HSBC Finance Transformation (UK) Limited

Report of the Directors and Financial Statements

For the year ended 31 December 2011

Incorporated and domiciled in England and
Wales with limited liability under the UK
Companies Act Registered number 1889590

HSBC Finance Transformation (UK) Limited

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HSBC Finance Transformation (UK) Limited

Report of the Directors for the year ended 31 December 2011

Principal activities

During the year ended 31 December 2011, HSBC Finance Transformation (UK) Limited, Registration number 1889590 (the 'Company'), continued its activities of developing and operating a new accounting and finance model for HSBC Holdings plc and its subsidiaries ('HSBC Group')

Results and dividends

For the year

- Total operating income up 16% to US$ 46,036,860 (2010 US$ 39,680,941)
- Loss before tax up 2% to US$ 141,076,534 (2010 US$ 137,902,263)

At the year end

- Total equity down 51% to US$ 45,880,357 (2010 US$ 94,481,878)
- Total assets up 6% to US$ 313,681,310 (2010 US$ 297,145,161)

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2011 (2010 nil)

Events after the balance sheet date

There have been no material events affecting the financial statements since the balance sheet date

Business review and future development

Since 2007, the Company has embarked on a change programme to deliver a wide ranging body of work which will transform the HSBC Group finance function, shifting predominantly from "stewardship" to a greater emphasis on "leadership" activities and the establishment of a global HSBC finance division

The Global Finance Change Programme ('GFCP') is a multi-year initiative that was created to drive this transformation and has a mandate to move the finance function toward the new accounting and finance model The investment associated with the programme is expected to be rewarded in qualitative, quantitative and financial terms and ultimately lead to the following strategic objectives.

- A stronger control environment through an improvement in the HSBC Group's financial systems
- Better business support from a finance team which can respond to business requirements on a timely basis
- Greater efficiency through the adoption of globally consistent finance processes and greater use of global centres of excellence
- A more engaged and skilled finance workforce supported by a global framework for career development and succession planning, and by the standardisation of roles, responsibilities and reporting structures
- Greater shareholder value from a "joined up" finance function

Due to the complexity and size of the change, the execution approach has been designed to maximise delivery and success while maintaining risk at an acceptable level

The Company is primarily mandated with the development and implementation of a bespoke Finance Transformation Platform (FTP) accounting and finance model for the benefit of the HSBC Group

Report of the Directors for the year ended 31 December 2011 *(continued)*

The FTP Version 1 is live and is used as the financial book of record in HSBC Bank USA, National Association In 2011, this system continued its deployment process in HSBC Bank Canada and HSBC Markets (USA) Inc An enhanced FTP Version 2 was implemented as the financial book of record in May 2010 by The Hong Kong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited and HSBC Insurance Asia Pacific Work has also progressed on implementing FTP version 2 as the book of record in HSBC Bank Plc

A number of value added initiatives relating to accounting reconciliation controls for several HSBC Group companies, cost allocation mechanics and the establishment of standard accounting process norms across the Group have been delivered in 2011 In addition, a standardised MI and planning tool has been put in place across the Group

A Global Finance Centre for certain standard accounting processes and support for GFCP itself has been established in Delhi and the migration of activities to that site began mobilisation in 2009 and has continued through 2010 and 2011 The feasibility of migrating additional roles in 2012 is under review and process standardisation projects will continue in 2012

The initiatives carried out by the company are recharged to Group companies in line with the company's accounting policy Where the Group is aware of the impending disposal of an entity, the accounting and finance model is generally not deployed

In 2012, the GFCP will continue working on its strategic initiatives completing delivery of FTP version 1 to HSBC Bank Canada and HSBC Bank Markets (US) Inc and FTP version 2 to HSBC Bank Plc, completion of the deployment of enhanced accounting reconciliation controls through the remaining target sites within the HSBC Group, implementation of a stand-alone General Ledger system in some further countries

Directors

The Directors who served during the year were as follows

Ian Simon Jenkins	
Iain MacKinnon	Appointed 24 October 2011
Russell Clive Picot	
Mark Peter Winson-Pearce	
Jonathan Edwards (Alternate Director to Russell Clive Picot)	
Jennie Newbery (Alternate Director to Mark Peter Winson-Pearce)	
Alain Christopher Guy Stangroome (Alternate Director to Iain MacKinnon)	Appointed 31 October 2011
Alain Christopher Guy Stangroome (Alternate Director to Christopher David Spooner)	Resigned 30 September 2011
Peter Gordon Taylor (Alternate Director to Ian Simon Jenkins)	
Christopher David Spooner	Resigned 30 September 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

