	(79)	52
Effect of changes in tax rates	74	-
Tax expense	21,379	20,275

14 Deferred tax

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

	Property plant and equipment	Share based payments	Other temporary differences	Total
	£000	£000	£000	£000
At 1 January 2010	2,239	268	(373)	2,134
Income Statement credit/(expense)	(228)	(18)	72	(174)
At 31 December 2010	2,011	250	(301)	1,960
At 1 January 2009	2,319	0	(437)	1,882
Income Statement credit/(expense)	(80)	268	64	252
At 31 December 2009	2,239	268	(373)	2,134

15 Cash and balances with central banks

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Mandatory reserve deposits with central banks	1,300	1,880
	1,300	1,880

Mandatory reserve deposits are not available for use in the Company's day to day operations Cash in hand and balances with central banks and mandatory reserve deposits receive interest at nominal rates

16 Loans and advances to banks

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Amounts due from intermediate parent undertaking	1,404,931	528,103
Loans and advances to banks	21,326	7,754
	1,426,257	535,857

Loans with variable rates totalled £21,326,000 (31 December 2009: £7,754,000)

Amounts due from intermediate parent undertaking are unsecured, interest bearing and have fixed dates of repayment which range from 12 January 2011 to 16 September 2015 All loans and advances to other banks have variable interest rates and are repayable on demand

17 Loans and advances to customers

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Gross loans and advances to individuals	3,272,685	3,404,691
Less allowance for losses on loans and advances	(337,149)	(303,877)
	2,935,536	3,100,814

Loans and advances (net of allowances) with variable rates totalled £2,671m (2009 £2,733m) and fixed rates totalled £264m (2009 £368m)

Allowance for losses on loans and advances

	2010 £000	2009 £000
At 1 January	303,877	236,963
Provision for loan impairment	130,889	166,367
Loans and advances written off during the period as uncollectible	(98,298)	(100,112)
Unwind of discount of allowance	681	659
At 31 December	337,149	303,877

18 Other assets

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Amounts due from fellow subsidiaries	657	372
Other assets	29,921	48,170
Prepayments and accrued income	2,224	2,017
	32,802	50,559

Amounts due from fellow subsidiary undertakings are unsecured, interest free and have no fixed date of repayment Other assets include £4,833,000 (2009 £6,011,000) relating to insurance underwriting profit due from third parties

19 Intangible assets

	Software development costs £000	Software development in the course of construction £000	Total £000
Cost			
At 1 January 2009	5,898	17,498	23,396
Additions	22,924	5,497	28,421
Disposals/transfer from WIP	-	(21,705)	(21,705)
At 31 December 2009	28,822	1,290	30,112
Amortisation			
At 1 January 2009	1,807	-	1,807
Amortisation charge	4,655	-	4,655
Disposals	-	-	-
At 31 December 2009	6,462	-	6,462
Net book value			
At 1 January 2009	4,091	17,498	21,589
At 31 December 2009	22,360	1,290	23,650
Cost			
At 1 January 2010	28,822	1,290	30,112
Additions	1,680	-	1,680
Disposals/transfer from WIP	-	(1,290)	(1,290)
At 31 December 2010	30,502	-	30,502
Amortisation			
At 1 January 2010	6,462	-	6,462
Amortisation charge	5,933	-	5,933
Disposals	-	-	-
At 31 December 2010	12,395	-	12,395
Net book value			
At 1 January 2010	22,360	1,290	23,650
At 31 December 2010	18,107	-	18,107

20 Property, plant and equipment

	Leasehold improvements £000	Equipment £000	Total £000
Cost			
At 1 January 2009	2,740	56,050	58,790
Additions	-	1,246	1,246
Disposals	-	(826)	(826)
At 31 December 2009	2,740	56,470	59,210
Accumulated depreciation			
At 1 January 2009	1,752	48,827	50,579
Charge for the period	539	3,156	3,695
Disposals	-	(689)	(689)
At 31 December 2009	2,291	51,294	53,585
Net book value			
At 1 January 2009	988	7,223	8,211
At 31 December 2009	449	5,176	5,625
Cost			
At 1 January 2010	2,740	56,470	59,210
Additions	-	1,590	1,590
Disposals	-	(721)	(721)
At 31 December 2010	2,740	57,339	60,079
Accumulated depreciation			
At 1 January 2010	2,291	51,294	53,585
Charge for the period	449	2,370	2,819
Disposals	-	(634)	(634)
At 31 December 2010	2,740	53,030	55,770
Net book value			
At 1 January 2010	449	5,176	5,625
At 31 December 2010	-	4,309	4,309

