

**HSBC Overseas Holdings (UK) Limited**  
Registered No: 1656361

**Annual Report and Financial Statements for the year ended 31 December 2017**

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**Strategic Report**

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**Principal activities**

During the year ended 31 December 2017, HSBC Overseas Holdings (UK) Limited (the 'Company') continued to be an investment holding company.

**Review of the Company's business**

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

The statement of comprehensive income and statement of financial position provide the key performance indicators.

The reserves available for distribution as at 31 December 2017 were \$6,248,718k (2016: \$10,428,245k).

**Performance**

The performance and position of the Company for the year ended 31 December 2017 and the state of the Company's financial affairs at that date are set out on pages 9 to 35.

The Company received the following dividends from other group undertakings:

|                                   | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------------------|----------------|----------------|
| Ordinary shares                   |                |                |
| HSBC Canada Holdings (UK) Limited | 157,000        | 760,000        |
| HSBC North America Holdings Inc.  | 237,574        | 171,973        |
|                                   | <u>394,574</u> | <u>931,973</u> |

The results of the Company show a profit before tax of \$167,815k for the year (2016: \$883,487k).

During the year, the Company's wholly owned subsidiary, North America Holdings Inc distributed \$4,500 million as a return of the cost of investment to the Company.

In December 2017, the Company purchased 14 million Preferred shares of CAD350 million in HSBC Bank Canada, for a consideration of \$272 million.

**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 Holdings plc. Ongoing review of the Company is carried out by monitoring the subsidiary performance, including cash flows from and to each subsidiary.

**Strategic Report**

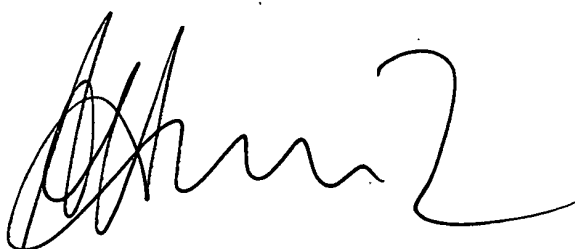
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**Principal risks and uncertainties**

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 16 on the financial statements.

The Company's exposures to liquidity and market risks are limited due to the nature of its business, which is predominantly investing in or financing of group companies. These transactions are generally funded by way of equity obtained from the parent Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'R J Hennity', is written over a large, faint, stylized '2'.

R J Hennity  
Director

26 June 2018

Registered Office  
8 Canada Square  
London E14 5HQ  
United Kingdom

**Report of the Directors**

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**Directors**

The Directors who served during the year and up to the date of approval of the financial statements were as follows:

| <b>Name</b>   | <b>Resigned</b>  |
|---------------|------------------|
| R J Hennity   |                  |
| I J Mackay    |                  |
| I MacKinnon   |                  |
| B J S Mathews |                  |
| G A Francis   |                  |
| B Pascoe      | 08 February 2017 |

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 and at the date of approval of Report of the Directors but have not been utilised by the Directors. All Directors have the benefit of Directors' and officers' liability insurance.

**Dividends**

Dividends of \$4,390,000k were declared and paid during the year (2016: \$412,000k).

**Significant events since the end of the financial year**

The Company received a distribution of \$900 million as a return of cost of investment from its subsidiary, HSBC North America Holdings Inc in January 2018.

The Company also received dividends from HSBC North America Holdings Inc of \$33 million in February 2018, HSBC Canada Holdings (UK) Limited of \$70 million in March 2018 & \$452 million in June 2018 and HSBC Bank Canada of \$4 million in February 2018. In May 2018, HSBC Bank Canada declared a dividend of \$3 million, which will be settled in July 2018.

The Company paid dividends of \$950 million in March 2018 and \$512 million in June 2018 to HSBC Holdings plc.

There are no other significant events after the balance sheet date.

**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.

**Financial risk management**

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 16 of the Notes to the Financial Statements.

**Report of the Directors**

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**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 HSBC's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the Company's approach to capital management during the year.

**Disclosure of information to auditor**

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

**Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

**Report of the Directors**

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**Statement of Directors' responsibilities**

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on page 7, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

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

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

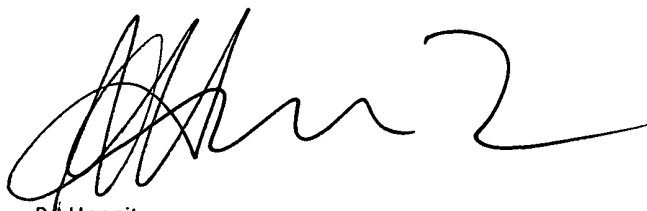
Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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 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

On behalf of the Board



R J Hennity  
Director

26 June 2018

Registered Office  
8 Canada Square  
London E14 5HQ  
United Kingdom

**Report on the audit of the financial statements**

**Opinion**

In our opinion, HSBC Overseas Holdings (UK) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 2017; 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 for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 for 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**

We have nothing to report in respect of the following matters in relation to which 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

**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.



**Independent Auditors' Report to the Members of HSBC Overseas Holdings (UK) Limited**

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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 2017 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 Statement of Directors' Responsibilities set out on page 5, 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](http://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.

**HSBC Overseas Holdings (UK) Limited**

**Independent Auditors' Report to the Members of HSBC Overseas Holdings (UK) Limited**

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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.



Matthew Falconer (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
United Kingdom

Dated: 26/6/18

## HSBC Overseas Holdings (UK) Limited

### Financial Statements

#### Income statement for the year ended 31 December 2017

|   | Notes | 2017<br>\$'000   | 2016<br>\$'000   |
|---|-------|------------------|------------------|
| Interest income                                       | 17    | 277,706          | 157,604          |
| Interest expense                                      | 17    | (500,493)        | (335,495)        |
| <b>Net interest expense</b>                           |       | <b>(222,787)</b> | <b>(177,891)</b> |
| Net trading income                                    |       | -                | (503)            |
| Dividend income                                       |       | 394,574          | 931,973          |
| Other operating expense                               | 2     | (3,947)          | (1)              |
| <b>Net operating income</b>                           |       | <b>167,840</b>   | <b>753,578</b>   |
| General and administrative expenses                   |       | (25)             | (15)             |
| Reversal of impairment on investments in subsidiaries |       | -                | 129,924          |
| <b>Total operating (expenses)/income</b>              |       | <b>(25)</b>      | <b>129,909</b>   |
| <b>Profit before tax</b>                              |       | <b>167,815</b>   | <b>883,487</b>   |
| Tax credit  | 6     | 42,658           | 35,384           |
| <b>Profit for the year</b>                            |       | <b>210,473</b>   | <b>918,871</b>   |

#### Statement of comprehensive income for the year ended 31 December 2017

There has been no comprehensive income or expense other than the profit for the year as shown as above (2016: nil).

The accompanying notes on pages 13 to 35 form an integral part of these financial statements.