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

During the year, the Company received substantially all of its goods and services from group undertakings Part 5 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, setting out reporting requirements in relation to the policy and practice on payment of creditors is, therefore, not applicable

Risk Management

Under International Financial Reporting Standards ('IFRSs'), the Company is required to report on its exposure to price, credit, market, liquidity and cash flow with regard to its financial investments The Company has no significant exposure to market risk due to the nature of the Company's business, which is predominantly investing in the development of an accounting and finance model for the HSBC Group

The development costs are funded by way of capital from the parent The operating costs are funded by way of debt obtained from HSBC Group companies and through the receipt of recharge income from other HSBC undertakings The parent company has indicated its willingness to continue to support the Company through increasing its investment in share capital

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 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

Auditor

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

Statement of Directors' responsibilities in respect of the Directors' report and the 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 responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

By order of the Board

H Shepherd

H Shepherd
Secretary

Dated 14 February 2012

Registered office
8 Canada Square
London
E14 5HQ

Independent auditor's report to the members of HSBC Finance Transformation (UK) Limited

We have audited the financial statements of HSBC Finance Transformation (UK) Limited (the Company) for the year ended 31 December 2011 set out on pages 7 to 20 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU and as issued by the International Accounting Standards Board ('IASB') and in accordance with the provisions of the Companies Act 2006

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 and, in respect of the separate opinion in relation to IFRSs as issued by the IASB, on terms that have been agreed 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 in respect of the separate opinion in relation to IFRSs as issued by the IASB, those matters that we have agreed to state to them in our 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 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 opinion

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

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 loss 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

Separate opinion in relation to IFRSs as issued by the IASB

As explained in Note 1(a) to the Company's financial statements, the Company in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the IASB

In our opinion, the Company's financial statements comply with IFRSs as issued by the IASB

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

Independent auditor's report to the members of HSBC Finance Transformation (UK) Limited *(continued)*

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

Jonathan Bingham, Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London, England

14 February 2012

HSBC Finance Transformation (UK) Limited

Statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 US$	2010 US$
Recharge income	7	**47,636,757**	39,503,855
Interest income	7	**2,026,766**	1,104,527
Interest expense	7	**(3,626,663)**	(927,441)
Net interest (expense) / income		**(1,599,897)**	177,086
Total operating income		**46,036,860**	39,680,941
Administrative expenses	3	**(187,113,394)**	(177,583,204)
Loss before tax		**(141,076,534)**	(137,902,263)
Tax credit	4	**37,475,013**	39,844,617
Loss for the year		**(103,601,521)**	(98,057,646)

All amounts relate to continuing activities

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

HSBC Finance Transformation (UK) Limited

Balance sheet
at 31 December 2011

	Notes	2011 US$	2010 US$
ASSETS			
Intangible assets	5	**240,782,247**	230,289,854
Deferred tax assets	6	**6,368,163**	3,707,254
Current tax assets[1]		**14,126,154**	18,773,064
Amounts due from HSBC undertakings[1]	7	**18,582,767**	16,967,581
Cash and cash equivalents[1]			
- balances with HSBC undertakings	7	**33,821,979**	27,407,408
Total assets		**313,681,310**	297,145,161
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to HSBC undertakings[2]	7	**267,800,953**	202,663,283
Equity			
Called up share capital	10	**273,141,156**	273,141,155
Share premium	10	**186,999,996**	131,999,997
Reserves		**(414,260,795)**	(310,659,274)
Total shareholders' equity		**45,880,357**	94,481,878
Total equity and liabilities		**313,681,310**	297,145,161

1 These assets are expected to be realised within 1 year All other assets are expected to be realised after 1 year from the balance sheet date

2 All liabilities are due within 1 year of the balance sheet date

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 14 February 2012 and were signed on its behalf by