21 Deposits by banks

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Amounts owed to intermediate parent undertaking	1,436,690	1,131,249
Deposits from other banks	259	498
	1,436,949	1,131,747

Amounts due to intermediate parent undertaking are unsecured, interest bearing and have fixed dates of repayment which range from 4 January 2011 to 17 February 2016 (31 December 2009. 2 January 2010 to 13 May 2015) All deposits from other banks have variable interest rates and are repayable on demand

22 Due to customers

Retail customers	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Credit balances on unsecured loans and advances	8,200	7,906
Customer savings deposits	2,431,452	2,058,501
	2,439,652	2,066,407

Customer deposits have fixed and variable interest rates and are repayable on demand Customer deposits with variable rates totalled £1,007m (2009 £1,575m) and fixed rates totalled £1,425m (2009 £484m).

23 Other liabilities

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Amounts owed to immediate parent undertaking	10,002	10,002
Amounts owed to fellow subsidiaries	8,104	7,099
SAYE	-	192
Other liabilities	34,193	32,170
Accruals and deferred income	62,814	57,918
	115,113	107,381

24 Provisions for liabilities and charges

The followıng table summarıses the movements ın provısıons for lıabılıtıes and charges

	Insurance commission clawback	Restructuring provision	Regulatory fee provision	Complaints Provision	Total
	£000	£000	£000	£000	£000
At 1 January 2009	1,333	1,093	1,901	-	4,327
Charged/(credıted) to statement of comprehensive income	-	-	900	-	900
Payments made	(780)	(937)	(637)	-	(2,354)
At 31 December 2009	553	156	2,164	-	2,873
At 1 January 2010	553	156	2,164	-	2,873
Charged/(credıted) to statement of comprehensıve ıncome	-	47	(163)	1,080	964
Payments made	(453)	-	(501)	-	(954)
At 31 December 2010	100	203	1,500	1,080	2,883

(a) Insurance commission clawback
A provısıon of £100,000 (31 December 2009 £553,000) exısts for ınsurance commıssıon clawback ın respect of the potential oblıgatıon to refund commıssion ıncome on early termınations of loans ınsurance

(b) Restructuring provision
A provısıon of £203,000 (31 December 2009 £156,000) exısts for redundancy payments to a number of employees where employment ıs to be termınated as part of a restructurıng programme The provısıon reflects the full amount of payments agreed wıth the ındıvıduals affected

(c) Regulatory fee provision
Based on ıts share of protected deposıts, the Company, ın common wıth all regulated UK deposıt takers, pays levıes to the Fınancıal Servıces Compensatıon Scheme (FSCS) to enable the FSCS to meet claıms agaınst ıt The FSCS levy consısts of two parts – a management expenses levy and a compensatıon levy. The management expenses levy covers the costs of runnıng the scheme and the compensatıon levy covers the amount of compensatıon the scheme pays, net of any recoverıes ıt

24 Provisions for liabilities and charges (continued)

makes using the rights that have been assigned to it In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to the Nationwide Building Society in 2009

We understand that the FSCS has met, or will meet, the claims by way of loans received from the Bank of England which will eventually be replaced by a loan from HM Treasury The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks The FSCS is liable to pay interest on the loans from the Bank of England The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans To the extent that the loans have not been repaid in full by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury The FSCS will then levy the industry (including Marks and Spencer Financial Services Plc) accordingly

As a result of notifications it received from the Financial Services Authority, the Company has recognised a provision for a levy of £700,000 for the scheme year 2010/11 A further provision charge of £800,000 has been recognised in the year to 31 December 2010 for the management expenses levy for scheme year 2011/2012, calculated with reference to the Company's protected deposits as at 31 December 2010 and further information received from the FSCS The Company's provision does not include management expense levies for any further scheme years, nor for any compensation levies which may arise from any ultimate payout on the claims

(d) Complaints Provision
The company has provided £1,080,000 for the cost of redress in respect of customer complaints, where it is probable that the complaint will be upheld

25 Other borrowed funds

Subordinated notes	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
£94m floating-rate notes due 2014	94,000	94,000
Interest payable	266	249
	94,266	94,249

