

HSBC Finance Transformation (UK) Limited

Registered No 1889590

Financial Statements for the year ended 31 December 2014



HSBC Finance Transformation (UK) Limited

Registered No 1889590

Financial Statements for the year ended 31 December 2014

Contents

Strategic Report	3
Directors' Report	5
Independent Auditor's Report to the Member of HSBC Finance Transformation (UK) Limited	7
Statement of comprehensive income	8
Statement of financial position	9
Statement of cash flows	10
Statement of changes in equity	11
Notes on the financial statements	12

HSBC Finance Transformation (UK) Limited

Registered No 1889590

Strategic Report for the year ended 31 December 2014

Principal activities

During the year ended 31 December 2014, HSBC Finance Transformation (UK) Limited (the 'Company'), Registration number 1889590, continued its activities of developing and operating a new accounting and finance model for HSBC Holdings plc and its subsidiaries ('HSBC Group')

Review of the Company's business

The Company has supported the Global Finance change programme that has been in existence since 2007. A number of the objectives of the original programme have been met, with improvements in financial systems delivering a stronger control environment and improved efficiency. However, further transformation of Global Finance is required as the external environment has evolved with increased regulatory requirements creating additional effort for Finance and benchmarking analysis highlighting the need to find further efficiencies.

The major achievements of the change programme include the development and implementation of a bespoke Finance Transformation Platform ('FTP') accounting and finance model that has been implemented in the US, Hong Kong, Canada, UK and Malaysia with significant progress made towards an implementation in Vietnam. A further significant achievement has been the introduction of Global Finance Centres developed in Gurgaon and Chennai to support the operations of the Finance function across the Group. The work performed in both of these areas will form the foundation of a number of future transformation initiatives currently under consideration.

The Company's activity is now limited to the management of the finance model, continuing to bear future costs related to the development and maintenance of the FTP and receiving fee income from HSBC companies that receive benefit from its usage. Malaysia is the most recent country to implement the model in 2014. The agreed strategy seeks to continue to roll out FTP and to increase usage of the platform data in sites where it is deployed. As such, FTP implementations to additional sites will continue at a pace dictated by the appetite of Global Finance leadership. Implementations are scheduled for Vietnam in 2015 and China in 2016. In addition, a plan for incremental functional and technical platform developments has been agreed and each future release will result in additional revenue from those sites using the platform upon upgrade.

Planned global developments include Market Risk Transfer while multi-language capabilities and an improved local regulatory reporting framework will support deployment in future sites such as China.

Financial Performance

For the year:

Total operating income up 39% to US\$9,887k (2013: US\$7,093k)

Loss before tax down 20% to US\$65,491k (2013: US\$81,777k)

At the year end:

Total equity up 3% to US\$28,509k (2013: US\$27,737k)

Total assets broadly consistent (up 0.5%) to US\$236,771k (2013: US\$235,503k)

Risk Management

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

The Company's principal operating risks are liquidity and foreign currency exposures. Liquidity risk is managed through the provision of capital support from its parent company and from a loan facility with another Group Company. The Company manages its liquidity through daily review of its sterling and currency bank balances. Weekly projections are made of balances one week and one month forward using anticipated transactions reviewed by management. Foreign currency risk is managed by monitoring the Company's net exposure to foreign currency assets and liabilities and attempting to minimise it where conditions permit. The Company does not hedge against its net position. The Company's exposure to reputational risk is limited as primarily all transactions are with other Group companies.

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

HSBC Finance Transformation (UK) Limited

Registered No 1889590

Strategic Report for the year ended 31 December 2014

By order of the Board



Russell Picot, Director

Dated 21 July 2015

Registered office

8 Canada Square

London

E14 5HQ

HSBC Finance Transformation (UK) Limited

Registered No 1889590

Directors' Report for the year ended 31 December 2014

Directors

The Directors who served during the year were as follows

Name	Appointed	Resigned
Ian Simon Jenkins		
Iain MacKinnon		
Russell Clive Picot		
Mark Peter Winson-Pearce		
Peter Gordon Taylor (Alternate Director to Ian Simon Jenkins)		6 March 2015
Alain Chnstopher Guy Stangroome (Alternate Director to Iain MacKinnon)		
Jonathan Edwards (Alternate Director to Russell Clive Picot)		2 December 2014
Andrew Robert John Speak (Alternate Director to Mark Peter Winson-Pearce)		
David Alan Quest (Alternate Director to Russell Clive Picot)	2 December 2014	