R. C. Picot

R C Picot
Director

HSBC Finance Transformation (UK) Limited

Statement of changes in equity
for the year ended 31 December 2011

	2011 US$	2010 US$
Paid up share capital		
At 1 January	**273,141,155**	273,141,152
New share capital subscribed (note 10)	**1**	3
At 31 December	**273,141,156**	273,141,155
Share premium		
At 1 January	**131,999,997**	-
New share premium subscribed (note 10)	**54,999,999**	131,999,997
At 31 December	**186,999,996**	131,999,997
Reserves		
At 1 January	**(310,659,274)**	(212,601,628)
Total recognised loss for the year (page 7)	**(103,601,521)**	(98,057,646)
At 31 December	**(414,260,795)**	(310,659,274)

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

HSBC Finance Transformation (UK) Limited

Cash flow statement
for the year ended 31 December 2011

	Notes	2011 US$	2010 US$
Cash flows from operating activities			
Loss before tax		**(141,076,534)**	(137,902,263)
Adjustment for amortisation of intangible assets	5	**78,305,809**	62,416,700
Cash received in respect of tax losses surrendered to other HSBC Group companies		**39,461,014**	37,478,380
Net cash used in operating activities		**(23,309,711)**	(38,007,183)
Cash flows from investing activities			
Additions to intangible assets	5	**(88,798,202)**	(83,093,351)
Net cash used in investing activities		**(88,798,202)**	(83,093,351)
Cash flows from financing activities			
Proceeds from issue of share capital and premium	10	**55,000,000**	132,000,000
Change in amount due from / (owed to) HSBC undertakings (See note below)		**63,522,484**	(61,164,052)
Net cash from financing activities		**118,522,484**	70,835,948
Net increase/(decrease) in cash and cash equivalents		**6,414,571**	(50,264,586)
Cash and cash equivalents at 1 January		**27,407,408**	77,671,994
Cash and cash equivalents carried forward		**33,821,979**	27,407,408

Note Interest received during the year was US$ 1,260,097 (2010 US$ 891,062) Interest paid during the year was US$ 2,133,445 (2010 US$ 593,238)

The accompanying notes on pages 11 to 20 form an integral part of these financial statements

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The separate financial statements of HSBC Finance Transformation (UK) Limited ('HFTL') ('the Company') have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU EU-endorsed IFRSs may differ from IFRSs as issued by the IASB if, at any 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 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 HFTL Accordingly, HFTL'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 International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body

(b) Going concern

These financial statements are prepared on a going concern basis The parent company supports the Company through injections of share capital The parent company also provided the Company a revolving loan facility that has been fully settled in 2011 and replaced by a similar facility from an HSBC Group company The parent company has indicated its willingness to continue to support the Company through increasing its investment in share capital

(c) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions The use of available information and the application of judgement are inherent in the formation of estimates, actual results in the future may differ from estimates upon which financial information is prepared In this regard, management believes that HFTL's critical accounting policies where judgement is necessarily applied are those which relate to impairment of intangible assets

Further information about key sources of estimation uncertainty is set out in note 2(h) of the financial statements

(d) 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 financial statements as at 31 December 2011 The IASB is continuing to work on projects on insurance, revenue recognition and lease accounting which, together with the standards described below, represent widespread and significant changes to accounting requirements from 2013

Notes on the Financial Statements *(continued)*

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

Standards applicable in 2013

In May 2011, the IASB 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

Based on an initial assessment, IFRS 13 is not expected to have a material impact on the Company's financial statements

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

Based on an initial assessment, the amendments to IAS 32 are not expected to have a material impact on the Company's 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 financial statements

Notes on the Financial Statements *(continued)*

2 Principal accounting policies

(a) Recharge income

Recharge income, including a mark-up on the amounts recharged, is receivable from fellow subsidiaries in respect of each subsidiary's calculated share of the costs incurred in the development and implementation of the accounting and finance platforms Recharges to each Group company commence when they convert to the accounting platform and are spread over a maximum ten year repayment period

Recharges in respect of the costs of setting up the Global Finance Centre in Delhi are made to all Group companies using the facility These charges began in 2010 and will be spread over ten years

Other services provided by the Company including post-implementation of accounting platforms are charged as and when incurred

Recharges are invoiced quarterly and the income is recognised on an accruals basis in the period to which it relates

(b) Interest income and expense

Interest is receivable on the debit balance of the Company's bank account with its fellow subsidiary whenever the Bank of England base rate is above 2 5% per annum Interest is calculated on a daily basis according to the daily outstanding balance and is recognised in the statement of comprehensive income on this basis

