

HSBC Finance Transformation (UK) Limited

Registration No: 1889590

**Annual Report and Financial Statements for the year ended
31 December 2022**



Annual Report and Financial Statements for the year ended 31 December 2022

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Strategic Report

Principal activities

HSBC Finance Transformation (UK) Limited ('the Company') is a private limited company domiciled and incorporated in England. Its trading address is 8 Canada Square, London E14 5HQ, United Kingdom.

During the year the Company continued its activity of managing and maintaining the core Finance Transformation Platform ('FTP') asset. It receives fee income from those HSBC companies that receive benefit from its usage.

Review of the Company's business

FTP continues to be the strategic Global Finance platform, it will be implemented more widely across the HSBC Group as well as continuing to be a key enabler in support of delivering efficiencies and standardisation within the finance function. FTP will be leveraged to enable Global Finance to respond to challenges driven by the external environment.

The Company's immediate parent undertaking is HSBC Global Service Limited and HSBC Holdings Plc the ultimate parent undertaking for the Company.

Performance

The Company's results for the year under review are as detailed in the income statement shown on page 7 of these financial statements.

The Directors have assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the Company taking into consideration the reversal of existing taxable temporary differences, the forecasts of future business performance of the Company through the continued use of the FTP software by the Group and the forecast profitability of the wider UK group which will provide payment for losses arising. Accordingly, they considered there to be sufficient evidence of future taxable profits to support recognition of the Company's Deferred Tax Assets ('DTA') on Accelerated Capital Allowances of US\$66,036 (2021: US\$29,374k).

Key performance indicators

As the Company is managed as part of the 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 performance of the Company is carried out by comparing actual performance against annually set budgets.

The Company's net asset at 31 December 2022 stood at US\$89,316k (2021: US\$52,022k)

Principal risks and uncertainties

Under UK-adopted International Accounting Standards and with the requirements of Companies Act 2006, the Company is required to report on its risk exposure to price, credit, market, liquidity and cashflow with regard to its financial statements.

The Company's principal operating risks are credit, liquidity and foreign currency exposures. Liquidity risk is managed through the provision of capital support from its parent company. The Company manages its liquidity through daily review of its sterling 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 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 within the overall framework of the HSBC group policy. The Company has an established risk management process encompassing credit approach, the control of exposures, credit policy direction to the business and the monitoring and reporting of exposures. The balances are with other companies within the HSBC Group and have a low risk. The Company's exposure to reputational risk is limited as primarily all transactions are with other group companies.

The operating costs are funded through the receipt of fee income from other HSBC undertakings.

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. As part of the Company's deliberations and decision making process, the Board also takes into account the (i) likely consequences of any decision in the long term; (ii) the interests of the company's employees; (iii) the need to foster the company's business relationships with suppliers, customers and others; (iv) the impact of the company's operations on the community and the environment; and (v) the desirability of the company maintaining a reputation for high standards of business conduct.

The Board considers its stakeholders to be the people who work for us, bank with us, own us, regulate us and live in the societies we serve. During 2022, the directors gave careful consideration to the factors set out above in discharging their duties under Section 172. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long term values, and operate the business in a sustainable way.

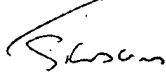
The Board is committed to effective engagement with its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Company's engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to those, as appropriate, in its decision-making. The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

HSBC Finance Transformation (UK) Limited

The Board will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the HSBC Group means that stakeholder engagement often takes place at an operational level.

The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis. The directors further took into account their duties to promote the long term success of the Company, the overall financial position of the Company, its obligations under the Companies Act and the interests of the Group as a whole. As a result of these activities, the Board believes it has demonstrated compliance with their legal duty under section 172 of the Companies Act 2006.

On behalf of the Board



Simon Parsons
Director

26 May 2023

8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

| Name | Appointed | Resigned |
|-------------------------------|-------------------|------------------|
| James Stuart Elder | 3 August 2020 | |
| Simon Parsons | 16 January 2023 | |
| Mark Alexander Trenavin- Body | 25 November 2020 | 31 December 2022 |
| Edward Robert White | 22 September 2021 | |

The Articles of Association of the Company contain a qualifying third-party indemnity provision, which entitles Directors and other officers 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 up to the date of approval of the financial statements but have not been utilised by the Directors. Additionally, all Directors have the benefit of Directors' and officers' liability insurance.

Dividends

Interim dividend of US\$20,000k (2021:nil) was paid on ordinary share capital during the year. The Directors do not recommend a payment of final dividend in respect of the year ended 31 December 2022 (2021: nil).

Significant events since the end of the financial year

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

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company have 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, capital requirements and capital resources.