On 6 March 2015 Peter Gordon Taylor resigned as an alternate Director of the Company to Ian Jenkins and Troy Vaughn Dehmann was appointed as an alternate Director – in succession

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

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2014 (2013 US\$nil)

Significant events since the end of the financial year

There have been no material events affecting the financial statements since the end of the financial year

Going concern basis

The financial statements are prepared on a going concern basis which assumes that the company will continue to be supported by its parent company. The company made a loss of US\$49,228k for the year ended 31 December 2014 and is expected to make losses in the short term until such time as its costs are recovered through the agreed recharge process to other Group companies

The Directors have a reasonable expectation that the Company has access to adequate resources to meet its obligations for the foreseeable future

Future Developments

No change in the Company's activities is expected

Disclosure of information to auditors

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

Auditor

Pursuant to Section 487(2) of the Companies Act 2006, the auditor was deemed to be reappointed and KPMG Audit Plc continued in office for the financial period 1 January 2014 to 31 December 2014

Following a tender process for the audit of HSBC Holdings plc and its subsidiaries that took place in 2013, it was recommended that PricewaterhouseCoopers LLP be appointed as auditors for the HSBC Group entities effective for periods ending on or after 1 January 2015

As a result KPMG Audit Plc will not be seeking reappointment as the Company's auditor for the financial year commencing 1 January 2015 and PricewaterhouseCoopers LLP will seek appointment instead

HSBC Finance Transformation (UK) Limited

Registered No 1889590

Directors' Report for the year ended 31 December 2014

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on the next page, 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 Directors' Report and financial statements for each financial year

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') 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, and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Group 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

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

By order of the Board


Russell Picot
Director

Dated 21 July 2015

Registered office
8 Canada Square
London
E14 5HQ

HSBC Finance Transformation (UK) Limited

Independent Auditor's Report to the Members of HSBC Finance Transformation (UK) Limited

We have audited the financial statements of HSBC Finance Transformation (UK) Limited (the Company) for the year ended 31 December 2014 set out on pages 8 to 18. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



Richard Rawstron
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London, England

Dated 21 JULY 2015

HSBC Finance Transformation (UK) Limited
Financial Statements for the year ended 31 December 2014

Statement of comprehensive income for the year ended 31 December 2014

	<i>Notes</i>	2014 US\$'000	2013 US\$'000
Recharge income	7	11,560	8,913
Interest expense	7	(1,673)	(1,820)
Total operating income		9,887	7,093
Administrative expense	3	(75,378)	(88,870)
Loss before tax		(65,491)	(81,777)
Tax credit	4	16,263	12,134
Loss for the year		(49,228)	(69,643)
Loss for the year attributable to the shareholder		(49,228)	(69,643)
Total comprehensive income for the year attributable to the shareholder		(49,228)	(69,643)

The accompanying notes on pages 12 to 18 form an integral part of these financial statements


HSBC Finance Transformation (UK) Limited
Financial Statements for the year ended 31 December 2014

Statement of financial position as at 31 December 2014

	<i>Notes</i>	2014 US\$'000	2013 US\$'000
ASSETS			
Cash and cash equivalents			
- balances with HSBC undertakings	7	19,285	3,631
Amounts due from HSBC undertakings	7	3,352	5,655
Current tax assets		25,146	3,248
Intangible assets	5	141,983	167,092
Deferred tax assets	6	47,005	55,876
Total assets		236,771	235,502
LIABILITIES AND EQUITY			
Liabilities			
Amounts due to HSBC undertakings	7	208,262	207,765
Total liabilities		208,262	207,765
Equity			
Called up share capital	10	273,141	273,141
Share premium	10	327,000	277,000
Accumulated losses		(571,632)	(522,404)
Total shareholders' equity		28,509	27,737
Total equity and liabilities		236,771	235,502

The accompanying notes on pages 12 to 18 form an integral part of these financial statements

These financial statements were approved by the Board of Directors on 21 July 2015 and were signed on its behalf by


