

HSBC Finance (Netherlands)

Registered No: 2815114

Financial Statements for the year ended 31 December 2014

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HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014

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HSBC Finance (Netherlands)

Strategic Report for the year ended 31 December 2014

Principal activities

During the year ended 31 December 2014 HSBC Finance (Netherlands) (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 income statement and balance sheet provide the key performance indicators. The reserves available for distribution at 31 December 2014 were US\$7,341 million.

During 2014, the Company's share capital was reduced by cancelling and extinguishing 1,866,727,180 of the Ordinary Redeemable shares and crediting this amount to retained earnings (US\$3,155 million), and by converting share premium of US\$9,776 million to retained earnings.

Financial Performance

The performance and position of the Company for the year ended 31 December 2014 and the state of the Company's financial affairs at that date are set out on pages 7 to 32.

The results of the Company show a profit before tax of US\$5,669 million for the year (2013: US\$9,675 million).

Dividend income of US\$6,550 million was received from HSBC Holdings B.V. (2013: US\$12,280 million) and US\$1,100 million from HSBC Private Banking Holdings (Suisse) S.A. (2013: US\$673 million). Further details of these investments are set out in Note 10.

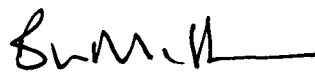
An impairment charge of US\$1,798 million (2013: US\$3,133 million) was recognised in respect of the Company's investment in HSBC Private Banking Holdings (Suisse) S.A, a wholly owned subsidiary of the Company.

Risk management

The principal risks and uncertainties facing the Company, together with its financial risk management objectives and policies, and an analysis of the exposure to such risks, are set out in Note 17 of the financial statements.

The Company's exposures to credit, 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 from the parent company.

Signed on behalf of the Board



.....
B J S Mathews
Director

25 March 2015

Registered Office
8 Canada Square
London
E14 5 HQ

HSBC Finance (Netherlands)

Directors' Report for the year ended 31 December 2014

Directors

The Directors who served during the year were as follows:

Director	Appointed	Resigned
R G Barber	15 December 1993	17 April 2014
N S Black (Alternate Director to R G Barber)	16 April 2010	17 April 2014
G A Francis	01 September 2014	
T Roland	02 October 2014	
R J Hennity	31 July 2012	
I J Mackay	9 February 2011	
I MacKinnon	16 September 2011	
B J S Mathews	8 July 2013	
A C G Stangroome (Alternate Director to I MacKinnon)	30 September 2011	03 October 2014
A C G Stangroome (Alternate Director to T Roland)	16 October 2014	

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

Dividends

Dividends of US\$9,705 million were declared and paid during the year (2013: US\$12,830 million)

Future developments

No change in the Company's activities is anticipated.

Significant events since the end of the financial year

There were no significant events since the end of the financial year.

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.

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.

Auditors

Pursuant to Section 487(2) of the Companies Act 2006, the auditor will be deemed to be reappointed and therefore KPMG Audit Plc will continue 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.

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and financial statements

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:

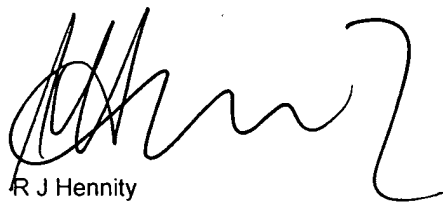
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

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 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.

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.

Signed on behalf of the Board



R J Hennity
Director

25 March 2015

Registered Office
8 Canada Square
London
E14 5HQ
Registered number: 2815114

Independent Auditor's Report to the Member of HSBC Finance (Netherlands)

We have audited the financial statements of HSBC Finance (Netherlands) (the Company) for the year ended 31 December 2014 set out on pages 7 to 32. 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 5, 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 Ethical Standards for Auditors.

Scope of the audit opinion

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website 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 profit 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.

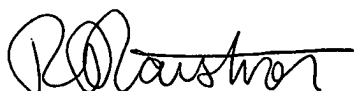
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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 (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London, England

25 March 2015

HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014

Income Statement for the year ended 31 December 2014

		2014	2013
	Notes	US\$000	US\$000
Interest income		130,251	131,797
Interest expense		(313,006)	(273,790)
Net interest expense		(182,755)	(141,993)
Fee income		499	16
Dividend income		7,650,000	12,952,500
Foreign exchange loss		(420)	(2,287)
Loss on disposal of financial investments		(897)	-
Total operating income		7,466,427	12,808,236
General and administrative expenses		(1)	(2)
Impairment of investment in subsidiaries		(1,797,527)	(3,133,000)
Total operating expenses		(1,797,528)	(3,133,002)
Operating profit		5,668,899	9,675,234
Profit before tax		5,668,899	9,675,234
Tax expense	5	(29,816)	42,357
Profit for the year attributable to the shareholder		5,639,083	9,717,591

The accompanying notes on pages 13 to 32 form an integral part of these financial statements.

HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014 (continued)

Statement of comprehensive income for the year ended 31 December 2014

	2014 US\$000	2013 US\$000
Profit for the year attributable to the shareholder	5,639,083	9,717,591
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Available-for-sale investments		
– fair value gain.....	12,869	21,030
– income taxes	(2,574)	-
Other comprehensive income for the year, net of tax.....	10,295	21,030
Total comprehensive income for the year attributable to the shareholder	5,649,378	9,738,621

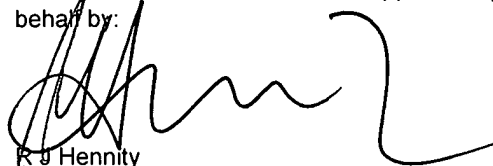
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HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014 (continued)

Balance sheet as at 31 December 2014

		2014	2013
	Notes	US\$000	US\$000
ASSETS			
Cash at bank and in hand		381,118	121,870
Loans and advances to HSBC undertakings	8	2,510,592	2,951,499
Financial investments	9	122,962	-
Current tax assets		-	62,706
Prepayments and accrued income		-	16
Investments in subsidiaries	10	25,598,455	29,695,982
Assets held for sale	11	-	5,715
Deferred tax assets		117,278	119,852
Total assets		28,730,405	32,957,640
LIABILITIES AND EQUITY			
Liabilities			
Amounts owed to HSBC undertakings	12	663,026	728,396
Derivative liabilities	7	-	431
Loans from HSBC undertakings	13	15,695,456	16,029,552
Current tax liabilities		28,685	-
Total liabilities		16,387,167	16,758,379
Equity			
Called up share capital	14	4,300,447	7,455,848
Share premium account		200,000	9,776,448
Available-for-sale fair value reserve		10,295	-
Other reserves		491,000	491,000
Retained earnings		7,341,496	(1,524,035)
Total equity		12,343,238	16,199,261
Total equity and liabilities		28,730,405	32,957,640

These financial statements were approved by the Board of Directors on 25 March 2015 and were signed on its behalf by:



R. J. Hennity
Director

Company Registration No: 2815114

The accompanying notes on pages 13 to 32 form an integral part of these financial statements.

HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014 (continued)

Statement of cash flows for the year ended 31 December 2014

		2014	2013
	<i>Notes</i>	US\$000	US\$000
Cash flows from operating activities			
Profit before tax		5,668,899	9,675,234
Adjustments for:			
– Non-cash items included in profit before tax.....	15	1,798,424	3,133,000
– Change in operating assets	15	330,830	(228,708)
– Change in operating liabilities	15	(399,898)	2,670,169
– Tax received		61,575	8,325
Net cash generated from operating activities		7,459,830	15,258,020
Cash flows from investing activities			
Net cash outflow from acquisition of or additional investment in subsidiaries.....		(200,000)	(2,505,715)
Net cash inflow from disposal of financial investments		4,818	85,942
Net cash inflow from return of capital from subsidiary.....		2,500,000	-
Net cash from/(used in) investing activities		2,304,818	(2,419,773)
Cash flows from financing activities			
Issue of ordinary share capital.....		200,000	-
Dividends paid		(9,705,400)	(12,830,000)
Net cash used in financing activities		(9,505,400)	(12,830,000)
Net increase in cash and cash equivalents		259,248	8,247
Cash and cash equivalents at 1 January		121,870	113,623
Cash and cash equivalents at 31 December	15	381,118	121,870

The accompanying notes on pages 13 to 32 form an integral part of these financial statements.

HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014 (continued)

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

	Called up share capital	Share premium	Available- for-sale fair value reserve	Other reserves	Retained earnings	Total equity
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
At 1 January 2014	7,455,848	9,776,448	-	491,000	(1,524,035)	16,199,261
Profit for the year attributable to the shareholder	-	-	-	-	5,639,083	5,639,083
Other comprehensive income (net of tax)	-	-	10,295	-	-	10,295
Available-for-sale investments.....	-	-	10,295	-	-	10,295
Total comprehensive income for the year attributable to the shareholder.....	-	-	10,295	-	5,639,083	5,649,378
Ordinary shares issued.....	-	200,000	-	-	-	200,000
Conversion of ordinary shares to retained earnings.....	(3,155,400)	-	-	-	3,155,400	-
Ordinary dividends to shareholder.....	-	-	-	-	(9,705,400)	(9,705,400)
Share premium conversion to distributable reserves	-	(9,776,448)	-	-	9,776,448	-
At 31 December 2014.....	4,300,448	200,000	10,295	491,000	7,341,496	12,343,239

Other reserves are not distributable and arose from historical group transactions.