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 14 of the Notes on the financial statements.

Capital management

The Company defines capital as total shareholders' equity as set out in Note 12 of the Notes on the financial statements. There were no changes to the Company's approach to capital management during the year.

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.

Independent auditors

PricewaterhouseCoopers LLP ('PwC') are external independent auditors to the Company. PwC has expressed its willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's independent auditors.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors 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.

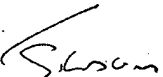
The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors confirmations

In the case of each director in office at the date the directors' report is approved:

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

On behalf of the Board



Simon Parsons
Director
26 May 2023

8 Canada Square
London E14 5HQ
United Kingdom

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

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Finance Transformation (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 for the year ended 31 December 2022 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2022; the income statement, the statement of cash flows, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

We conducted our audit in accordance with International Standards 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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 in respect of the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as UK Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial performance and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- identifying and testing journal entries posted that have greater risk of fraud such as those posted year end backdated, posted by unexpected or infrequent users, or those posted using unexpected account combinations. We also incorporated an element of unpredictability into our testing.
- Challenging assumptions and judgements made by management in its significant accounting estimates, in particular in relation to the determination on the recognition the deferred tax asset.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

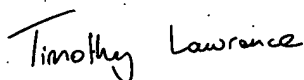
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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.



Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 May 2023

Financial statements

Income statement for the year ended 31 December 2022

| | | 2022 | 2021 |
|---|------|----------------|----------------|
| | Note | US\$'000 | US\$'000 |
| Income from group undertakings | 2 | 15,586 | 15,149 |
| Net operating income from group undertakings | | 15,586 | 15,149 |
| Other operating expense | | (253) | (22) |
| Net operating income | | 15,333 | 15,127 |
| General and administrative expenses | 3 | (3,418) | (7,893) |
| Total operating expenses | | (3,418) | (7,893) |
| Profit before tax | | 11,915 | 7,234 |
| Tax credit | 6 | 45,379 | 29,322 |
| Profit for the year | | 57,294 | 36,556 |

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2021: nil).

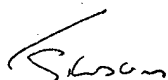
HSBC Finance Transformation (UK) Limited

Balance sheet at 31 December 2022

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| | Note | 2022 US\$'000 | 2021 US\$'000 |
|---|------|------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 9 | 10,987 | 16,373 |
| Amounts due from HSBC undertakings | | 3,896 | 5,769 |
| Prepayments | | 23 | 83 |
| Other assets | | 42 | 686 |
| Current tax assets | 7 | 8,625 | — |
| Intangible assets | 11 | — | — |
| Deferred tax assets | 8 | 66,036 | 29,374 |
| Total assets | | 89,609 | 52,285 |
| Liabilities and equity | | | |
| Liabilities | | | |
| Amounts due to HSBC undertakings | | 251 | 174 |
| Amounts due to third party undertakings | | 42 | 89 |
| Total liabilities | | 293 | 263 |
| Equity | | | |
| Called up share capital | 12 | 5,000 | 5,000 |
| Retained earnings | | 84,316 | 47,022 |
| Total equity | | 89,316 | 52,022 |
| Total liabilities and equity | | 89,609 | 52,285 |

The financial statements and its accompanying notes on pages 7 to 16 were approved by the Board of Directors on 26 May 2023 and signed on its behalf by:



Simon Parsons
Director

HSBC Finance Transformation (UK) Limited

Statement of cash flows for the year ended 31 December 2022

| | | 2022 | 2021 |
|--|------|-----------------|---------------|
| | Note | US\$'000 | US\$'000 |
| Cash flows from operating activities | | | |
| Profit before tax | | 11,915 | 7,234 |
| Adjustments for: | | | |
| Non-cash items included in profit before tax | | 92 | — |
| Adjustments for amortisation of intangible assets | 11 | — | 21 |
| Cash received in respect of tax losses surrendered to other HSBC Group Companies | | — | 1,612 |
| Changes in amounts owed to HSBC and other group undertakings | | 2,607 | (2,878) |
| Net cash generated from operating activities | | 14,614 | 5,989 |
| Cash flows from financing activities | | | |
| Dividends paid | | (20,000) | — |
| Net cash (used in)/generated from financing activities | | (20,000) | — |
| Net (decrease)/increase in cash and cash equivalents | | (5,386) | 5,989 |
| Cash and cash equivalents brought forward | | 16,373 | 10,384 |
| Cash and cash equivalents carried forward | | 10,987 | 16,373 |