Russell Picot
 Director

HSBC Finance Transformation (UK) Limited
Financial Statements for the year ended 31 December 2014

Statement of cash flows for the year ended 31 December 2014

	Notes	2014 US\$'000	2013 US\$'000
Cash flows from operating activities			
Loss before tax		(65,491)	(81,777)
Adjustment for amortisation of intangible assets	5	60,857	67,805
Cash received in respect of tax losses surrendered to other HSBC Group companies		3,236	(38,882)
Net Cash from operating activities		(1,398)	(52,854)
Cash flows from investing activities			
Additions to intangible assets	5	(35,748)	(43,303)
Net cash from investing activities		(35,748)	(43,303)
Cash flows from financing activities			
Proceeds from issue of share capital and premium	10	50,000	–
Change in amount owed to HSBC undertakings		2,800	73,006
Net cash from financing activities		52,800	73,006
Net increase/(decrease) in cash and cash equivalents		15,654	(23,151)
Cash and cash equivalents at 1 January		3,631	26,782
Cash and cash equivalents carried forward		19,285	3,631
		2014 US\$'000	2013 US\$'000
Interest received during the year		–	518
Interest paid during the year		1,629	2,391

The accompanying notes on pages 12 to 18 form an integral part of these financial statements

HSBC Finance Transformation (UK) Limited
Financial Statements for the year ended 31 December 2014

Statement of changes in equity for the year ended 31 December 2014

	<i>Notes</i>	2014 US\$'000	2013 US\$'000
Paid up share capital			
At 1 January		273,141	273,141
New share capital subscribed	10	–	–
At 31 December		273,141	273,141
Share Premium			
At 1 January		277,000	277,000
New share premium subscribed	10	50,000	–
At 31 December		327,000	277,000
Reserves/Accumulated losses			
At 1 January		(522,404)	(452,761)
Total recognised loss for the year		(49,228)	(69,643)
At 31 December		(571,632)	(522,404)
Total Shareholder equity			
At 1 January		27,737	97,380
Newly issued shares		50,000	–
Total comprehensive income for the year		(49,228)	(69,643)
At 31 December		28,509	27,737

The accompanying notes on pages 12 to 18 form an integral part of these financial statements

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements are presented in US Dollars, being the functional currency of the Company, and have been prepared on a historical cost basis

The Company has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and as endorsed by the European Union ('EU'). EU-endorsed IFRSs could differ from IFRSs as issued by the IASB if, at this point in time, new or amended IFRSs were not to be endorsed by the EU.

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

There were no new standards adopted during the year ended 31 December 2014.

(b) Going concern

These financial statements are prepared on a going concern basis. The parent company supports the Company through injections of share capital. A revolving loan facility is provided by an HSBC Group company. The parent company has indicated its willingness to continue to support the Company through increasing its investment in share capital as required.

(c) Use of estimates and assumptions

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

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

(d) Future accounting developments

At 31 December 2014, a number of standards and amendments to standards had been issued by the IASB, which are not effective for the Company's financial statements as at 31 December 2014. None of these are expected to have a significant effect on the results or the net assets of the Company when adopted.

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The standard is effective for annual periods beginning on or after 1 January 2017 with early application permitted. The Company is currently assessing the impact of this standard but it is not practicable to quantify the effect as at the date of the publication of these financial statements.

No other standards or interpretations available for early adoption are expected to have a significant effect on the results or net assets of the Company when adopted.

(e) General Information

HSBC Finance Transformation (UK) Limited is a company domiciled and incorporated in England and Wales.

2 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where stated otherwise.

(a) Recharge income

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

(b) Interest income and expense

Interest is receivable on the debit balance of the Company's bank account with its fellow subsidiary whenever the Bank of England base rate is above 2.5% per annum. Interest is calculated on a daily basis according to the daily outstanding balance and is recognised in the statement of comprehensive income on this basis.

