HSBC Insurance Holdings Limited

Registration No: 956325

Annual Report and Financial Statements for the year ended 31 December 2018

HSBC

Annual Report and Financial Statements for the year ended 31 December 2018

Contents

Strategic Report

Principal activities

HSBC Insurance Holdings Limited ('the Company') is a private company incorporated in England and Wales. Its trading address is 8 Canada Square, London E14 5HQ, United Kingdom.

The principal activity of HSBC Insurance Holdings Limited (the 'Company') is to recharge employee and other costs incurred by the HSBC Insurance Head Office to the appropriate legal entities within the HSBC Group.

No change in the Company's activities is anticipated.

Review of the Company's business

The business is funded principally by its parent, HSBC Holdings plc.

The Company's business is based on its ability to recover costs, plus a contractual margin, for services provided to insurance entities in the HSBC Group.

The reserves available for distribution as at 31 December 2018 were £10,392k (2017: £11,462k).

Performance

The performance and position of the Company for the year ended 31 December 2018 and the state of the Company's financial affairs at that date are set out on pages 6 to 19.

The net asset value of the Company as at 31 December 2018 amounts to £50m (2017: £51m).

The results of the Company show a loss before tax of £(973)k for the year (2017: profit of £2,285k).

Key performance indicators

As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Holding plc. Ongoing review of the performance of the Company is carried out by monitoring the subsidiary performance, including cash flows from and to each subsidiary.

Principal risks and uncertainties

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks are set out in Note 12 on the financial statements.

The Company's exposures to liquidity and market risks are limited due to the nature of its business, which predominantly is to facilitate the settling of global creditor payments across HSBC Group, insurance related costs. These transactions are generally funded by way of equity obtained from the parent Company.

On behalf of the Board

A Macaire
Director

17 September 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name
A Macaire
I W Macalester

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018 (2017: nil).

Significant events since the end of the financial year

No significant events affecting the Company have occurred since the end of the financial year.

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

Engagement with employees and diversity

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to improve workforce agility, enhance our risk management capability, drive innovation and grow markets. Our diversity and inclusion ambitions are focused on attracting, developing and retaining talent that reflects our customers and the communities where we do business, and deploying that talent effectively to anticipate and address expectations. A number of global employees networks support this strategy.

Employment of people with a disability

The Company is committed to providing equal opportunities to employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during employment with us, efforts are made to continue their employment and, if necessary, appropriate training, reasonable equipment and facilities are 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, oral communication and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Company is further encouraged through a profit participation scheme.

Capital management

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

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

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP ('PwC') will therefore continue in office.

Directors' responsibility statement

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities set out in their report on page 5, is made with a view to distinguish the respective responsibilities of the Directors and of the auditors in relation to the financial statements.

The Directors are responsible for preparing the *Annual Report and Financial Statements*, in accordance with applicable law and regulations.

Company law requires the Directors to prepare a Strategic Report, a Report of the Directors and Financial Statements for each financial year. The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU').

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 for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of Information to Auditors

In accordance with section 418 of the Companies Act 2006, the Directors' report includes a statement, in the case of each Director in office as at the date the Report of the Directors is approved, that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

A Macaire
Director
17 September 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the independent auditors to the members of HSBC Insurance Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Insurance Holdings Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the balance sheet as at 31 December 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to theCompany's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibility statement set out on page 3, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

David Mayland

David Mayland (Senior Statutory Auditor)
For and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
Birmingham
19 September 2019

Financial statements

Income statement for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue[1]		**49,148**	33,366
Cost of Service purchased		**(48,541)**	(33,689)
Gross profit/(loss)		**607**	(323)
Other operating (expense)/income		**(713)**	955
Net operating expense before loan impairment charges and other credit risk provision		**(106)**	632
Impairment (charges)/recoveries[1]	8	**(1,113)**	1,536
Operating (loss)/profit		**(1,219)**	2,168
Finance income		**246**	117
(Loss)/profit before tax		**(973)**	2,285
Tax expense	4	**(91)**	(727)
(Loss)/profit for the year		**(1,064)**	1,558

1 *The 2017 revenue included impairment recoveries which resulted in the overstatement of revenue by £1,536k. This has now been recognised below gross profit as per IFRS 7 requirements. The restatement results in no impact to the 2017 profit for the year. The restatement impacts the income statement only and all other disclosures remain unchanged.*

Statement of comprehensive income for the year ended 31 December 2018

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2017: nil).