## HSBC Overseas Holdings (UK) Limited

### Financial Statements

#### Balance sheet as at 31 December 2017

|  | Notes | 2017<br>\$'000    | 2016<br>\$'000    |
|--|-------|-------------------|-------------------|
| <b>Assets</b>                                  |       |                   |                   |
| Cash and cash equivalents                      | 7     | 133,277           | 50,967            |
| Loans and advances to other group undertakings | 8     | 8,687,021         | 8,344,228         |
| Trade and other receivables                    | 9     | 38,592            | 2,795             |
| Financial investments                          |       | 85                | 85                |
| Prepayments and accrued income                 |       | 32,379            | 29,878            |
| Current tax assets                             |       | 43,878            | 56,886            |
| Investments in subsidiaries                    | 10    | 32,724,157        | 36,951,878        |
| <b>Total assets</b>                            |       | <b>41,659,389</b> | <b>45,436,717</b> |
| <b>Liabilities and equity</b>                  |       |                   |                   |
| <b>Liabilities</b>                             |       |                   |                   |
| Loans from other group undertakings            | 11    | 15,372,662        | 14,970,463        |
| <b>Total liabilities</b>                       |       | <b>15,372,662</b> | <b>14,970,463</b> |
| <b>Equity</b>                                  |       |                   |                   |
| Called up share capital                        |       | -                 | -                 |
| Share premium account                          |       | 20,038,009        | 20,038,009        |
| Retained earnings                              |       | 6,248,718         | 10,428,245        |
| <b>Total equity</b>                            |       | <b>26,286,727</b> | <b>30,466,254</b> |
| <b>Total liabilities and equity</b>            |       | <b>41,659,389</b> | <b>45,436,717</b> |

The accompanying notes on pages 13 to 35 form an integral part of these financial statements.

Called up share capital is US\$202 (2016: US\$202) (see Note 12) but has been rounded down to nil in the disclosure above, which displays all balances in US\$000s.

These financial statements on pages 9 to 12 were approved by the Board of Directors on 26 June 2018 and signed on its behalf by:

  
R J Hennity  
Director  
Company Registration No: 1656361

Financial Statements

Statement of cash flows for the year ended 31 December 2017

|  | Notes | 2017<br>\$'000 | 2016<br>\$'000 |
|--|-------|----------------|----------------|
| <b>Cash flows from operating activities</b>              |       |                |                |
| Profit before tax  |       | 167,815        | 883,487        |
| Adjustments for:   |       |                |                |
| Non-cash items included in profit before tax             | 7     | -              | (129,924)      |
| Change in operating assets                               | 7     | (2,717)        | 41,598         |
| Tax received   |       | 20,085         | -              |
| Net cash generated from operating activities             |       | 185,183        | 795,161        |
| <b>Cash flows from investing activities</b>              |       |                |                |
| Net loans and advances to other group undertakings       | 8     | (342,793)      | (6,082,026)    |
| Net cash inflow/(outflow) to investments in subsidiaries | 10    | 4,227,721      | (1,710,076)    |
| Net cash generated from/(used in) investing activities   |       | 3,884,928      | (7,792,102)    |
| <b>Cash flows from financing activities</b>              |       |                |                |
| Loans from other group undertakings                      | 11    | 402,199        | 7,432,198      |
| Dividends paid   |       | (4,390,000)    | (412,000)      |
| Net cash (used in)/generated from financing activities   |       | (3,987,801)    | 7,020,198      |
| <b>Net increase in cash and cash equivalents</b>         |       | 82,310         | 23,257         |
| Cash and cash equivalents brought forward                |       | 50,967         | 27,710         |
| <b>Cash and cash equivalents carried forward</b>         | 7     | 133,277        | 50,967         |

The accompanying notes on pages 13 to 35 form an integral part of these financial statements.

Financial Statements

Statement of changes in equity for the year ended 31 December 2017

|  | Share<br>premium<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>equity<br>\$'000 |
|--|----------------------------|--------------------------------|---------------------------|
| <b>2017</b>                                    |                            |                                |                           |
| At 1 January 2017                              | 20,038,009                 | 10,428,245                     | 30,466,254                |
| Profit for the year                            | -                          | 210,473                        | 210,473                   |
| Other comprehensive losses (net of tax)        |                            |                                |                           |
| <b>Total comprehensive income for the year</b> | -                          | 210,473                        | 210,473                   |
| Dividends to shareholders                      | -                          | (4,390,000)                    | (4,390,000)               |
| <b>At 31 December 2017</b>                     | <b>20,038,009</b>          | <b>6,248,718</b>               | <b>26,286,727</b>         |

The accompanying notes on pages 13 to 35 form an integral part of these financial statements.

**Called up share capital**

Called up share capital is \$202 (2016: \$202) (See Note 12) but been rounded down to nil above, as balances are displayed in \$000s.

**Dividend per share**

Dividend per share for the year was \$21,733k (2016: \$2,040k).

Equity is wholly attributable to equity shareholders of HSBC Holdings Plc.

Statement of changes in equity for the year ended 31 December 2016

|  | Share<br>premium<br>\$'000 | Retained<br>earnings<br>\$'000 | Total<br>equity<br>\$'000 |
|--|----------------------------|--------------------------------|---------------------------|
| <b>2016</b>                                    |                            |                                |                           |
| At 1 January 2016                              | 20,038,009                 | 9,921,374                      | 29,959,383                |
| Profit for the year                            | -                          | 918,871                        | 918,871                   |
| <b>Total comprehensive income for the year</b> | -                          | 918,871                        | 918,871                   |
| Dividends to shareholders                      | -                          | (412,000)                      | (412,000)                 |
| <b>At 31 December 2016</b>                     | <b>20,038,009</b>          | <b>10,428,245</b>              | <b>30,466,254</b>         |

## **1 Basis of preparation and significant accounting policies**

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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 2017, there were no unendorsed standards effective for the year ended 31 December 2017 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 2017**

There were no new standards applied in 2017. However, during 2017, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

#### **(b) Future accounting developments**

##### **Minor amendments to IFRSs**

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2018 and 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. The Company has not early adopted any of the amendments effective after 31 December 2017.

##### **Major new IFRSs**

The IASB has published IFRS 9 'Financial Instruments' which has been endorsed for use in the EU.

##### *IFRS 9 'Financial Instruments'*

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

##### *Classification and measurement*

The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue to exist.

**Notes on the Financial Statements**

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*Impairment*

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

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39, and the resulting impairment charge will tend to be more volatile. IFRS 9 will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

*Hedge accounting*

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

*Transitional impact*

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. Adoption will have no material impact to net assets and impairment.

**(c) Foreign currencies**

The functional currency of the Company is US Dollars, which is also the presentational currency of the financial statements of the Company. Unless otherwise specified, all \$ symbols represent US Dollars.

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 that 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 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 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of 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.

- Impairment of Investment of subsidiary undertaking: refer to Note 1.2 (e)

**(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**

Operating income

*Interest income and expense*

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value 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.

Dividend income is recognised when the right to receive a payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities. On receipt of a dividend the directors consider whether it represents a return of capital or a return on investment, or both. The proportion of a dividend that represent a return of capital is offset against the carrying value of the investment. The proportion that represents a return on investment is taken to the income statement.

**(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, 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.

*Critical accounting estimates and judgements*

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

**(c) Financial instruments measured at amortised cost**

**Loans and advances**

Loans and advances to other group undertakings are those that have not been classified either as held-for-trading or designated at fair value. These loans are recognised when cash is advanced and are derecognised when the undertakings repay their obligations, or the loans are sold or written off, or substantially all risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using effective interest method, less impairment losses.

**Impairment of loans and advances**

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

**Notes on the Financial Statements**

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Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

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

**Trade and other receivables**

Trade and other receivables are recognised on the trade date when entering into contractual arrangement and initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision or 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 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 statements.

**Loans from other group undertakings**

Loans from other group undertakings are recognised when cash is advanced or contractual arrangements are entered into, which is generally on trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. 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 rate method.