Interest is also receivable from other HSBC Group companies in respect of financing charges allocated to them in respect of the development and implementation of the accounting and finance platforms These charges are repaid over a maximum ten-year repayment period The interest income is recognised in each accounting period in proportion to the reducing balance of principal outstanding using the effective interest rate method

Interest payable on borrowings is recognised in the statement of comprehensive income using the effective interest rate method

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability

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

(c) Income tax

Income tax comprises current tax and deferred tax

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

Notes on the Financial Statements *(continued)*

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

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the balance sheet date

(d) Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The functional currency of HFTL is the US dollar from 26 February 2010

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 balance sheet date Any resulting exchange differences are recognised in the statement of comprehensive income for the period Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined

In preparing these accounts, a year-end rate of GBP1 US$1 54825 has been used, the average rate for the year, used in tax computations, was GBP1 US$1 60752

(e) 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 share instruments are shown in equity as a deduction from the proceeds, net of tax

(f) Financial liabilities

Financial liabilities, including amounts due to HSBC Group undertakings, are recognised when cash is advanced or contractual arrangements are entered into and are normally derecognised when a loan is repaid or a liability is extinguished, that is when the obligation is discharged, is cancelled, or expires Financial liabilities are initially measured at fair value, which is normally the consideration received net of directly attributable transaction costs incurred Subsequent measurement of financial liabilities is at amortised cost, using the effective interest method to amortise the difference between proceeds received, net of directly attributable transaction costs incurred, and the redemption amount over the expected life of the instrument

(g) Cash and cash equivalents

Cash and cash equivalents represent balances in current accounts with a fellow HSBC Group subsidiary and are measured at amortised cost

(h) Intangible assets

Intangible assets include software acquired by the Company as well as internally developed software Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised over their estimated useful lives

Expenditure on internally developed software is recognised as an asset when the Company can demonstrate its intention to complete the development of the software so that it will be available for use, its ability to use the software in a manner that will generate future economic benefits, and can reliably measure the costs attributable to the software during its development The cost of internally developed software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount is greater than the recoverable amount The recoverable amount is the higher of an asset's (or Cash Generating Unit's) fair value less costs to sell and its value in use

Value in use is calculated based on an estimate of the future cash flows the entity expects to derive from the asset The calculation is based on assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset The key assumption, for both acquired and internally generated software, relates to the level of recharges that HFTL can make to HSBC Group companies

Intangible assets that are not yet ready for use are tested for impairment annually This impairment test may be performed at any time during the year, provided it is performed at the same time every year An intangible asset recognised during the current period is tested before the end of the current year

Amortisation for both acquired and internally developed software is recognised in the statement of comprehensive income on a straight line basis over five years from the date that the intangible asset is available for use in line with the HSBC Group accounting policy

3 Administrative expenses

	2011	2010
	US$	US$
Charges from parent company for		
- Services of their staff	**34,868,675**	27,329,279
- IT charges including software support fees	**58,967,690**	63,397,996
- External staff cost	**14,980,325**	18,885,002
Amortisation of intangibles	**78,305,809**	62,416,700
Realised foreign exchange (gains)/losses	**(54,894)**	5,508,840
Auditor's remuneration	**45,789**	45,387
Total administrative expenses	**187,113,394**	177,583,204

The Directors receive no emoluments in respect of their role in the Company Non-audit fees are disclosed in the Group financial statements of HSBC Holdings plc

The Company had no employees during the year

Notes on the Financial Statements *(continued)*

4 Tax credit

	2011 US$	2010 US$
Current tax		
UK Corporation tax		
– on current year loss	**(34,273,629)**	(38,217,387)
– adjustments in respect of prior years	-	9,677
– foreign exchange movements	**(540,475)**	(1,381,385)
	(34,814,104)	(39,589,095)
Deferred tax		
Origination and reversal of temporary differences	**(3,111,652)**	(395,246)
Adjustment in respect of prior years	-	2,418
Effect of changes in tax rates from 27% to 25% in 2011 (28% to 27% in 2010)	**450,743**	137,306
	(2,660,909)	(255,522)
Tax credit	**(37,475,013)**	(39,844,617)

The UK corporation tax rate for HSBC Finance Transformation (UK) Limited was 26 5 per cent (2010 28 per cent)