Balance sheet at 31 December 2018
Registration No: 956325

	Notes	2018 £'000	2017 £'000
Assets			
Cash and cash equivalents	6	**58,240**	38,541
Trade and other receivables	8	**21,664**	25,125
Current tax assets		**3**	–
Deferred tax assets	5	**14**	35
Total assets		**79,921**	63,701
Liabilities and equity			
Liabilities			
Trade and other payables	9	**20,867**	7,718
Accruals, deferred income and other liabilities		**9,522**	4,759
Current tax liabilities		**–**	622
Total liabilities		**30,389**	13,099
Equity			
Called up share capital	11	**14,687**	14,687
Share premium account		**24,453**	24,453
Retained earnings		**10,392**	11,462
Total equity		**49,532**	50,602
Total liabilities and equity		**79,921**	63,701

The accompanying notes on pages 10 to 19 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 September 2019 and signed on its behalf by:

A Macaire
Director

Statement of cash flows for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
(Loss)/profit before tax		**(973)**	2,285
Adjustments for:			
Non-cash items included in profit before tax	6	**(2,072)**	(47)
Change in operating assets	6	**4,574**	(10,403)
Change in operating liabilities	6	**18,625**	(5,951)
Tax paid		**(701)**	(308)
Net cash generated from/(used in) operating activities		**19,453**	(14,424)
Cash flows from financing activities			
Interest received		**246**	117
Net cash generated from financing activities		**246**	117
Net increase/(decrease) in cash and cash equivalents		**19,699**	(14,307)
Cash and cash equivalents brought forward		**38,541**	52,848
Cash and cash equivalents carried forward	6	**58,240**	38,541

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2018	**14,687**	**24,453**	**11,462**	**50,602**
Loss for the year	–	–	(1,064)	(1,064)
Total comprehensive expense for the year	–	–	(1,064)	(1,064)
Cost of share based payment arrangements	–	–	(6)	(6)
At 31 Dec 2018	**14,687**	**24,453**	**10,392**	**49,532**

	Called up share capital	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2017	14,687	24,453	9,899	49,039
Profit for the year	–	–	1,558	1,558
Total comprehensive income for the year	–	–	1,558	1,558
Cost of share based payment arrangements	–	–	5	5
At 31 Dec 2017	14,687	24,453	11,462	50,602

Notes on the financial statements

1 Basis of preparation and significant accounting policies

Basis of preparation IFRSs

The financial statements of the Company have been prepared in accordance with the Companies Act 2006 as applicable to companies using International Financial Reporting Standards ('IFRSs'). The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all of the years presented, unless otherwise stated.

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB'), including interpretations issued by the IFRS Interpretations Committee, and as endorsed by the European Union ('EU').

At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018 affecting these financial statements, and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2018

The Company has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Company has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives. Adoption at 1 January 2018 had nil impact to net assets.

In addition, the Company has adopted the requirements of IFRS 15 'Revenue from contracts with customers' and a number of interpretations and amendments to standards which have had an insignificant effect on the financial statements of the Company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2019, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted, on the financial statements of the Company.

Major new IFRSs

The IASB has published IFRS 16 'Leases' and IFRS 17 'Insurance contracts'. IFRS 16 has been endorsed for use in the EU and IFRS 17 has not yet been endorsed. In addition, an amendment to IAS 12 'Income Taxes' has not yet been endorsed.

(c) Foreign currencies

The functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company. Unless otherwise specified, all £ symbols represent sterling.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

(d) Presentation of information

The financial statements have been prepared on the historical cost basis.

All amounts have been rounded to the nearest thousand unless otherwise stated.

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

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items, highlighted as the 'critical accounting estimates and judgements' in section 1.2 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

Management's selection of the Company's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

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

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out and the valuation inputs become observable or the Company enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Company manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

(c) Financial instruments measured at amortised cost

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectable, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statement.