**Financial liabilities**

Amounts owned 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 of 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) Financial instruments measured at fair value**

**Available-for-sale financial assets**

Available-for-sale financial assets are recognised on the trade date when the Company enters into contractual arrangements to purchase them, and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

*Impairment of available-for-sale financial assets*

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments and within 'Gains less losses from financial investments' for equities.

**Notes on the Financial Statements**

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**(e) Investments in subsidiaries**

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

For the purpose of determining this classification, the Company is considered to have control of an entity when it is exposed, or has rights to variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

The Company's investments in subsidiaries are stated at cost less impairment losses.

*Critical accounting estimates and judgements*

Investments in subsidiaries are tested for impairment when there is an indication that the investment may be impaired. Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of cash flows expected to arise from continuing to hold the investment and the rates used to discount these cash flows.

**(f) Interest in associates**

The Company classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates.

Investments in associates are assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired. Goodwill on acquisition of interests in associates is not tested separately for impairment but is assessed as part of the carrying amount of the investment.

The Company carries its investments in associates at historical cost less provision for any impairment.

**(g) 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 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.

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 is calculated based on tax rates and laws enacted, or substantively enacted, by the end of the reporting period.

**(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.

Notes on the Financial Statements

(i) 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.

2 Other operating income

|                       | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------|----------------|----------------|
| Foreign exchange loss | (3,947)        | (1)            |

In December, the Company entered into FX spot transaction to sell \$276 million and by CAD350 million, resulting in a loss of \$4.2 million when purchasing 14 million of Preferred shares from HSBC Bank Canada.

3 Employee compensation and benefits

The Company has no employees and hence no staff costs (2016: nil).

4 Directors' emoluments

No director received any fees or emoluments from the Company during the year (2016: 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.

5 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by HSBC Holdings plc and are therefore not charged in arriving at profit before tax. Audit fees are disclosed in the financial statements of HSBC Holdings plc. The amount incurred in respect of the audit of these financial statements was \$20k (2016: \$9k).

There were no non-audit fees during the year (2016: nil).

6 Tax

Tax credited

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Current tax                                       |                |                |
| - for this year                                   | (43,878)       | (35,581)       |
| - adjustments in respect of prior years           | -              | 197            |
| Overseas tax                                      |                |                |
| - for this year                                   | 1,220          | -              |
| Total current tax                                 | (42,658)       | (35,384)       |
| Total tax credited for the year ended 31 December | (42,658)       | (35,384)       |

Notes on the Financial Statements

The UK corporation tax rate applying to the Company was 19.25% (2016: 20.00%).

In the UK Budget on 8 July 2015, 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. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned.

The rate reduction to 17% was enacted during the previous period and has therefore been taken into account in the calculation of the UK related deferred tax balances (as these balances will materially reverse after 1 April 2020). These reductions in the corporation tax rate were enacted in the Finance (No2) Act 2016.

**Tax reconciliation**

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

|  | 2017<br>\$'000  | %             | 2016<br>\$'000  | %             |
|--|-----------------|---------------|-----------------|---------------|
| Profit before tax                                  | 167,815         |               | 883,487         |               |
| Tax at 19.25% (2016: 20.00%)                       | 32,299          | 19.2          | 176,697         | 20.0          |
| Adjustments in respect of prior period liabilities | -               | -             | 197             | 0.02          |
| Permanent disallowables                            | -               | -             | 100             | 0.01          |
| Non-taxable income and gains                       | (75,942)        | (45.3)        | (212,378)       | (24.04)       |
| Local taxes and overseas withholding tax           | 985             | 0.6           | -               | -             |
| Total tax credited to the income statement         | <u>(42,658)</u> | <u>(25.5)</u> | <u>(35,384)</u> | <u>(4.01)</u> |

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

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| a) Non-cash items included in profit and loss   |                |                |
| Charge for impairment of investments            | -              | (129,924)      |
| b) Change in operating assets                   |                |                |
| Change in prepayments and accrued income        | (2,501)        | 22,500         |
| Change in trade and other receivables           | (216)          | 19,098         |
|   | <u>(2,717)</u> | <u>41,598</u>  |
| c) Cash and cash equivalents comprise           |                |                |
| Cash and balances with other group undertakings | <u>133,277</u> | <u>50,967</u>  |

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements

|                           | 2017<br>\$'000 | 2016<br>\$'000 |
|---------------------------|----------------|----------------|
| d) Interest and dividends |                |                |
| Interest paid             | (491,398)      | (296,798)      |
| Interest received         | 274,517        | 136,877        |
| Dividends received        | 392,073        | 984,351        |

### 8 Loans and advances to other group undertakings

|                                   | Nominal<br>interest rate<br>% | Maturity<br>date | 2017<br>\$'000 | 2016<br>\$'000 |
|-----------------------------------|-------------------------------|------------------|----------------|----------------|
| HSBC North America Holdings Inc.  | LIBOR+2.25%                   | 27/05/2025       | 850,000        | 850,000        |
| HSBC Canada Holdings (UK) Limited | FIXED+3.83%                   | 30/06/2025       | -              | 404,662        |
| HSBC North America Holdings Inc.  | LIBOR+2.455%                  | 30/10/2025       | 1,000,000      | 1,000,000      |
| HSBC Canada Holdings (UK) Limited | LIBOR+1.27%                   | 22/04/2021       | -              | 53,500         |
| HSBC North America Holdings Inc.  | LIBOR+1.53%                   | 29/04/2021       | 600,000        | 600,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.94%                   | 29/04/2026       | 600,000        | 600,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.44%                   | 27/05/2021       | -              | 600,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.71%                   | 27/05/2023       | -              | 400,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.79%                   | 27/05/2026       | 450,000        | 450,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.41%                   | 29/06/2021       | 900,000        | 900,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.72%                   | 29/06/2026       | 900,000        | 900,000        |
| HSBC North America Holdings Inc.  | LIBOR+1.27%                   | 03/08/2021       | 1,550,000      | 1,550,000      |
| HSBC Bank Canada                  | LIBOR+1.92%                   | 05/12/2023       | 797,766        | -              |
| HSBC North America Holdings Inc   | LIBOR+1.54%                   | 21/12/2022       | 1,000,000      | -              |
| Accrued interest payable          |                               |                  | 39,255         | 36,066         |
| At 31 December                    |                               |                  | 8,687,021      | 8,344,228      |

The loans are denominated in US Dollars & Canadian Dollars and the effective interest based on LIBOR & CDOR rates is accrued. The nominal rate is equal to the effective rate of interest as there have been no fees charged on these loans.

### 9 Trade and other receivables

At 31 December 2017, \$38,592k was due from other group undertakings (2016: \$2,795k). These both are non-interest bearing amounts and payable on demand.

The fair value of the amounts owed from other group undertakings is not significantly different to their carrying value on the balance sheet due to their short term nature.