HSBC Finance Transformation (UK) Limited

Statement of changes in equity for the year ended 31 December 2022

| | Called up share capital US\$'000 | Retained earnings US\$'000 | Total equity US\$'000 |
|---|-------------------------------------|-------------------------------|--------------------------|
| At January 2022 | 5,000 | 47,022 | 52,022 |
| Profit for the year | — | 57,294 | 57,294 |
| Total comprehensive income for the year | — | 57,294 | 57,294 |
| Interim dividend to shareholders | — | (20,000) | (20,000) |
| At 31 December 2022 | 5,000 | 84,316 | 89,316 |

| | Called up share capital US\$'000 | Retained earnings US\$'000 | Total equity US\$'000 |
|---|-------------------------------------|-------------------------------|--------------------------|
| At January 2021 | 5,000 | 10,466 | 15,466 |
| Profit for the year | — | 36,556 | 36,556 |
| Total comprehensive income for the year | — | 36,556 | 36,556 |
| Interim dividend to shareholders | — | — | — |
| At 31 December 2021 | 5,000 | 47,022 | 52,022 |

Notes to the Financial Statements

1 Basis of preparation and significant accounting policies

The financial statements of the Company have been prepared in accordance with UK adopted International Accounting Standards and with the requirements of Companies Act 2006 as applicable to companies reporting under those standards. 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) Standards adopted during the year ended 31 December 2022

There were no new accounting standards or interpretations that had a significant effect on the Company in 2022. Accounting policies have been consistently applied.

(b) Future accounting developments

Minor amendments to IFRSs

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods have not been early adopted. These standards, amendments interpretations are not expected to have a material impact on the Company in the current or future reporting periods.

(c) Foreign currencies

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

(d) Presentation of information

Capital disclosures under IAS 1 'Presentations of Financial Statements' ('IAS 1') have been included in the Report of the Directors: Capital Management on page 3. The financial statements present information about the company as an individual undertaking and not about its group. The financial statements have been prepared under the historical cost convention.

(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. This could result in materially different estimates and judgements from those reached by management for the purposes of these financial statements.

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

(f) Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company have 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, capital requirements and capital resources.

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, excluding 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 credit-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.

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

Non-interest income and expense

Income from group undertakings

Recharges are invoiced quarterly and the income is recognised on an accrual basis in the period to which it relates. The recharges are the fees charged for the use of software based on a predetermined pricing model.

HSBC Finance Transformation (UK) Limited

(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).

(c) Financial instruments measured at amortised cost

Trade and other receivables

Trade and other 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 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 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) 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 as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

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 in which the assets will be realised or the liabilities settled.

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

Critical accounting estimates and judgements

The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary difference and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relates to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

The recognition of deferred tax assets is sensitive to estimates of future cash flows projected for periods for which detailed forecasts are available and to assumptions regarding the long term pattern of cash flows thereafter, on which forecasts of future taxable profit are based, and which affect the expected recovery periods and the pattern of utilisation of accelerated capital allowances. In particular there is estimation on the period over which the HSBC Group will continue to use the FTP software. See Note 8 for further details.

(e) 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.

(f) 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.

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

2 Income from group undertakings

| | 2022 | 2021 |
|--|----------|----------|
| | US\$'000 | US\$'000 |
| Recharge income from HSBC group undertakings | 15,586 | 15,149 |

3 General and administrative expenses

| | 2022 | 2021 |
|--|----------|----------|
| | US\$'000 | US\$'000 |
| IT charges including software support fees | 3,386 | 7,836 |
| Amortisation of intangible assets | — | 21 |
| Auditors remuneration ¹ | 32 | 36 |
| Year ended 31 Dec | 3,418 | 7,893 |

¹ Auditors remuneration is the fees payable to PwC for the statutory audit of the financial statements.

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2021: nil).

HSBC Finance Transformation (UK) Limited

5 Directors emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2021: 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.

6 Tax credit

| | 2022 US\$'000 | 2021 US\$'000 |
|--|------------------|------------------|
| Current tax | | |
| UK Corporation tax | | |
| - For this year | — | — |
| - Group relief receivable | (8,625) | — |
| - Adjustments in respect of prior years | (137) | — |
| - Foreign exchange movements | — | 14 |
| - Other movements | — | 4 |
| Overseas tax | | |
| - For this year | 45 | 34 |
| Total current tax | (8,717) | 52 |
| Deferred tax | | |
| - Origination and reversals of temporary differences | (36,662) | (29,374) |
| Total deferred tax | (36,662) | (29,374) |
| Year ended 31 Dec | (45,379) | (29,322) |

The UK corporation tax rate applying to the Company was 19% (2021: 19%).