Financial liabilities

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

(d) Impairment of amortised cost financial assets

Expected credit losses ('ECL') are recognised for financial assets to other group undertakings held at amortised cost. At initial recognition, allowance is required for ECL resulting from default events that are possible within the next 12 months, or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

All of the Company's exposures are with other HSBC group undertakings. However, the Company will consider a financial instrument to be credit-impaired and in stage 3 if contractual payments are past due for more than 90 days or, there are other indications that the counterparty is unable to pay.

Further details can be found in the ultimate parent HSBC Holdings plc Annual Report and Accounts 2018 note 1.2 (i).

(e) Tax

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

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities. Payments associated with any incremental base erosion and anti-abuse tax are reflected in tax expense in the period incurred.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(f) Provisions, contingent liabilities and guarantees

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 that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(g) Called up share capital

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

(h) Cash and cash equivalents

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.

(i) Accounting policies applicable prior to 1 January 2018

Impairment of trade and other receivables

Losses for impaired receivables are recognised promptly when there is objective evidence that impairment of a receivable or portfolio of receivables has occurred. Impairment allowances calculated on individual receivables or on groups of receivables assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired receivables on the balance sheet. Losses which may arise from future events are not recognised.

Financial assets are written off to the extent that there is no realistic prospect of recovery.

2 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2017: nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

3 Auditors' remuneration

	2018 **£'000**	2017 £'000
Audit fees for statutory audit		
- Fees relating to current year	**25**	25

4 Tax

Tax expense

	2018 £'000	2017 £'000
Current tax		
- For this year	**3**	623
- Adjustments in respect of prior years	**1**	7
Overseas tax		
- For this year	**78**	76
Total current tax	**82**	706
Deferred tax		
- Origination and reversals of temporary differences	**9**	21
- Effects of changes in tax rates	**—**	1
- Adjustments in respect of prior years	**—**	(1)
Total deferred tax	**9**	21
Year ended 31 Dec	**91**	727

The UK corporation tax rate applying to the Company was 19.00% (2017: 19.25%).

The UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. A further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned. These reductions in the corporation tax rate were enacted in the Finance (No 2) Act 2016.

Tax reconciliation

	2018		2017	
	£'000	**(%)**	£'000	(%)
Profit before tax	**(973)**		2,285	
Tax at 19.00% (2017: 19.25%)	**(185)**	**19.00**	440	19.25
Adjustments in respect of prior period liabilities	**1**	**(0.08)**	6	0.28
Non-taxable income and gains	**212**	**(21.75)**	214	9.37
Local taxes and overseas withholding taxes	**63**	**(6.49)**	61	2.67
Other	**—**	**(0.02)**	6	0.24
Year ended 31 Dec	**91**	**(9.34)**	727	31.81

In addition to the amount charged to the income statement, the aggregate amount of current and deferred tax relating to items that are credited directly to equity is £(12)k (2017:£2k).

5 Deferred tax

The following table shows the gross deferred tax assets and liabilities recognised in the balance sheet and the related amounts recognised in the income statement:

	Property, Plant and equipment	**Share based payments**	**Total**
	£'000	**£'000**	**£'000**
At 1 Jan 2018	**9**	**26**	**35**
Other comprehensive income charge	**—**	**(12)**	**(12)**
Origination and reversal of temporary differences	**—**	**(9)**	**(9)**
At 31 Dec 2018	**9**	**5**	**14**

	Property, Plant and equipment	Share based payments	Total
	£'000	£'000	£'000
At 1 Jan 2017	9	44	53
Other comprehensive income credit	—	3	3
Origination and reversal of temporary differences	—	(21)	(21)
At 31 Dec 2017	9	26	35

A deferred tax asset of £14k (2017: £35k) is recognised in respect of accelerated capital allowances and share based payments. The related tax benefit is to be realised through the creation of future taxable profits within the company.