## Notes on the Financial Statements

## 10 Investments in subsidiaries

|  | 2017<br>\$'000      | 2016<br>\$'000      |
|--|---------------------|---------------------|
| <b>Cost</b>                                  |                     |                     |
| At 1 January                                 | 52,557,255          | 51,075,834          |
| Additions                                    | 272,279             | 1,840,000           |
| Disposals                                    | (4,500,000)         | (358,579)           |
| <b>At 31 December</b>                        | <b>48,329,534</b>   | <b>52,557,255</b>   |
|  |                     |                     |
|  | 2017<br>\$'000      | 2016<br>\$'000      |
| <b>Provision for impairment</b>              |                     |                     |
| At 1 January                                 | (15,605,377)        | (15,963,956)        |
| Release                                      | -                   | 129,924             |
| Disposals                                    | -                   | 228,655             |
| <b>At 31 December</b>                        | <b>(15,605,377)</b> | <b>(15,605,377)</b> |
| <b>Net carrying amount as at 31 December</b> | <b>32,724,157</b>   | <b>36,951,878</b>   |

## Additions of investments

During the year, the Company purchased 14 million Preferred Shares of CAD350 million in HSBC Bank Canada, for a consideration of \$272 million.

## Return of capital

During the year, the Company's wholly owned subsidiary, North America holdings Inc distributed \$4,500 million as a return of the cost of investment to the Company.

## Impairment of investments

The process of identifying and evaluating impairment is inherently uncertain because it requires significant management judgement in making a series of estimations, the results of which are highly sensitive to the assumptions used. The impairment review represents management's best estimate of the factors below:

**Nominal long-term growth rate:** The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the Group of business units making up the subsidiaries. These growth rates reflect GDP and inflation for the countries within which the subsidiary operates or derives revenue from; and

**Discount rate:** The rate used to discount the cash flows is based on the cost of capital assigned to each subsidiary, which is derived using a Capital Asset Pricing Model ('CAPM'). The CAPM depends on a number of inputs reflecting financial and economic variables including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each subsidiary are refined to reflect the rates of inflation for the countries within which the subsidiaries operate. In addition, for the purposes of testing subsidiaries for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM with cost of capital rates produced by external sources for businesses operating in similar markets; and



Notes on the Financial Statements

**Management's judgement in estimating the cash flows:** The cash flow projections for each subsidiary are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data in future years; however, the cash flow forecasts necessarily and appropriately reflect management's view of future business prospects at the time of the assessment.

When this exercise demonstrates that the expected cash flows of a subsidiary have declined and/or that its cost of capital has increased, the effect is to reduce the subsidiary's estimated recoverable amount. If this is lower than the carrying value of the subsidiary, a charge for impairment will be recognised in the Company's income statement for the year. The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In the event of a significant deterioration in economic and credit conditions compared with those reflected by management in the cash flow forecasts for the subsidiaries, a material adjustment to a subsidiary's recoverable amount may occur which may result in the recognition of an impairment charge in the income statement.

**HSBC North America Holdings Inc.**

There was no change during 2017 to the previous trend of losses and impairments seen in HSBC North America Holdings Inc. ("HNAH") group.

A comparison of carrying value amount of \$25.7 billion (2016: \$30.2 billion) to value in use of \$30.9 billion (2016: \$33.7 billion), calculated using a discount rate of 9.5% (2016: 10.04%) and a growth rate of 4.09% (2016: 4.21%) has resulted in no provision for impairment being required.

The calculation for the fair value less cost of disposal of \$30.9 billion (2016: 29.4 billion) is based on the Net Asset Value of the individual assets and liabilities adjusted to fair values where appropriate. To determine the fair value of the business as a whole, price/book ratios of comparable peer banks in the US were considered for the Retail Banking and Global Banking & Markets segments and for other segments the price/book was determined on an average of both discounted cash flow & market-based approach. The blended price/book ratio resulted in the fair value less cost of disposal being greater than the carrying value.

Based on this valuation, the impairment provision of US\$15.6 billion against the investment in HNAH remains unchanged.

**Sensitivity to key assumptions for investment in HSBC North America Holdings Inc.**

Based on management's assessment of the recoverable amount of its investment in HNAH, the Company has kept the carrying amount unchanged (Impairment 2016: nil). Changes to the key assumptions used in the value in use of \$30.9 billion calculation would have the following impact on the value in use:

| Key assumptions     | Change in assumption | Impact on value in use – (loss)/gain |
|---------------------|----------------------|--------------------------------------|
| Discount rate       | +/- 100 basis points | \$(4,512m)/\$6,583m                  |
| Nominal growth rate | +/- 100 basis points | \$5,471m/\$(3,763m)                  |

**HSBC Canada Holdings (UK) Limited**

HSBC Canada Holdings (UK) Limited operates as a holding company and provides banking and financial services through its subsidiaries. A comparison of carrying amount of \$6.7 billion (2016: \$6.7 billion) to value in use of \$13 billion (2016: \$12.1 billion), calculated using a discount rate of 9.40% (2016: 9%) and a growth rate of 3.99% (2016: 4.23%), did not result in an impairment charge.

| Key assumptions     | Change in assumption | Impact on value in use – (loss)/gain |
|---------------------|----------------------|--------------------------------------|
| Discount rate       | +/- 100 basis points | \$(2,051m)/\$2,994m                  |
| Nominal growth rate | +/- 100 basis points | \$2,513m/\$(1,729m)                  |

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements

The principal subsidiary undertakings of the Company as at 31 December 2017 are set out below.

|   | Country of<br>incorporation | Interest in<br>equity capital<br>% | Share class      |
|---|-----------------------------|------------------------------------|------------------|
| HSBC North America Holdings Inc.              | USA                         | 100.00                             | Ordinary shares  |
| HSBC Canada Holdings UK Ltd                   | UK                          | 100.00                             | Ordinary shares  |
| HSBC Bank Canada                              | Canada                      | 41.18                              | Preferred shares |
| HSBC Software Development (Guangdong) Limited | China                       | 100.00                             | Ordinary shares  |
| Household International Europe Limited        | UK                          | 100.00                             | Ordinary shares  |

Details of all the Company's subsidiaries, as required under section 409 of the Companies act 2006, are set out in Note 20.

### 11 Loans from other group undertakings

|                          | Nominal<br>interest rate<br>% | Maturity<br>date | 2017<br>\$'000    | 2016<br>\$'000    |
|--------------------------|-------------------------------|------------------|-------------------|-------------------|
| HSBC Holdings plc        | LIBOR+1.95%                   | 31/03/2021       | 4,000,000         | 4,000,000         |
| HSBC Holdings plc        | LIBOR+2.41%                   | 17/12/2022       | 312,000           | 312,000           |
| HSBC Holdings plc        | LIBOR+2.09%                   | 27/05/2025       | 850,000           | 850,000           |
| HSBC Holdings plc        | FIXED+3.83%                   | 30/06/2025       | -                 | 404,662           |
| HSBC Holdings plc        | LIBOR+2.455%                  | 30/10/2025       | 1,000,000         | 1,000,000         |
| HSBC Holdings plc        | LIBOR+1.27%                   | 22/04/2021       | 500,000           | 500,000           |
| HSBC Holdings plc        | LIBOR+1.37%                   | 29/04/2021       | 600,000           | 600,000           |
| HSBC Holdings plc        | LIBOR+1.79%                   | 29/04/2026       | 600,000           | 600,000           |
| HSBC Holdings plc        | LIBOR+1.29%                   | 27/05/2021       | -                 | 600,000           |
| HSBC Holdings plc        | LIBOR+1.57%                   | 27/05/2023       | -                 | 400,000           |
| HSBC Holdings plc        | LIBOR+1.65%                   | 27/05/2026       | 450,000           | 450,000           |
| HSBC Holdings plc        | LIBOR+2.95%                   | 29/06/2026       | 1,840,000         | 1,840,000         |
| HSBC Holdings plc        | LIBOR+1.41%                   | 29/06/2021       | 900,000           | 900,000           |
| HSBC Holdings plc        | LIBOR+1.72%                   | 29/06/2026       | 900,000           | 900,000           |
| HSBC Holdings plc        | LIBOR+1.27%                   | 03/08/2021       | 1,550,000         | 1,550,000         |
| HSBC Holdings plc        | LIBOR+1.92%                   | 05/12/2023       | 797,766           | -                 |
| HSBC Holdings plc        | LIBOR+1.44%                   | 21/12/2022       | 1,000,000         | -                 |
| Accrued interest payable |                               |                  | 72,896            | 63,801            |
| <b>At 31 December</b>    |                               |                  | <b>15,372,662</b> | <b>14,970,463</b> |

The loans are denominated in US Dollars & Canadian Dollars and the effective interest based on US dollar LIBOR & CDOR rates is accrued. The loans are carried at amortised cost. The nominal rate is equal to the effective rate of interest as there have been no fees charged on these loans.