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

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

2 Summary of significant accounting policies (continued)

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

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

(c) Income tax

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

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

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

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

(d) Foreign currency

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the end of the reporting period. Any resulting exchange differences are recognised in the income statement

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised in the income statement if the gain or loss on the non-monetary item is recognised in the income statement

(e) Share capital

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

(f) Financial assets and liabilities

Receivables

Receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Receivables are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations or substantially all the 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 the effective interest method, less impairment losses

Financial liabilities

Financial liabilities, including amounts due to HSBC Group undertakings, are recognised when cash is advanced or contractual arrangements are entered into and are normally derecognised when a loan is repaid or a liability is extinguished. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

2 Summary of significant accounting policies (continued)

(g) Cash and cash equivalents

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

(h) Intangible assets

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

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

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

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

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

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

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

(i) Statement of cash flows

The statement of cash flows has been prepared on the basis that, with the exception of tax-related transactions which are classified under 'Operating activities', movements in inter-company transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

(j) Determination of fair value

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

3 Administrative expenses

	2014 US\$'000	2013 US\$'000
Charges from parent company for		
- Services of their staff	3,173	4,144
- IT charges including software support fees	11,766	13,490
- External staff cost	654	993
Amortisation of intangibles	60,857	67,805
Realised foreign exchange (gains)/losses	(1,102)	2,392
Auditor's remuneration audit of these financial statements	30	46
Total Administrative Expenses	75,378	88,870

The Directors receive no emoluments in respect of their role in the Company.

The Company had no employees during the year.

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

4 Tax credit

	2014 US\$'000	2013 US\$'000
Current tax		
UK Corporation tax		
– for this year	(18,783)	(3,248)
– adjustments in respect of prior years	(6,363)	1
– foreign exchange movements	12	(1,678)
	(25,134)	(4,925)
Deferred tax		
Origination and reversal of temporary differences	4,707	(15,762)
Effect of changes in tax rates	(327)	8,549
Adjustment in respect of prior years	4,491	4
	8,871	(7,209)
Total tax credited to the Income statement	(16,263)	(12,134)

The UK corporation tax rate applying to the Company was 21.49% (2013: 23.25%)

The following table reconciles the tax expense which would apply if all of the profits had been taxed at the UK corporation tax rate

	2014 US\$'000	%	2013 US\$'000	%
Loss before tax	(65,491)		(81,777)	
Tax at 21.49% (2013: 23.25%)	(14,076)	21.49	(19,013)	23.25
Adjustments in respect of prior period liabilities	(1,872)	2.86	6	(0.01)
Change in tax rates	(327)	0.50	8,549	(10.45)
Foreign exchange	12	(0.02)	(1,678)	2.05
Total tax credited to the Income statement	(16,263)	24.83	(12,136)	14.84

The main rate of corporation tax in the UK reduced from 23% to 21% on 1 April 2014 and will be further reduced to 20% on 1 April 2015. The reduction in the corporate tax rate to 20% was enacted through the 2013 Finance Act on 17 July 2013.

5 Intangible assets

The analysis of the movement of intangible assets for the year ended 31 December 2014 is as follows

	Internally generated software US\$'000	Purchased software US\$'000	Total US\$'000
Cost			
At 1 January 2014	559,475	19,580	579,055
Additions	35,748	–	35,748
At 31 December 2014	595,223	19,580	614,803
Accumulated amortisation			
At 1 January 2014	393,491	18,472	411,963
Charge for the year	60,222	635	60,857
At 31 December 2014	453,713	19,107	472,820
Net carrying amount at 31 December 2014	141,510	473	141,983

HSBC Finance Transformation (UK) Limited
Notes on the Financial Statements

5 Intangible assets (continued)

	Internally generated software US\$'000	Purchased software US\$'000	Total US\$'000
Cost			
At 1 January 2013	516,172	19,580	535,752
Additions	43,303	–	43,303
At 31 December 2013	559,475	19,580	579,055
Accumulated amortisation			
At 1 January 2013	326,491	17,667	344,158
Charge for the year	67,000	805	67,805
Impairment	–	–	–
At 31 December 2013	393,491	18,472	411,963
Net carrying amount at 31 December 2013	165,984	1,108	167,092

Impairment Testing

The Company's accounting policy for impairment of assets is described in Note 2(h)

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

An impairment test was carried out by comparing the carrying value to the recoverable amount and no impairment was found to exist

6 Deferred taxation

This deferred tax asset is expected to be realised through the offset of losses with future profits within the UK Group