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

	2018 £'000	2017 £'000
Non-cash item included in profit and loss		
Provision (release)/increase	**(1,113)**	1,025
Foreign exchange	**(713)**	(955)
Interest income	**(246)**	(117)
	(2,072)	(47)
Change in operating assets		
Change in prepayments and accrued income	**(4,540)**	346
Change in amounts due from other group undertakings	**7,797**	(8,327)
Change in other assets	**1,317**	(2,422)
	4,574	(10,403)
Change in operating liabilities		
Change in accruals and deferred income	**6,401**	(510)
Change in other liabilities	**(1,638)**	3,748
Change in amounts due to other group undertakings	**13,862**	(9,189)
	18,625	(5,951)
Cash and cash equivalents comprise		
Cash and balances with other group undertakings	**58,240**	38,541
Interest		
Interest received	**246**	117

7 Analysis of financial assets and liabilities by measurement basis

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

At 31 Dec 2018	Amortised cost £'000	Total £'000
Assets		
Cash and cash equivalents	**58,240**	**58,240**
Trade and other receivables	**21,664**	**21,664**
Total financial assets	**79,904**	**79,904**
Total non-financial assets		**17**
Total assets		**79,921**
Liabilities		
Trade and other payables	**20,867**	**20,867**
Accruals, deferred income and other liabilities	**9,522**	**9,522**
Total financial liabilities	**30,389**	**30,389**
Total non-financial liabilities		**—**
Total liabilities		**30,389**

Categories of financial instruments are disclosed under IFRS 9 at 31 December 2018. These are not directly comparable with 31 December 2017, where the instruments were categorised in accordance with IAS 39.

At 31 Dec 2017	Financial assets and liabilities at amortised cost £'000	Total £'000
Assets		
Cash and cash equivalents	38,541	38,541
Trade and other receivables	22,672	22,672
Total financial assets	61,213	61,213
Total non-financial assets		2,488
Total assets		63,701
Liabilities		
Trade and other payables	7,718	7,718
Accruals, deferred income and other liabilities	4,759	4,759
Total financial liabilities	12,477	12,477
Total non-financial liabilities		622
Total liabilities		13,099

8 Trade and other receivables

	2018 £'000	2017 £'000
Amounts due from other group undertakings	**4,606**	10,297
Amounts due from parent undertaking	**9,370**	9,174
Prepayments and accrued income	**6,552**	3,201
Other receivables	**1,136**	2,453
At 31 Dec	**21,664**	25,125

Prepayments and accrued income relate to accrued income with parent and other group undertakings.

Amounts due from other group undertakings include an ECL provision for doubtful debts of £1,524k (2017: £411k). Movement against prior year is £1,113k which is related to stage 3 provision.

	2018 £'000	2017 £'000
At 1 Jan	**411**	2,942
Amounts written off in the year	**(3)**	(995)
Recoveries of amounts provided for in previous years	**(277)**	(2,561)
Charge to the income statement	**1,393**	1,025
At 31 Dec	**1,524**	411

9 Trade and other payables

	2018 £'000	2017 £'000
Amounts owed to other group undertakings	**19,721**	7,350
Amount owed to parent undertakings	**1,146**	368
At 31 Dec	**20,867**	7,718

10 Maturity analysis of assets and liabilities

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

	On demand £'000	Due within 3 months £'000	Due between 3 - 12 months £'000	Due between 1 - 5 years £'000	Undated £'000	Total £'000
Assets						
Cash and cash equivalents	**14,507**	**43,733**	**–**	**–**	**–**	**58,240**
Trade and other receivables	**–**	**20,528**	**1,136**	**–**	**–**	**21,664**
Non-financial assets	**–**	**–**	**3**	**–**	**14**	**17**
At 31 Dec 2018	**14,507**	**64,261**	**1,139**	**–**	**14**	**79,921**
Liabilities and Equity						
Trade and other payables	**–**	**–**	**20,867**	**–**	**–**	**20,867**
Accruals, deferred income and other liabilities	**–**	**7,956**	**1,566**	**–**	**–**	**9,522**
Non-financial liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Equity	**–**	**–**	**–**	**–**	**49,532**	**49,532**
At 31 Dec 2018	**–**	**7,956**	**22,433**	**–**	**49,532**	**79,921**