### 12 Called up share capital

| Class of shares                       | Nominal value<br>per share (£) | Number of<br>issued and<br>fully paid<br>shares | 2017<br>Issued share<br>capital<br>(\$'000) | 2016<br>Issued share<br>capital<br>(\$'000) |
|---------------------------------------|--------------------------------|---|---|---|
| Ordinary shares of £ 1 each           | 1                              | 130   | -   | -   |
| <b>Balance as at 31 December 2017</b> |                                | <b>130</b>                                      | <b>-</b>                                    | <b>-</b>                                    |

Called up share capital is US\$202 (2016: US\$202) but has been rounded down to nil in the disclosure above, which displays all balances in US\$000s.

Notes on the Financial Statements

**13 Analysis of financial assets and liabilities by measurement basis**

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The following table analyses the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by balance sheet heading:

|  | Loans and<br>receivables<br>\$'000 | Available-<br>for-sale<br>securities<br>\$'000 | Financial<br>assets and<br>liabilities at<br>amortised<br>cost<br>\$'000 | Total<br>\$'000   |
|--|------------------------------------|--|--|-------------------|
| <b>At 31 December 2017</b>                     |                                    |  |  |                   |
| <b>Assets</b>                                  |                                    |  |  |                   |
| Cash and cash equivalents                      | -                                  | -  | 133,277  | 133,277           |
| Loans and advances to other group undertakings | 8,687,021                          | -  | -  | 8,687,021         |
| Trade and other receivables                    | -                                  | -  | 38,592   | 38,592            |
| Financial investments                          | -                                  | 85   | -  | 85                |
| <b>Total financial assets</b>                  | <b>8,687,021</b>                   | <b>85</b>                                      | <b>171,869</b>   | <b>8,858,975</b>  |
| <b>Total non-financial assets</b>              |                                    |  |  | <b>32,800,414</b> |
| <b>Total assets</b>                            |                                    |  |  | <b>41,659,389</b> |
| <b>Liabilities</b>                             |                                    |  |  |                   |
| Loans from other group undertakings            | -                                  | -  | 15,372,662   | 15,372,662        |
| <b>Total financial liabilities</b>             | <b>-</b>                           | <b>-</b>                                       | <b>15,372,662</b>  | <b>15,372,662</b> |
| <b>Total non-financial liabilities</b>         |                                    |  |  | <b>-</b>          |
| <b>Total liabilities</b>                       |                                    |  |  | <b>15,372,662</b> |

|  | Loans and<br>receivables<br>\$'000 | Available-<br>for-sale<br>securities<br>\$'000 | Financial<br>assets and<br>liabilities at<br>amortised<br>cost<br>\$'000 | Total<br>\$'000   |
|--|------------------------------------|--|--|-------------------|
| <b>At 31 December 2016</b>                     |                                    |  |  |                   |
| <b>Assets</b>                                  |                                    |  |  |                   |
| Cash and cash equivalents                      | -                                  | -  | 50,967   | 50,967            |
| Loans and advances to other group undertakings | 8,344,228                          | -  | -  | 8,344,228         |
| Trade and other receivables                    | -                                  | -  | 2,795  | 2,795             |
| Financial investments                          | -                                  | 85   | -  | 85                |
| <b>Total financial assets</b>                  | <b>8,344,228</b>                   | <b>85</b>                                      | <b>53,762</b>  | <b>8,398,075</b>  |
| <b>Total non-financial assets</b>              |                                    |  |  | <b>37,038,642</b> |
| <b>Total assets</b>                            |                                    |  |  | <b>45,436,717</b> |
| <b>Liabilities</b>                             |                                    |  |  |                   |
| Loans from other group undertakings            | -                                  | -  | 14,970,463   | 14,970,463        |
| <b>Total financial liabilities</b>             | <b>-</b>                           | <b>-</b>                                       | <b>14,970,463</b>  | <b>14,970,463</b> |
| <b>Total non-financial liabilities</b>         |                                    |  |  | <b>-</b>          |
| <b>Total liabilities</b>                       |                                    |  |  | <b>14,970,463</b> |

Notes on the Financial Statements

**14 Fair value of financial instruments not carried at fair value**

**Determination of fair value**

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- (a) Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- (b) Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- (c) Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

|  | Fair values          |  |        |
|--|----------------------|--|--------|
|  | Valuation techniques |  |        |
|  | Carrying<br>amount   | Using<br>observable<br>inputs<br>Level 2 | Total  |
|  | \$'000               | \$'000                                   | \$'000 |

**At 31 December 2017**

**Assets**

|  |           |           |           |
|--|-----------|-----------|-----------|
| Loans and advances to other group undertakings | 8,687,021 | 9,152,976 | 9,152,976 |
|--|-----------|-----------|-----------|

**Liabilities**

|                                     |            |            |            |
|-------------------------------------|------------|------------|------------|
| Loans from other group undertakings | 15,372,662 | 16,093,000 | 16,093,000 |
|-------------------------------------|------------|------------|------------|

|  | Fair Values          |  |        |
|--|----------------------|--|--------|
|  | Valuation techniques |  |        |
|  | Carrying<br>amount   | Using<br>observable<br>inputs<br>Level 2 | Total  |
|  | \$'000               | \$'000                                   | \$'000 |

**At 31 December 2016**

**Assets**

|  |           |           |           |
|--|-----------|-----------|-----------|
| Loans and advances to other group undertakings | 8,344,228 | 8,566,823 | 8,566,823 |
|--|-----------|-----------|-----------|

**Liabilities**

|                                     |            |            |            |
|-------------------------------------|------------|------------|------------|
| Loans from other group undertakings | 14,970,463 | 15,383,960 | 15,383,960 |
|-------------------------------------|------------|------------|------------|