This consists wholly of Sterling subordinated loan stock due to HSBC Bank Plc The Stockholder shall, subject to the subordination provisions, be entitled to demand early repayment of the loan stock in any voluntary or compulsory winding up of the Company In the event of the winding up of the Company, the claims of the Stockholder in respect of the stock shall be subordinated to the claims of the Company's unsecured creditors

25 Other borrowed funds (continued)

Interest on subordinated loans is payable at a rate of LIBOR + 1.25% (31 December 2009· LIBOR + 1 25%)

26 Retirement benefit obligations

The Company is a member of the HSBC Bank (UK) Defined Benefit and HSBC Bank (UK) Defined Contribution pension schemes and future service will be earned in those schemes

For the year ended 31 December 2010 the cost to the Company was £5,604,932 (2009 £5,984,849)

The HSBC Bank (UK) Pension Scheme covers employees of HSBC Bank Plc, its UK subsidiaries and certain other employees of the Group. This scheme, the assets of which are held in a separate trust fund, comprises a defined benefit scheme ('the principal scheme') 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 underlying assets and liabilities of the principal scheme and account for the principal scheme as a defined contribution scheme

Details of the scheme are included in the accounts of HSBC Bank Plc

27 Contingent liabilities and commitments

The contractual amounts of the Company's financial instruments not reflected in its statement of financial position that commit it to extend credit to customers is as follows

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Commitments to extend credit		
- Maturing in one year or less	10,325,064	11,053,691

28 Share capital

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Authorised, issued, allotted, called up and fully paid:		
35,000,000 ordinary shares of £1 each	35,000	35,000

The concept of authorised share capital was abolished under the Companies Act 2006 with effect from 1 October 2009 and consequential amendments to Marks and Spencer Financial Services Plc Articles of Association were approved by shareholder resolution on 13 October 2010

At 1 January 2009 and 2010, the allotted, called up and fully paid ordinary share capital of Marks and Spencer Financial Services Plc was £35,000,000 consisting of 35,000,000 ordinary shares of £1

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

(a) Non-cash items included in the statement of comprehensive income

	2010 £000	2009 £000
Depreciation	2,819	3,695
Amortisation of intangible fixed assets	5,933	4,655
Impairment of property, plant & equipment	87	137
Impairment of intangible fixed assets	-	-
Increase in loan impairment provision	33,272	66,914
Change in provisions for liabilities and charges	10	(1,454)
	42,121	73,947

(b) Change in operating assets

	2010 £000	2009 £000
Change in deposits at central banks	581	26
Change in loans and advances to customers	132,007	(38,225)
Change in other assets	17,736	5,233
	150,324	(32,966)

29 Reconciliation of profit before tax to net cash flow from operating activities (continued)

(c) Change in operating liabilities

	2010 £000	2009 £000
Change in customer accounts	373,246	781,109
Change in other liabilities	8,510	791
Change in other borrowed funds	17	(387)
	381,773	781,513

(d) Cash and cash equivalents comprise

	2010 £000	2009 £000
Loans and advances to banks of one month or less	1,426,256	535,857
Deposits by banks of one month or less	(418,028)	(334,956)
	1,008,228	200,901

30 Related party transactions

Other group companies

Durıng the perıod the Company carrıed out a number of transactıons wıth fellow subsidıarıes wıthin the Marks and Spencer Retaıl Fınancıal Servıces Holdıngs Lımıted group The nature of these transactions and the amounts receıvable/(payable) are shown below

	2010 £000	2009 £000
Marks and Spencer Life Assurance Limited		
Management charges recharged by the company	-	1,035
Purchases recharged by the company	29	111
Staff recharges	141	87
Marks and Spencer Savings and Investments Limited		
Tax and VAT payments recharged by the company	54	73
Marks and Spencer Unit Trust Management Limited		
Management charges recharged by the company	337	844
Purchases recharged by the company	1,821	2,072
Staff recharged by the company	1,784	1,744
Interest paıd	(32)	(55)
Marks and Spencer Retail Financial Services Holdings Limited		
Dıvıdends paıd	(40,000)	(80,000)

The amounts receıvable/(payable) at the end of the perıod were as follows

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
Marks and Spencer Life Assurance Limited	(13)	185
Marks and Spencer Savings and Investments Limited	32	48
Marks and Spencer Unit Trust Management Limited	(8,091)	(7,099)
Marks and Spencer Retail Financial Services Holdings Limited	(10,002)	(10,002)