	On demand £'000	Due within 3 months £'000	Due between 3 - 12 months £'000	Due between 1 - 5 years £'000	Undated £'000	Total £'000
Assets						
Cash and cash equivalents	10,523	28,018	–	–	–	38,541
Trade and other receivables	–	22,672	–	–	–	22,672
Non-financial assets	–	–	2,453	–	35	2,488
At 31 Dec 2017	10,523	50,690	2,453	–	35	63,701
Liabilities and Equity						
Trade and other payables	–	7,718	–	–	–	7,718
Accruals, deferred income and other liabilities	–	4,694	–	65	–	4,759
Non-financial liabilities	–	–	–	–	622	622
Equity	–	–	–	–	50,602	50,602
At 31 Dec 2017	–	12,412	–	65	51,224	63,701

For the undiscounted cash flows payable under various financial liabilities, the amounts are the same as disclosed in the tables for the analysis of liabilities above.

11 Called up share capital

Class of shares	Nominal value per share £	Number of Issued and fully paid shares	2018 Issued share capital £'000	2017 Issued share capital £'000
Ordinary shares of £1 each	1	14,687,416	**14,687**	14,687

12 Management of financial risk

Systems and procedures are in place in the HSBC Group to identify, control and report on the major risks associated with financial instruments which include credit, liquidity and market risk. A Risk Management Meeting of the Group Management Board, chaired by the Group Chief Risk Officer, is held each month to address asset, liability and risk management issues for the HSBC Group. The Risk Management Meeting sets processes and limits to be applied by HSBC subsidiaries, including HSBC Insurance Holdings Limited. Exposure to these risks is monitored by HSBC Holdings plc's Asset and Liability Committee.

Credit risk management

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

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and portfolio basis. The Directors are responsible for the quality of credit portfolios and follow a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products. Credit risk is managed at a group level by business sector, rather than in respect of individual undertakings and it is therefore not considered appropriate to disclose quantitative data about exposure to that risk.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables analyse loans by industry sector and represent the concentration of exposures on which credit risk are managed.

	Gross carrying/ nominal amount £'000	Allowance/Provision for ECL[1,2] £'000
Trade and other receivables	**23,188**	**(1,524)**
At 31 Dec 2018	**23,188**	**(1,524)**

1 The total ECL is recognised in the loss allowance for the financial asset unless the total CL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.
2 Represents the maximum amount at risk should the client default.

The following table provides an overview of theCompany's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

Summary of credit risk by stage distribution and ECL coverage

	Gross carrying/nominal			Allowance for ECL			ECL Coverage %		
	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Stage 1 %	Stage 2 %	Stage 3 %
Trade and other receivables	**21,664**	**–**	**1,524**	**–**	**–**	**(1,524)**	**–**	**–**	**100**
At 31 Dec 2018	**21,664**	**–**	**1,524**	**–**	**–**	**(1,524)**	**–**	**–**	**100**

Reconciliation of gross exposure allowances/provisions for trade receivables with HSBC group undertakings

	ECL allowance £'000
At 1 Jan 2018	**411**
ECL income statement charge for the period	**1,113**
At 31 Dec 2018	**1,524**
ECL income statement charge for the period	**1,113**
Total ECL income charge for the period	**1,113**

Credit quality

Credit quality of financial instruments

The Company assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications defined below each encompass a range of more granular, internal credit rating grades, as well as external rating:

	Debt Securities and other bills	Lending and derivatives
Quality classification	**External credit rating**	**Internal credit rating**
Strong	A- and above	CRR1 to CRR2
Good	BBB+ to BBB-	CRR3
Satisfactory	BB+ to B and unrated	CRR4 to CRR5
Sub-standard	B- to C	CRR6 to CRR8
Credit-impaired	Default	CRR9 to CRR10

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

Quality classification definitions

'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.

'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.

'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.

'Credit-impaired' exposures have been assessed as impaired.