During 2014, the Company's share capital was reduced by cancelling and extinguishing 1,866,727,180 of the Ordinary Redeemable shares and crediting this amount to retained earnings (US\$3,155 million).

The Company also converted share premium of US\$9,776 million to retained earnings.

The accompanying notes on pages 13 to 32 form an integral part of these financial statements.

HSBC Finance (Netherlands)
Financial Statements for the year ended 31 December 2014 (continued)

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

	Called up share capital	Share premium	Available- for-sale fair value reserve	Other reserves	Retained earnings	Total equity
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
At 1 January 2013	7,455,848	9,776,448	(21,030)	491,000	1,588,374	19,290,640
Profit for the year attributable to the shareholder	-	-	-	-	9,717,591	9,717,591
Other comprehensive income (net of tax)	-	-	21,030	-	-	21,030
Available-for-sale investments.....	-	-	21,030	-	-	21,030
Total comprehensive income for the year attributable to the shareholder.....	-	-	21,030	-	9,717,591	9,738,621
Ordinary shares issued.....	-	-	-	-	-	-
Conversion of ordinary shares to retained earnings.....	-	-	-	-	-	-
Ordinary dividends to shareholder.....	-	-	-	-	(12,830,000)	(12,830,000)
Other.....	-	-	-	-	-	-
At 31 December 2013.....	7,455,848	9,776,448	-	491,000	(1,524,035)	16,199,261

1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

HSBC Finance (Netherlands) (the 'Company') has prepared its financial statements in accordance with International Financial Reporting Standards ('IFRSs') as endorsed by the European Union ('EU').

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

The Company is exempt from the requirement to prepare group consolidated financial statements by virtue of section 400 of the Companies Act 2006. The financial statements present information about the Company as an individual undertaking.

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except for financial assets and financial liabilities which are measured in accordance with notes 2(g) and 2(j).

(c) Functional and presentation currency

The financial statements have been presented in US Dollars, which is the Company's functional currency.

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

(d) Use of estimates and assumptions

The preparation of financial information requires the use of estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates; actual results in the future may differ from estimates upon which financial information is prepared. Management believes that the Company's critical accounting policies where judgement is necessarily applied are those which relate to the impairment of investments in subsidiaries and intangible assets (Note 2(h)).

(e) Future accounting developments

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

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 adoption permitted. IFRS 15 provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The company is not impacted by this standard.

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.

1 Basis of preparation (continued)

(e) Future accounting developments (continued)

Classification and measurement

The classification and measurement of financial assets will depend on the entity's business model for their management and their contractual cash flow characteristics and result in financial assets being at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss. In many instances, the classification and measurement outcomes will be similar to IAS 39, although differences will arise, for example, since IFRS 9 does not apply embedded derivative accounting to financial assets and equity securities will be measured at fair value through profit or loss or, in limited circumstances, at fair value through other comprehensive income. The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in population of financial assets measured at amortised cost or fair value compared with IAS 39. The classification of financial liabilities is essentially unchanged, except that, for certain liabilities measured at fair value, gains or losses relating to changes in the entity's own credit risk are to be included in other comprehensive income ('OCI').

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, 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, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL').

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the probability of default occurring over the remaining life of the financial instrument, rather than by considering an increase in ECL. The assessment of credit risk, as well as the estimation of ECL, are required to be unbiased, probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and 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. It 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 between it and risk management strategy and permitting the former to be applied to a greater variety of hedging instruments and risks. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project. To remove the risk of any conflict between existing macro hedge accounting practice and the new general hedge accounting requirements, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the 1 January 2018 with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. It is not expected that IFRS 9 will have a significant impact on this Company.

2 Summary of significant accounting policies

(a) Interest income and expense

Interest income and expense for all interest bearing financial instruments is recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

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 but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(b) Dividend income

Dividend income is recognised in the income statement when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

(c) Fee income

Fee income is earned relating to a loan for which the company is guarantor. The company charges a guarantee fee as percentage of the loan balance and is accrued on a daily basis.

(d) Income 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 it 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, calculated using tax rates enacted or substantively enacted by the end of the reporting period 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. 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 amounts of assets and liabilities in the balance sheet and the amounts 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. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when the Company has a legal right to offset.

Deferred tax relating to fair value re-measurements of available-for-sale investments and cash flow hedging instruments which are charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

2 Summary of significant accounting policies (continued)

(e) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement.

Non-monetary assets and liabilities that are measured at 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 resulting exchange differences are recognised in the income statement.