Notes on the Financial Statements

15 Maturity analysis of assets and liabilities

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

| 31 December 2017                               | On demand<br>\$'000 | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Undated<br>\$'000 | Total<br>\$'000   |
|--|---------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|-------------------|
| <b>Assets</b>                                  |                     |                                  |                                      |                                    |                                |                   |                   |
| Cash and cash equivalents                      | 133,277             | -                                | -                                    | -                                  | -                              | -                 | 133,277           |
| Loans and advances to other group undertakings | -                   | 39,255                           | -                                    | 4,050,000                          | 4,597,766                      | -                 | 8,687,021         |
| Trade and other receivables                    | -                   | 38,592                           | -                                    | -                                  | -                              | -                 | 38,592            |
| Financial investments                          | -                   | -                                | -                                    | -                                  | -                              | 85                | 85                |
| Non-financial assets                           | -                   | 32,379                           | 43,651                               | -                                  | -                              | 32,724,157        | 32,800,187        |
| <b>Total as at 31 December 2017</b>            | <b>133,277</b>      | <b>110,226</b>                   | <b>43,651</b>                        | <b>4,050,000</b>                   | <b>4,597,766</b>               | <b>32,724,242</b> | <b>41,659,162</b> |

| 31 December 2017                    | On demand<br>\$'000 | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Undated<br>\$'000 | Total<br>\$'000   |
|-------------------------------------|---------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|-------------------|
| <b>Liabilities and equity</b>       |                     |                                  |                                      |                                    |                                |                   |                   |
| Loans from other group undertakings | -                   | 72,896                           | -                                    | 8,862,000                          | 6,437,766                      | -                 | 15,372,662        |
| Equity                              | -                   | -                                | -                                    | -                                  | -                              | 26,286,727        | 26,286,727        |
| <b>Total as at 31 December 2017</b> | <b>-</b>            | <b>72,896</b>                    | <b>-</b>                             | <b>8,862,000</b>                   | <b>6,437,766</b>               | <b>26,286,727</b> | <b>41,659,389</b> |

| 31 December 2016                               | On demand<br>\$'000 | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Undated<br>\$'000 | Total<br>\$'000   |
|--|---------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|-------------------|
| <b>Assets</b>                                  |                     |                                  |                                      |                                    |                                |                   |                   |
| Cash and cash equivalents                      | 50,967              | -                                | -                                    | -                                  | -                              | -                 | 50,967            |
| Loans and advances to other group undertakings | -                   | 36,066                           | -                                    | 3,703,500                          | 4,604,662                      | -                 | 8,344,228         |
| Trade and other receivables                    | -                   | 2,795                            | -                                    | -                                  | -                              | -                 | 2,795             |
| Financial investments                          | -                   | -                                | -                                    | 85                                 | -                              | -                 | 85                |
| Non-financial assets                           | -                   | -                                | -                                    | -                                  | -                              | 37,038,642        | 37,038,642        |
| <b>Total as at 31 December 2016</b>            | <b>50,967</b>       | <b>38,861</b>                    | <b>-</b>                             | <b>3,703,585</b>                   | <b>4,604,662</b>               | <b>37,038,642</b> | <b>45,436,717</b> |

| 31 December 2016                    | On demand<br>\$'000 | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Undated<br>\$'000 | Total<br>\$'000   |
|-------------------------------------|---------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|-------------------|
| <b>Liabilities and equity</b>       |                     |                                  |                                      |                                    |                                |                   |                   |
| Loans from other group undertakings | -                   | 63,800                           | -                                    | 8,150,000                          | 6,756,663                      | -                 | 14,970,463        |
| Equity                              | -                   | -                                | -                                    | -                                  | -                              | 30,466,254        | 30,466,254        |
| <b>Total as at 31 December 2016</b> | <b>-</b>            | <b>63,800</b>                    | <b>-</b>                             | <b>8,150,000</b>                   | <b>6,756,663</b>               | <b>30,466,254</b> | <b>45,436,717</b> |

## Notes on the Financial Statements

**16 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 Overseas Holdings (UK) Limited. Exposure to these risks is monitored by HSBC Holdings plc's Asset and Liability Committee.

**a) 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.

The Company's exposure to credit risk in relation to cash held with other group entities relates to group undertakings that are wholly owned subsidiaries of HSBC Holdings plc, and are part of the Business described above. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable. Credit risk arising from default on other loans is not expected to have a material impact on the Company's net assets.

The Company also lends to associates and other customers (with which the Company has available-for-sale investments). The maximum exposure to credit risk for these investments is equal to carrying value.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet plus contractual commitments disclosed in Note 18.

**Maximum exposure to credit risk**

|   | 2017                       |   | 2016                       |   |
|---|----------------------------|---|----------------------------|---|
|   | Maximum exposure<br>\$'000 | Exposure to credit risk (net)<br>\$'000 | Maximum exposure<br>\$'000 | Exposure to credit risk (net)<br>\$'000 |
| Cash and cash equivalents                               | 133,277                    | 133,277                                 | 50,967                     | 50,967                                  |
| Loans and advances to other group undertakings (Note 8) | 8,687,021                  | 8,687,021                               | 8,344,228                  | 8,344,228                               |
| Trade and other receivables                             | 38,592                     | 38,592                                  | 2,795                      | 2,795                                   |
| <b>As at 31 December</b>                                | <b>8,858,890</b>           | <b>8,858,890</b>                        | <b>8,397,990</b>           | <b>8,397,990</b>                        |

Notes on the Financial Statements

**b) 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 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 following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

|                                     | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Total<br>\$'000   |
|-------------------------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|
| <b>At 31 December 2017</b>          |                                  |                                      |                                    |                                |                   |
| Loans from other group undertakings | <u>132,541</u>                   | <u>397,624</u>                       | <u>10,591,706</u>                  | <u>7,168,555</u>               | <u>18,290,426</u> |

|                                     | Due within<br>3 months<br>\$'000 | Due between<br>3-12 months<br>\$'000 | Due between<br>1-5 years<br>\$'000 | Due after<br>5 years<br>\$'000 | Total<br>\$'000   |
|-------------------------------------|----------------------------------|--------------------------------------|------------------------------------|--------------------------------|-------------------|
| <b>At 31 December 2016</b>          |                                  |                                      |                                    |                                |                   |
| Loans from other group undertakings | <u>181,921</u>                   | <u>290,562</u>                       | <u>9,881,887</u>                   | <u>7,658,817</u>               | <u>18,013,187</u> |

**c) 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's 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.

**Foreign exchange 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 currency giving rise to this risk amounted to Euro assets of \$29k (2016: \$29k) and Canadian Dollar assets of \$289k (2016: nil).

In respect of monetary assets and liabilities held in currencies other than US Dollars, the Company ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot, or forward rates where necessary to address short-term imbalances.

Notes on the Financial Statements

The Company's profit before tax would decrease by \$15k and profit after tax \$12k (2016: profit before tax \$1k<sup>1</sup>, profit after tax \$ 1k<sup>1</sup>) if the Euros and Canadian Dollar foreign exchange rate weakened by 5 per cent relative to the US dollar.

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 USD: Euro and Canadian Dollar rate of 5 per cent has been assumed. If all other variables are held constant, the information above presents the likely impact on the Company's profit.

<sup>1</sup> Amounts have been restated.

Interest rate risk

The Company held net liabilities of \$6,519m (2016: \$6,547m<sup>1</sup>) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 100 basis points increase/(decrease) in LIBOR on these net liabilities would be a (decrease)/increase of profit before tax of \$65m (2016: \$65m<sup>1</sup>) and after tax of \$53m (2016: \$52m<sup>1</sup>).

<sup>1</sup> Amounts have been restated.