An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax assets at 31 December 2022 has been calculated based on those rates, reflecting the expected timing of reversal of the related temporary differences (2021: 25%).

Management has assessed the likely availability of future taxable profits against which to recognise the company's potential deferred tax assets, taking into consideration the company's history of tax losses and forecasts of its future business performance.

Management has recognised a deferred tax assets of USD\$66,036k.

Tax reconciliation

| | 2022 | | 2021 | |
|--|-----------------|-----------------|-----------------|-----------------|
| | US\$'000 | (%) | US\$'000 | (%) |
| Profit before tax | 11,915 | | 7,234 | |
| Tax at 19% (2021: 19%) | 2,264 | 19.00 | 1,374 | 19.00 |
| Adjustment in respect of prior years | (137) | (1.15) | — | — |
| Expenses not deductible | 26 | 0.22 | — | — |
| Effects of overseas tax rules | 36 | 0.30 | 28 | 0.39 |
| Foreign exchange on tax balances | 231 | 1.94 | 14 | 0.19 |
| Other movements | — | — | 4 | 0.06 |
| Remeasurement of deferred tax for changes in tax rates | (8,880) | (74.53) | — | — |
| Deferred tax previously not recognised | (38,919) | (326.64) | (30,742) | (424.97) |
| Year ended 31 Dec | (45,379) | (380.86) | (29,322) | (405.33) |

7 Current tax asset

| | 2022 US\$'000 | 2021 US\$'000 |
|-----------------------|------------------|------------------|
| Group relief debtor | 8,625 | — |
| At 31 December | 8,625 | — |

8 Deferred tax asset

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

| | Other temporary differences | |
|---|-----------------------------|------------------|
| | 2022 US\$'000 | 2021 US\$'000 |
| At 1 January | 29,374 | — |
| Origination and reversal of temporary differences | 36,662 | 29,374 |
| At 31 December | 66,036 | 29,374 |

The Directors have assessed the likely availability of future taxable profits against which to recover the deferred tax assets of the Company taking into consideration the reversal of existing taxable temporary differences, the forecasts of future business performance of the Company through the continued use of the FTP software by the Group and the forecast profitability of the wider UK group which will provide payment for losses arising. Accordingly, they considered there to be sufficient evidence of future taxable profits to support recognition of the Company's Deferred Tax Assets ('DTA') on Accelerated Capital Allowances of US\$66,036 (2021: US\$29,374k).

The key estimate is the cash flow forecasts for company and group purposes which underpin the recognition and extent of the DTA.

9 Cash and cash equivalents

| | 2022 | 2021 |
|--|----------|----------|
| | US\$'000 | US\$'000 |
| Amounts held with other group undertakings | 10,987 | 16,373 |

10 Fair value of financial instruments not carried at fair value

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2022 and 31 December 2021.

11 Intangible assets

| | Purchased software US\$'000 | Internally generated software US\$'000 | Total US\$'000 |
|--------------------------|--------------------------------|---|-------------------|
| Cost | | | |
| At 1 Jan 2022 | 19,580 | 630,865 | 650,445 |
| As at 31 Dec 2022 | 19,580 | 630,865 | 650,445 |
| Accumulated amortisation | | | |
| At 1 Jan 2022 | 19,580 | 630,865 | 650,445 |
| Charge for the year | — | — | — |
| As at 31 Dec 2022 | 19,580 | 630,865 | 650,445 |
| Net book value | | | |
| At 31 Dec 2021 | — | — | — |
| As at 31 Dec 2022 | — | — | — |
| Cost | | | |
| At 1 Jan 2021 | 19,580 | 630,865 | 650,445 |
| As at 31 Dec 2021 | 19,580 | 630,865 | 650,445 |
| Accumulated amortisation | | | |
| At 1 Jan 2021 | 19,580 | 630,844 | 650,424 |
| Charge for the year | — | 21 | 21 |
| As at 31 Dec 2021 | 19,580 | 630,865 | 650,445 |
| Net book value | | | |
| At 31 December 2020 | — | 21 | 21 |
| As at 31 Dec 2021 | — | — | — |

During the year impairment review was not performed on intangible assets as there were no indicators of impairment.

12 Called up share capital

| | 2022 | | 2021 | |
|------------------------------------|-----------|----------|-----------|----------|
| | Number | US\$'000 | Number | US\$'000 |
| Issued, allotted and fully paid up | | | | |
| Ordinary shares of £1 each | 3,295,005 | 5,000 | 3,295,005 | 5,000 |
| As at 1 Jan and 31 Dec | 3,295,005 | 5,000 | 3,295,005 | 5,000 |

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. 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.