	2014 US\$'000	2013 US\$'000
At 1 January	55,876	48,667
Income statement credit	(4,707)	15,758
Prior year adjustment	(4,491)	–
Change in tax rate	327	(8,549)
At 31 December	47,005	55,876
Deferred tax asset arising from		
Intangible assets	47,005	55,876
	47,005	55,876

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

7 Related party transactions

	2014 Balance at the year end US\$'000	2013 Balance at the year end US\$'000
Assets		
Amounts due from HSBC undertakings	3,352	5,655
Cash and cash equivalents - balances with HSBC undertakings	19,285	3,631
Total related party assets	22,637	9,286
Liabilities		
Amounts due to parent undertaking		
- Trade payables	21,367	17,387
Amounts due to other HSBC undertakings		
- Interest-bearing loan	181,531	178,924
- Trade payables	5,364	11,454
	186,895	190,378
Total related party liabilities	208,262	207,765

Substantially all payments and receipts for transactions for the Company are initially routed through HSBC undertakings and subsequently settled as per the agreed terms. The absolute amount of transactions during the year with the parent company was US\$50 million (2013 US\$26 million). The absolute amount of transactions during the year with fellow subsidiaries was US\$373 million (2013 US\$433 million).

Recharge income of US\$11,560k (2013 US\$8,913k) as shown in the statement of comprehensive income comprises fees charged to those companies using the accounting platform.

The interest-bearing loan from an HSBC Group subsidiary comprises a number of tranches drawn down during the year at the prevailing market interest rate (LIBOR plus 24 basis points). Interest expense was US\$1,673k (2013 US\$1,820k) during the year of which US\$598k (2013 US\$592k) is included in the outstanding balance.

8 Fair value of financial assets and liabilities

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

9 Risk Management

Credit risk

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

Liquidity risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows. The Company is funded through equity investment from the parent undertaking. In December 2014, the Company renewed a committed facility with a fellow subsidiary. The Company manages its liquidity through daily review of its sterling and currency bank balances. Weekly projections are made of balances one week and one month forward using anticipated transactions reviewed by management.

Foreign currency risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US dollar. The Company has Pound Sterling liabilities (net of Pound Sterling assets) amounting to US\$21 million (2013 US\$125 million). The Company monitors its net exposure and attempts to minimise it where conditions permit. The Company has replaced its pound sterling loan liabilities as they mature with US Dollar liabilities thereby minimising its exposure to foreign currency risk. The Company does not hedge against its net position.

HSBC Finance Transformation (UK) Limited

Notes on the Financial Statements

9 Risk Management (continued)

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

The Company's loss before tax would increase by US\$1 million, loss after tax US\$0.8 million (2013 loss before tax US\$6 million, loss after tax US\$5 million) if the Sterling rate strengthened by 5 per cent relative to the US dollar and the Company were expected to repay its payables to its parent Company and to an HSBC Group subsidiary in that currency.

Interest rate risk

Interest rate risk is the risk that the value of an asset or liability will change due to a change in the absolute level of interest rates. The Company held US\$180 million (2013 US\$177.1 million) as interest-bearing liabilities at the end of 2014. If all other variables are held constant, the effect of a 100 basis points increase/(decrease) in LIBOR on these liabilities would be an increase/(decrease) of loss before tax of US\$0.7 million (2013 US\$0.7 million) and after tax of US\$0.5 million (2013 US\$0.5 million). The Company has interest-bearing assets of US\$19.3 million (2013 US\$3.6 million). The impact on loss before tax and after tax of a 100 basis points movement in LIBOR would be minimal.

10 Called up share capital

The share capital of the Company at 31 December 2014 was as follows:

	2014 Number	2013 Number
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>180,000,105</u>	<u>180,000,104</u>

In line with HSBC Group policy, the Company policy is to maintain a strong capital base to support the development of its business at all times. In 2014, 1 share (2013 nil) of £1 par value was issued for a total consideration of US\$50 million (2013 US\$nil) with the balance treated as share premium. These were fully subscribed by the parent company. The Company is not subject to regulatory capital requirements. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

11 Parent undertaking

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

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

HSBC Holdings plc
8 Canada Square
London
E14 5HQ