17 Related party transactions

Transactions with other related parties

Balances with related parties

Transactions detailed below include amounts due to/from other group undertakings.

|   | 2017                                      |                                  | 2016                                      |                                  |
|---|---|----------------------------------|---|----------------------------------|
|   | Highest balance during the year<br>\$'000 | Balance at 31 December<br>\$'000 | Highest balance during the year<br>\$'000 | Balance at 31 December<br>\$'000 |
| <b>Assets</b>   |   |                                  |   |                                  |
| Cash and cash equivalents <sup>1</sup>                        | 2,555,886                                 | 133,277                          | 66,129                                    | 50,967                           |
| Loans and advances to other group undertakings <sup>1,2</sup> | 9,167,016                                 | 8,687,021                        | 8,351,607                                 | 8,344,228                        |
| Trade and other receivables <sup>3</sup>                      | 72,374                                    | 38,592                           | 21,893                                    | 2,795                            |
| Prepayments and accrued income <sup>2</sup>                   | 2,032,193                                 | 32,379                           | 29,878                                    | 29,878                           |
| Financial investments <sup>1</sup>                            | 85  | 85                               | 85  | 85                               |
| <b>Liabilities</b>  |   |                                  |   |                                  |
| Loans from other group undertakings <sup>3</sup>              | 15,840,947                                | 15,372,662                       | 15,521,275                                | 14,970,463                       |
|   |   | Notes                            | 2017<br>\$'000                            | 2016<br>\$'000                   |
| <b>Income statement</b>                                       |   |                                  |   |                                  |
| Interest income <sup>2</sup>                                  |   | 8                                | 277,706                                   | 157,604                          |
| Interest expense <sup>3</sup>                                 |   | 11                               | (500,493)                                 | (335,495)                        |
| Dividend income <sup>2</sup>                                  |   |                                  | 394,574                                   | 931,973                          |
| Dividend expense <sup>3</sup>                                 |   |                                  | (4,390,000)                               | (412,000)                        |

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.

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

<sup>2</sup> These balances are with subsidiary of the Company.

<sup>3</sup> These balances are with the parent of the Company.



**18 Parent undertakings**

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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 consolidated financial statements can be obtained from:

HSBC Holdings plc  
8 Canada Square  
London E14 5HQ  
United Kingdom  
[www.hsbc.com](http://www.hsbc.com)

**19 Events after the balance sheet date**

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The Company received a distribution of \$900 million as a return of cost of investment from its subsidiary, HSBC North America Holdings Inc in January 2018.

The Company also received dividends from HSBC North America Holdings Inc of \$33 million in February 2018, HSBC Canada Holdings (UK) Limited of \$70 million in March 2018 & \$452 million in June 2018 and HSBC Bank Canada of \$4 million in February 2018. In May 2018, HSBC Bank Canada declared a dividend of \$3 million, which will be settled in July 2018.

The Company paid dividends of \$950 million in March 2018 and \$512 million in June 2018 to HSBC Holdings plc.

There are no other significant events after the balance sheet date.

20 Subsidiary undertakings

In accordance with Section 409 of the Companies Act 2006 a list of the Company's subsidiaries, the country of incorporation and the effective percentage of equity owned at 31 December 2017 is disclosed below.

| Subsidiaries                                      | Interest (%) | Footnotes |
|---|--------------|-----------|
| Beneficial Company LLC                            | 100.00%      | 2, 23     |
| Beneficial Consumer Discount Company              | 100.00%      | 1, 26     |
| Beneficial Financial I Inc.                       | 100.00%      | 1, 32     |
| Beneficial Florida Inc.                           | 100.00%      | 1, 23     |
| Beneficial Homeowner Service Corporation          | 100.00%      | 1, 23     |
| Beneficial Kentucky Inc.                          | 100.00%      | 1, 23     |
| Beneficial Loan & Thrift Co.                      | 100.00%      | 1, 23     |
| Beneficial Louisiana Inc.                         | 100.00%      | 1, 23     |
| Beneficial Maine Inc.                             | 100.00%      | 1, 23     |
| Beneficial Massachusetts Inc.                     | 100.00%      | 1, 23     |
| Beneficial Michigan Inc.                          | 100.00%      | 1, 23     |
| Beneficial New Hampshire Inc.                     | 100.00%      | 1, 23     |
| Beneficial Oregon Inc.                            | 100.00%      | 1, 23     |
| Beneficial Rhode Island Inc.                      | 100.00%      | 1, 23     |
| Beneficial South Dakota Inc.                      | 100.00%      | 1, 23     |
| Beneficial Tennessee Inc.                         | 100.00%      | 1, 31     |
| Beneficial West Virginia, Inc.                    | 100.00%      | 1, 33     |
| Beneficial Wyoming Inc.                           | 100.00%      | 1, 27     |
| BFC Insurance Agency of Nevada                    | 100.00%      | 1, 7      |
| Capco/Cove, Inc.                                  | 100.00%      | 1, 20     |
| Card-Flo #1, Inc.                                 | 100.00%      | 1, 4      |
| Card-Flo #3, Inc.                                 | 100.00%      | 1, 23     |
| CC&H Holdings LLC                                 | 100.00%      | 2, 25     |
| Decision One Mortgage Company, LLC                | 100.00%      | 2, 30     |
| Ellenville Holdings, Inc.                         | 100.00%      | 1, 20     |
| Giller Ltd.                                       | 100.00%      | 1, 20     |
| GPIF Co-Investment, LLC                           | 80.00%       | 2, 23     |
| HFC Bank Limited                                  | 100.00%      | 1, 34     |
| HFC Company LLC                                   | 100.00%      | 2, 23     |
| Household Capital Markets LLC                     | 100.00%      | 2, 23     |
| Household Finance Consumer Discount Company       | 100.00%      | 1, 23     |
| Household Finance Corporation II                  | 100.00%      | 1, 23     |
| Household Finance Corporation III                 | 100.00%      | 1, 23     |
| Household Finance Corporation of Alabama          | 100.00%      | 1, 28     |
| Household Finance Corporation of California       | 100.00%      | 1, 23     |
| Household Finance Industrial Loan Company of Iowa | 100.00%      | 1, 29     |
| Household Finance Realty Corporation of Nevada    | 100.00%      | 1, 23     |
| Household Finance Realty Corporation of New York  | 100.00%      | 1, 23     |