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.

| | Financial assets and (liabilities) at amortised cost US\$'000 | Total US\$'000 |
|--|--|-------------------|
| At 31 Dec 2022 | | |
| Assets | | |
| Cash and Cash equivalents | 10,987 | 10,987 |
| Trade and Other receivables | 3,938 | 3,938 |
| Total financial assets | 14,925 | 14,925 |
| Liabilities | | |
| Amount due to HSBC group undertakings | 251 | 251 |
| Amount due to third party undertakings | 42 | 42 |
| Total financial liabilities | 293 | 293 |

HSBC Finance Transformation (UK) Limited

| | Financial assets and (liabilities) at amortised cost | Total |
|--|--|---------------|
| At 31 Dec 2021 | US\$'000 | US\$'000 |
| Assets | | |
| Cash and Cash equivalents | 16,373 | 16,373 |
| Trade and Other receivables | 6,455 | 6,455 |
| Total financial assets | 22,828 | 22,828 |
| Liabilities | | |
| Amount due to HSBC group undertakings | 174 | 174 |
| Amount due to third party undertakings | 89 | 89 |
| Total financial liabilities | 263 | 263 |

14 Management of financial risk

All of the Company's activities involve to varying degrees, the analysis, evaluation, acceptance and management of risks or combination of risks. The most important types of risk include financial risk, which comprises credit risk, liquidity risk and market risk. The management of financial risk and consideration of profitability, cash flows and capital resources form a key element in the Directors' assessment of the Company as a going concern.

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.

The risk arises from transactions with HSBC undertakings. The management of credit is undertaken in compliance with the Company 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. The maximum credit exposure of the Company is limited to the carrying value of the dues from HSBC Group company. Balances are primarily with the HSBC Group and third party and have low credit risk. None of the balances are past due or impaired.

Liquidity risk management

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

The Company is funded through equity investment from the parent undertaking. The Company manages its liquidity through daily review of its sterling currency bank balances. Monthly projections are made of balances twelve months forward using anticipated transactions reviewed by management.

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

| | Carrying value US\$'000 | Contractual cash flows US\$'000 | On Demand US\$'000 | Due within 3 months US\$'000 | Total US\$'000 |
|---|----------------------------|------------------------------------|-----------------------|---------------------------------|-------------------|
| Amounts due to other group undertakings | 251 | 251 | — | 251 | 251 |
| Amounts due to third party undertakings | 42 | 42 | 42 | — | 42 |
| At 31 Dec 2022 | 293 | 293 | 42 | 251 | 293 |

| | Carrying value US\$'000 | Contractual cash flows US\$'000 | On Demand US\$'000 | Due within 3 months US\$'000 | Total US\$'000 |
|---|----------------------------|------------------------------------|-----------------------|---------------------------------|-------------------|
| Amounts due to other group undertakings | 174 | 174 | — | 174 | 174 |
| Amounts due to third party undertakings | 89 | 89 | 89 | — | 89 |
| At 31 Dec 2021 | 263 | 263 | 89 | 174 | 263 |

Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates impact the Company's income or the value of its portfolios.

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 Company monitors its net exposure and attempts to minimise it where conditions permit. The Company does not hedge against its net position.

As at 31 December 2022, the Company was exposed to foreign currency risk on its US\$175k obligation. If all variables are held constant, the effect of a 10 percent increase/(decrease) in foreign currency would be an increase/(decrease) of profit before tax of USD\$17k.

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 its obligations as they fall due.

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\$nil (2021: US\$nil) as interest-bearing liabilities at the end of 2022.

15 Related party transactions

| | 2022 | 2021 |
|--|---------------------------------------|---------------------------------------|
| | Balance at 31 December US\$'000 | Balance at 31 December US\$'000 |
| Assets | | |
| Cash and cash equivalents - balances with HSBC undertakings ¹ | 10,987 | 16,373 |
| Amounts due from HSBC Undertakings ¹ | 3,896 | 5,769 |
| Liabilities | | |
| Amounts due to other HSBC undertakings | | |
| - Trade and other payables ¹ | 251 | 174 |

Recharge income of US\$15,586k (2021: US\$15,149k) as shown in the income statement comprises fees charged to those companies using the accounting platform.

Intercompany expenses was US\$3,431k (2021: US\$3,400k) during the year of which US\$251k (2021: US\$174k) is included in the outstanding balances.

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

16 Parent undertakings

The immediate parent undertaking is HSBC Global Services Limited, the ultimate parent undertaking is HSBC Holdings plc and the largest group to consolidate these financial statements.

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

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

17 Events after the balance sheet date

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