The following table reconciles the tax credit

	2011 US$	%	2010 US$	%
Taxation at UK corporation tax rate of 26 5% (2010 28%)	**(37,385,281)**	**26.5**	(38,612,633)	28 0
Adjustments in respect of prior period	-	-	12,095	-
Tax rate changes	**450,743**	**(0.3)**	137,306	(0 1)
Foreign exchange	**(540,475)**	**0.4**	(1,381,385)	1 0
Overall tax credit	**(37,475,013)**	**26.6**	(39,844,617)	28 9

In 2011, the Government enacted a change in the UK corporation tax rate from 26 per cent to 25 per cent with effect from 1 April 2012

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements *(continued)*

5 Intangible assets

The analysis of the movement of intangible assets for the year ended 31 December 2011 is as follows

	Internally generated software US$	Purchased software US$	Total US$
Cost			
At 1 January 2011	358,072,556	19,099,050	377,171,606
Additions	88,317,615	480,587	88,798,202
At 31 December 2011	**446,390,171**	**19,579,637**	**465,969,808**
Accumulated amortisation			
At 1 January 2011	131,024,331	15,857,421	146,881,752
Amortised charge for the year	77,706,425	599,384	78,305,809
At 31 December 2011	**208,730,756**	**16,456,805**	**225,187,561**
Net carrying amount at 31 December 2011	**237,659,415**	**3,122,832**	**240,782,247**

	Internally generated software US$	Purchased software US$	Total US$
Cost			
At 1 January 2010	276,838,211	17,240,044	294,078,255
Additions	81,234,345	1,859,006	83,093,351
At 31 December 2010	358,072,556	19,099,050	377,171,606
Accumulated amortisation			
At 1 January 2010	69,202,889	15,262,163	84,465,052
Amortised charge for the year	61,821,442	595,258	62,416,700
At 31 December 2010	131,024,331	15,857,421	146,881,752
Net carrying amount at 31 December 2010	227,048,225	3,241,629	230,289,854

6 Deferred taxation

	2011 US$	2010 US$
At 1 January	**3,707,254**	3,451,732
Income statement expense	**3,111,652**	392,828
Change in tax rate in 2011	**(450,743)**	(137,306)
At 31 December	**6,368,163**	3,707 254

The amount of deferred taxation accounted for in the balance sheet comprises the following

	2011 US$	2010 US$
Deferred tax assets		
Other temporary differences	**6,368,163**	3,707,254
	6,368,163	3,707.254

Although the Company has made losses during the year, the Directors believe it is appropriate to recognise the deferred tax asset This deferred tax asset is expected to be realised through group relief of the tax loss against profits available in other HSBC Group companies

7 Related party transactions

	2011 Balance at the year end US$	2010 Balance at the year end US$
Assets		
Amounts due from HSBC undertakings	18,582,767	16,967,581
Cash and cash equivalents - balances with HSBC undertakings	33,821,979	27,407,408
Total related party assets	**52,404,746**	44,374,989
Liabilities		
Amounts due to parent undertaking		
- Interest-bearing loan	-	47,246,691
- Trade creditor	52,696,894	63,941,738
	52,696,894	111,188,429
Amounts due to other HSBC undertakings		
- Interest-bearing loan	174,675,574	46,578,390
- Trade creditor	40,428,485	44,896,464
	215,104,059	91,474,854
Total related party liabilities	**267,800,953**	202,663,283

Substantially all payments and receipts for transactions for the Company are initially routed through HSBC undertakings and subsequently settled as per the agreed terms The absolute amount of transactions during the year with the parent company was US$ 97,190,206 (2010 US$ 186,284,247) The absolute amount of transactions during the year with fellow subsidiaries was US$ 274,650,613 (2010 US$ 163,975,897)

Recharge income of US$ 47,636,757 (2010 US$ 39,503,855) as shown in the statement of comprehensive income comprises allocated charges in respect of costs incurred in developing the accounting and finance model and a mark up Allocated charges are recovered over ten years from HSBC undertakings when they move to the Finance Transformation Platform accounting model Interest is charged to reflect the financing of these charges US$ 2,026,766 (2010 US$ 1,104,527) This interest is included in Interest income The other charges are recharged as and when incurred