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements

| Subsidiaries                                      | Interest (%) | Footnotes |
|---|--------------|-----------|
| Household Financial Center Inc.                   | 100.00%      | 1, 31     |
| Household Industrial Finance Company              | 100.00%      | 1, 22     |
| Household Insurance Group Holding Company         | 100.00%      | 1, 15     |
| Household International Europe Limited            | 100.00%      | 1, 34     |
| Household Pooling Corporation                     | 100.00%      | 1, 38     |
| Household Realty Corporation                      | 100.00%      | 1, 23     |
| HSBC Americas Corporation (Delaware)              | 100.00%      | 1, 23     |
| HSBC Bank Canada                                  | 100.00%      | 1, 19     |
| HSBC Bank USA, National Association               | 100.00%      | 1, 6      |
| HSBC Canada Holdings (UK) Limited                 | 100.00%      | 1, 18     |
| HSBC Canadian Covered Bond (Legislative) GP Inc   | 100.00%      | 1, 16     |
| HSBC Capital (Canada) Inc.                        | 100.00%      | 1, 11     |
| HSBC Capital (USA), Inc.                          | 100.00%      | 1, 23     |
| HSBC Card Services Inc.                           | 100.00%      | 1, 23     |
| HSBC Columbia Funding, LLC                        | 100.00%      | 2, 23     |
| HSBC Credit Center, Inc.                          | 100.00%      | 1, 23     |
| HSBC Finance Corporation                          | 100.00%      | 1, 23     |
| HSBC Finance Mortgages Inc.                       | 100.00%      | 1, 37     |
| HSBC Financial Services (Uruguay) S.A.            | 100.00%      | 1, 40     |
| HSBC Global Asset Management (Canada) Limited     | 100.00%      | 1, 8      |
| HSBC Global Asset Management (USA) Inc.           | 100.00%      | 1, 13     |
| HSBC Home Equity Loan Corporation II              | 100.00%      | 1, 23     |
| HSBC Insurance Agency (USA) Inc.                  | 100.00%      | 1, 14     |
| HSBC International Finance Corporation (Delaware) | 100.00%      | 1, 9      |
| HSBC Investment Funds (Canada) Inc.               | 100.00%      | 1, 8      |
| HSBC Investments (Bahamas) Limited                | 100.00%      | 1, 35     |
| HSBC Land Title Agency (USA) LLC                  | 55.00%       | 2, 12     |
| HSBC Markets (USA), Inc.                          | 100.00%      | 1, 23     |
| HSBC Mortgage Corporation (Canada)                | 100.00%      | 1, 19     |
| HSBC Mortgage Corporation (USA)                   | 100.00%      | 1, 23     |
| HSBC Mortgage Services Inc.                       | 100.00%      | 1, 23     |
| HSBC North America Holdings Inc.                  | 100.00%      | 1, 23     |
| HSBC Overseas Investments Corporation (New York)  | 100.00%      | 1, 24     |
| HSBC Private Bank International                   | 100.00%      | 1, 5      |
| HSBC Private Equity Advisors LLC                  | 100.00%      | 2, 23     |
| HSBC Private Wealth Services (Canada) Inc.        | 100.00%      | 1, 8      |
| HSBC Realty Credit Corporation (USA)              | 100.00%      | 1, 23     |
| HSBC Retail Services Inc.                         | 100.00%      | 1, 23     |
| HSBC Securities (Canada) Inc.                     | 100.00%      | 1, 17     |
| HSBC Securities (USA) Inc.                        | 100.00%      | 1, 23     |
| HSBC Securities Services (USA) Inc.               | 100.00%      | 1, 39     |
| HSBC Software Development (Guangdong) Limited     | 100.00%      | 3, 36     |
| HSBC Taxpayer Financial Services Inc.             | 100.00%      | 1, 23     |
| HSBC Technology & Services (USA) Inc.             | 100.00%      | 1, 23     |
| HSBC TFS I 2005 LLC                               | 100.00%      | 2, 4      |
| HSBC Trust Company (Canada)                       | 100.00%      | 1, 19     |

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements

| Subsidiaries  | Interest (%) | Footnotes |
|---|--------------|-----------|
| HSBC Trust Company (Delaware), National Association | 100.00%      | 1, 10     |
| HSBC USA Inc.                                       | 100.00%      | 1, 21     |
| HSI Asset Securitization Corporation                | 100.00%      | 1, 23     |
| R/CLIP Corp.  | 100.00%      | 1, 23     |
| Real Estate Collateral Management Company           | 100.00%      | 1, 23     |
| Republic Overseas Capital Corporation               | 100.00%      | 1, 14     |
| SPE 1 2005 Manager Inc.                             | 100.00%      | 1, 4      |
| Timberlink Settlement Services (USA) Inc.           | 100.00%      | 1, 23     |
| Westminster House, LLC                              | 100.00%      | 2, 23     |

| Reference | Description of Shares     |
|-----------|---------------------------|
| 1         | Ordinary Shares           |
| 2         | LLC, no shares            |
| 3         | Registered Capital Shares |

| Reference | Registered Office  |
|-----------|--|
| 4         | 1209 Orange Street, Wilmington, Delaware 19899, United States  |
| 5         | 1441 Brickell Avenue, Miami FL 33131, United States  |
| 6         | 1800 Tysons Boulevard, Suite 50, McLean Virginia 22102, United States                                |
| 7         | 2156 Horse Prairie Drive, Henderson NV 89052, United States  |
| 8         | 2910 Virtual Way, Vancouver BC V5M 0B2, Canada   |
| 9         | 300 Delaware Avenue, Suite 1400, Wilmington DE 19801, United States                                  |
| 10        | 300 Delaware Avenue, Suite 1401, Wilmington DE 19801, United States                                  |
| 11        | 300, 885 West Georgia Street, Vancouver BC V6C 3E9, Canada   |
| 12        | 3303 Express Drive North, Islandia NY 11749, United States   |
| 13        | 452 Fifth Avenue, 7th floor, New York NY 10018, United States  |
| 14        | 452 Fifth Avenue, New York NY 10018, United States   |
| 15        | 545 Washington Blvd., 11th Floor, Jersey City NJ 07310, United States                                |
| 16        | 66 Wellington Street West, Suite 5300, Toronto ON M5K 1E6, Canada                                    |
| 17        | 70 York Street, 7th Floor, Toronto ON M5J 1S9, Canada  |
| 18        | 8 Canada Square, London, E14 5HQ, United Kingdom   |
| 19        | 885 West Georgia Street, Suite 300, Vancouver BC V6C 3E9, Canada                                     |
| 20        | 95 Washington Street, Buffalo NY 14203, United States  |
| 21        | C/O Corporation Trust Incorporated, 351 West Camden Street, Baltimore MD 21201, United States        |
| 22        | C/O The Corporation Trust Company, 100 S. 5th Street-Suite 1075, Minneapolis MN 55401, United States |
| 23        | C/O The Corporation Trust Company, 1209 Orange Street, Wilmington DE 19801, United States            |
| 24        | C/O The Corporation Trust Incorporated, 351 West Camden Street, Baltimore MD 21201, United States    |
| 25        | Corporation Service Company, 251 Little Falls Drive, Wilmington DE 19808, United States              |
| 26        | CT Corporation System, 1515 Market Street, Registered Office, Philadelphia PA 19102, United States   |
| 27        | CT Corporation System, 1720 Carey Avenue, Cheyenne WY 82001, United States                           |
| 28        | CT Corporation System, 2 North Jackson Street, Suite 605, Montgomery AL 36104, United States         |
| 29        | CT Corporation System, 2222 Grand Avenue, Des Moines IA 50312, United States                         |
| 30        | CT Corporation System, 225 Hillsborough Street, Raleigh NC 27603, United States                      |

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements

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| Reference | Registered Office  |
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| 31        | CT Corporation System, 530 Gay Street, Knoxville TN 37902, United States   |
| 32        | CT Corporation System, 800 S. Figueroa, Los Angeles California 90017, United States  |
| 33        | CT Corporation System, Secretary of State, 707 Virginia Street East, Charleston WV 25301, United States                            |
| 34        | Hill House, 1 Little New Street, London, EC4A 3TR, United Kingdom  |
| 35        | MB&H Corporate Services Ltd, Mareva House, 4 George Street, Nassau, New Providence, Bahamas  |
| 36        | Room 305, No.886 Tianhe Bei Road, Tianhe District, Guangzhou, Guangdong, China   |
| 37        | Suite 300, 3381 Steeles Avenue East, Toronto ON M2H 3S7, Canada  |
| 38        | The Corporation Trust Company of Nevada, 311 S. Division Street, Carson City NV 89703, United States                               |
| 39        | The Corporation Trust Company, 820 Bear Tavern Road, West Trenton NJ 08628, United States  |
| 40        | World Trade Center Montevideo, Avenida Luis Alberto de Herrera 1248, Torre 1, Piso 15, Oficina 1502, Montevideo, CP 11300, Uruguay |