Distribution of financial instruments by credit quality

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance provision for ECL	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	58,240	–	–	–	–	58,240	–	58,240
Trade and other receivables	21,664	–	–	–	1,524	23,188	(1,524)	21,664
At 31 Dec 2018	**79,904**	**–**	**–**	**–**	**1,524**	**81,428**	**(1,524)**	**79,904**

Distribution of financial instruments to which the impairment requirements of IFRS 9 are applied by credit quality stage allocation

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Substandard	Credit impaired	Total	Allowance provision for ECL	Net
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Trade and other receivables	21,664	–	–	–	1,524	23,188	(1,524)	21,664
- stage 1	21,664	–	–	–	–	21,664	–	21,664
- stage 3	–	–	–	–	1,524	1,524	(1,524)	–
At 31 Dec 2018	**21,664**	**–**	**–**	**–**	**1,524**	**23,188**	**(1,524)**	**21,664**

2017 Credit risk disclosures

The below disclosures were included in the *Annual Report and Accounts 2017* and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables which are disclosed on the IFRS 9 basis, the 2017 disclosures have been shown below and not adjacent to the 2018 tables.

Distribution of total financial instruments exposed to credit risk by credit quality

	Neither past due not impaired							
	Strong	Good	Satisfactory	Substandard	Past due not impaired	Impaired	Impairment allowances	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 31 Dec 2017								
Trade and other receivables	17,798	–	–	–	7,327	411	(411)	25,125

Aging analysis of days past due but not impaired gross financial instruments

	Up to 29 days £'000	30-59 days £'000	60-89 days £'000	90-179 days £'000	Over 180 days £'000	Total £'000
At 31 December 2017						
Trade and other receivables	7,038	328	–	–	(39)	7,327

Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost. The risk arises from mismatches in the timing of cash flows.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings. The Company also has a line of credit with HSBC Bank plc which can be used for liquidity purposes.

The Business manages liquidity risk for this Company as described above for risks generally.

Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce income values. Exposure to these risks arises from short-term cash balances and funding positions with other group undertakings. The objective of the Company risk management strategy is to reduce exposure to these risks and minimise volatility in economic income, cash flows and distributable reserves. The principal tool for managing this is sensitivity analysis of changes in profit before tax to future changes in the exchange rates or interest rate.

Interest rate risk

The Company held net assets of £58.2m (2017: £38.5m) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 50 basis points increase/(decrease) in LIBOR on these net assets would be an increase/(decrease) of profit before tax of £291k (2017: £193k) and after tax of £236k (2017: £155k).

Foreign exchange risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than Sterling. The currency giving rise to this risk is primarily Hong Kong Dollars which amounted to a £8,840k liability (2017: £5,297k liability).

The Company's profit before tax would increase by £1,326k (2017: £795k) and after tax by £1,074k (2017: £642k) if the Hong Kong Dollar foreign exchange weakened by 15 per cent relative to Sterling.

Foreign currency rate sensitivity analysis has been performed on the net assets foreign exchange risk exposure as at the reporting date. An upward/downward movement in the GBP: HKD rate of 15 per cent has been assumed. If all other variables are held constant, the information above presents the likely impact on the Company's profit.

13 Related party transactions

Transaction with other related parties

Transactions detailed below include amounts due to/from group undertakings

	2018		2017	
	Highest balance during the year	**Balance at 31 December**	Highest balance during the year 1	Balance at 31 December
	£'000	**£'000**	£'000	£'000
Assets				
Cash and cash equivalents[1]	**58,240**	**58,240**	68,199	38,541
Trade and other receivables[1,2]	**30,431**	**20,528**	24,703	22,672
Liabilities				
Trade and other payables[1,2]	**21,173**	**20,867**	29,964	7,718

1 These balances are with other related parties comprising of other HSBC Group Companies which are not a parent nor subsidiary of the Company.

2 These balances are with HSBC Holdings plc, the ultimate and immediate parent of the Company

	2018	2017
	£'000	£'000
Income statement		
Revenue	**49,148**	33,366
Cost of services purchased	**(48,541)**	(33,689)
Interest income	**246**	117

The above outstanding balances arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

The Company has a related party relationship with its parent, with other group undertakings and with its directors. In particular goods and services are provided to the company by other HSBC group undertakings. All banking arrangements are with other HSBC group undertakings. The Company recharges other group undertakings for the support services it provides. All other transactions are with other Group undertakings. These transactions are on standard terms and conditions and are settled in cash.

14 Parent undertakings

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

HSBC Holdings plc is incorporated in England and Wales.

Copies of HSBC Holdings plc's consolidated financial statements can be obtained from:

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

15 Events after the balance sheet date

There are no significant events after the balance sheet date.