The Company carrıed out transactıons wıth and received fundıng from ıts ıntermedıate parent company HSBC Bank Plc The nature of these transactions and the amounts receıvable/(payable) are shown on the followıng page

30 Related party transactions (continued)

	2010 £000	2009 £000
HSBC Bank Plc		
Costs recharged to the company	(24,764)	(27,658)
Interest paid	(21,050)	(43,635)
Commission received	4,178	4,190
HSBC Life (UK) Limited		
Commission received	70	275

The amounts receivable/(payable) at the end of the period were as follows·

	As at 31 Dec 2010 £000	As at 31 Dec 2009 £000
HSBC Bank Plc	(142,856)	(712,845)
HSBC Life (UK) Limited	(54)	(70)

All the above balances are unsecured There are no provisions against any of the balances and no amounts were written off in the period

Directors and key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity Transactions were made on terms equivalent to those that prevail in arms length transactions

	2010		2009	
Credit Cards	**Number***	**£**	**Number***	**£**
Balances outstanding 1 January	16	50,570	13	40,224
Balances outstanding 31 December	14	48,317	16	50,570

**Number of directors and key management personnel with credit card balances*

Credit card transactions are entered into in the normal course of business Interest income earned on these balances in 2010 was £2,713 (2009. £3,293)

30 Related party transactions (continued)

No provisions have been recognised in respect of credit card balances outstanding from related parties (2009 nil)

	2010		2009	
Insurance	**Number***	**£**	**Number***	**£**
Premiums receivable during the period	4	3,604	2	374

**Number of directors and key management personnel with insurance policies issued by the Company*

Commission earned on sales of insurance policies to directors and key management personnel is immaterial

	2010		2009	
Premium Club	**Number***	**£**	**Number***	**£**
Premiums receivable during the period	5	480	4	272

**Number of directors and key management personnel with premium club membership*

	2010		2009	
Savings	**Number***	**£**	**Number***	**£**
Holdings at 1 January	2	23,263	1	30,000
Holdings at 31 December	4	80,354	2	23,263

**Number of directors and key management personnel with Cash ISA, Fixed Rate Savings & Everyday Saver holdings*

	2010		2009	
Key management compensation	**Number***	**£**	**Number***	**£**
Salaries & other short term benefits	9	1,034,522	13	1,162,532
Post-employment benefits	3	38,107	4	40,215
		1,072,629		1,202,747

**Number of directors and key management personnel receiving compensation*

Key management compensation includes emoluments paid to directors Further details of directors' compensation are disclosed in Note 31

31 Directors' emoluments

	2010 £	2009 £
Highest paid director	230,614	223,464
Aggregate emoluments of other directors	576,180	557,960
	806,794	781,424

Retirement benefits are accruing to 2 directors (31 December 2009 3) under a defined benefit scheme Contributions were made for 3 directors of £36,063 (31 December 2009: 3) (31 December 2009 £26,683) under a money purchase scheme and 5 directors (31 December 2009 4) are entitled to receive, and have received, shares in the ultimate parent undertaking under a long-term incentive scheme

The remuneration of the Executive Directors is allocated between the companies in the Marks and Spencer Retail Financial Services Holdings Limited group and the relevant proportion of their emoluments is included above

Three directors exercised options during the year (2009. 1).

32 Dividends

The aggregate amount of dividends comprises

	2010 £000	2009 £000
Final dividends paid in respect of prior year but not recognised as Liabilities in that year	20,000	40,000
Interim dividends paid in respect of the current year	20,000	40,000
	40,000	80,000

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £20 million (2009 £20 million).

33 Ultimate holding company

The ultimate parent undertakıng and ultımate controllıng party ıs HSBC Holdıngs Plc whıch ıs the parent undertakıng of the largest group to consolidate these financıal statements. HSBC Bank Plc ıs the parent undertakıng of the smallest group to consolıdate these financıal statements

The ımmedıate parent undertaking ıs Marks and Spencer Retail Fınancıal Servıces Holdıngs Lımıted All companıes are regıstered ın England and Wales

Copıes of HSBC Holdings Plc and HSBC Bank Plc consolıdated financıal statements can be obtaıned from the Company Secretary at 8 Canada Square, London, E14 5HQ

34 Events after the statement of financial position date

Subsequent to the year end, the Board declared the payment of a dıvıdend of £20 mıllıon (2009 £20 mıllıon)