The above outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts

The interest-bearing loan from the parent undertaking (HSBC Holdings plc) comprises a number of tranches drawn down during the previous year at the prevailing market interest rates (LIBOR plus 68 basis points) and was fully repaid in 2011 Interest expense was US$ 230,669 (2010 US$ 921,051) during the year of which US$ nil (2010 US$ 674,691) is included in the outstanding balance

The trade creditor amounts arise from administrative expenses that are borne initially by the parent undertaking before being passed to the Company This trade creditor is settled by a cash transfer within a year following the period in which the expenses were incurred No interest charges are made

The interest-bearing loan from an HSBC Group subsidiary comprises a number of tranches drawn down during the year at the prevailing market interest rate (LIBOR plus 100 basis points) Interest expense was US$ 3,395,994 (2010 US$ 6,390) during the year of which US$ 1,159,717 (2010 US$ 6,390) is included in the outstanding balance

The trade creditor amounts from other HSBC undertakings arise from administrative expenses billed by them to the Company This trade creditor is settled by a cash transfer within a year following the period in which the expenses were incurred No interest charges are made

8 Fair value of financial assets and liabilities

The carrying amount of all financial assets and liabilities is considered to be a reasonable approximation of fair value because they are short term in nature

9 Risk Management

Credit risk

Credit risk is the risk of financial loss if a customer or counterpart fails to meet an obligation under a contract The risk arises from transactions with HSBC undertakings The management of credit is undertaken in compliance with the Company's recharge strategy The Company operates within this and the credit risk exposures are reviewed and managed by the senior management of the Company and the HSBC Group's Finance Management Board The maximum credit exposure of the Company is limited to the carrying value of the dues from a HSBC Group company

Liquidity risk

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 do so at an excessive cost This risk arises from mismatches in the timing of cash flows The Company is funded through equity investment from the parent undertaking In addition, in December 2010, the Company agreed a committed facility with a fellow subsidiary undertaking to meet its planned liquidity requirements This facility replaced a comparable arrangement with the parent undertaking that expired during 2011 The Company manages its liquidity through cash flow management in liaison with the Group's Asset Liability & Capital Management department

Foreign currency risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US dollar The Company has Pound Sterling liabilities (net of Pound Sterling assets) amounting to US$ 136 million (2010 US$ 111 million) The Company ensures that the net exposure is kept to an acceptable level but does not hedge against this position

The Company maintains cash flow projections both of its US Dollar and of its Pound Sterling obligations It funds in US Dollars and Pound Sterling in order to maintain sufficient amounts of each currency to meet the obligations as they fall due

Notes on the Financial Statements *(continued)*

The Company's loss before tax would increase by US$ 7 million, loss after tax US$ 5million (2010 loss before tax US$ 6 million, loss after tax US$ 4 million) if the Sterling rate strengthened by 5 per cent relative to the US dollar and the Company were expected to repay its payables to its parent Company in that currency

Sensitivity analysis

The Company held US$ 171 8 million (2010 US$ 93 1 million) as interest-bearing liabilities at the end of 2011 If all other variables are held constant, the effect of a 100 basis points increase/(decrease) in LIBOR on these liabilities would be an increase/(decrease) of loss before tax of US$ 0 7 million (2010 US$ 0 4 million) and after tax of US$ 0 5 million (2010 US$ 0 3 million) The Company has interest-bearing assets of US$ 33 8 million (2010 US$ 27 4 million) The impact on loss before tax and after tax of a 100 basis points movement in LIBOR would be minimal

10 Called up share capital

The share capital of the Company at 31 December 2011 was as follows

	2011 Number	2010 Number
Allotted, called up and fully paid		
Ordinary shares of £1 each	**180,000,103**	180,000,102

In line with HSBC Group policy, the Company policy is to maintain a strong capital base to support the development of its business at all times In 2011, 1 share (2010 2 shares) of £1 par value was issued for a total consideration of US$ 55 million (2010 US$ 132 million) with the balance treated as share premium These were fully subscribed by the parent company The Company is not subject to regulatory capital requirements 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

11 Parent undertaking

The Company's immediate and ultimate parent company is HSBC Holdings plc

The accounts of the Company are consolidated within the financial statements of HSBC Holdings plc Copies of the financial statements of HSBC Holdings plc may be obtained from its registered office as stated below, or from the Group's website, www hsbc com

HSBC Holdings plc
8 Canada Square
London
E14 5HQ