(f) Subsidiaries

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

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

(g) Financial assets and liabilities

Loans and advances to HSBC undertakings

Loans and advances to HSBC 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 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.

Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently re-measured at fair value and changes therein are recognised in other comprehensive income.

Amounts owed to and loans from HSBC undertakings

Amounts owed to HSBC undertakings are recognised when cash is advanced or contractual arrangements are entered into. 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 interest rate method.

(h) Impairment of assets (other than financial assets)

The carrying amounts of the Company's investments in subsidiaries are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as the higher of the asset's fair value less costs to sell and its value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2 Summary of significant accounting policies (continued)

(i) Derivatives

Any impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cashflow models.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

As the Company's derivatives are used to manage foreign currency risk exposure all gains and losses from changes in the fair value are recognised in the income statement in 'Foreign exchange losses'.

(i) 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).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Additional factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Where a financial instrument has a quoted price in an active market and is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made.

(k) Guarantees

Financial guarantee contracts are initially recorded at fair value and subsequently at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(i) 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 instruments are shown in equity as a deduction from proceeds, net of tax.

3 Employee compensation and benefits

None of the Directors received any remuneration for their services to the Company during the year (2013: US\$nil).

The Company has no employees and hence no staff costs (2013: US\$nil).

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

4 General and administrative expenses

Auditor's remuneration

Certain expenses including auditor's 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 US\$9,742 (2013: US\$10,332).

5 Taxation

	2014	2013
	US\$000	US\$000
Current tax		
UK Corporation tax		
– for this year	28,686	(62,705)
– adjustments in respect of prior years	(157)	1,691
Overseas tax		
– for this year	1,287	679
Deferred tax		
– Origination and reversal of temporary differences	-	17,978
Total tax charged/ (credited) to the income statement.....	29,816	(42,357)

The UK corporation tax rate applying to the Company was 21.5 per cent (2013: 23.25 per cent).

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

	2014	Percentage of profit before tax	2013	Percentage of profit before tax
	US\$000	%	US\$000	%
Profit before tax	5,668,899		9,675,234	
Taxation at UK corporation tax rate of 21.5% (2013: 23.25%)	1,218,814	21.50	2,249,492	23.25
Adjustments in respect of prior period liabilities	(157)	(0.00)	1,691	0.02
Deferred tax temporary differences not recognised/(previously not recognised)	-	-	17,978	0.19
Non taxable income and gains	(1,644,557)	(29.01)	(3,040,620)	(31.43)
Permanent disallowables	452,829	7.99	728,423	7.53
Local taxes and overseas withholding taxes	1,287	0.02	679	0.01
Other items	1,600	0.03	-	-
Total tax charged/ (credited) to the income statement.....	29,816	0.53	(42,357)	(0.44)

5 Taxation (continued)

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. It is not expected that the future rate reduction will have a significant effect to the company.

Deferred taxation

The following table shows the gross deferred tax assets and liabilities recognised in the balance sheet and the related amounts recognised in the income statement, other comprehensive income and directly in equity.

	Available for sale assets US\$000	Held over foreign exchange loss US\$000	Total US\$000
At 1 January 2014.....	-	119,852	119,852
Income statement.....	-	-	-
Other comprehensive income:			
Available-for-sale investment	(2,574)	-	(2,574)
At 31 December 2014.....	(2,574)	119,852	117,278

	Available for sale assets US\$000	Held over foreign exchange loss US\$000	Total US\$000
At 1 January 2013.....	-	137,830	137,830
Income statement.....	-	(17,978)	(17,978)
Other comprehensive income:			
Available-for-sale investment	-	-	-
At 31 December 2013.....	-	119,852	119,852

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

6 Analysis of financial assets and liabilities by measurement basis

The following tables analyses the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by balance sheet heading.

As at 31 December 2014	Financial assets and liabilities at fair value US\$000	Loans and receivables US\$000	Available-for- sale securities US\$000	Other financial assets and liabilities at amortised cost US\$000	Total US\$000
Assets					
Cash at bank and in hand	-	-	-	381,118	381,118
Loans and advances to HSBC undertakings	-	2,510,592	-	-	2,510,592
Financial investments	-	-	122,962	-	122,962
Prepayments and accrued income	-	-	-	-	-
Total financial assets	-	2,510,592	122,962	381,118	3,014,672
Total non-financial assets					25,715,733
Total assets					28,730,405
Liabilities					
Amounts owed to HSBC undertakings	-	-	-	663,026	663,026
Derivative liabilities	-	-	-	-	-
Loans from HSBC undertakings	-	-	-	15,695,456	15,695,456
Total financial liabilities	-	-	-	16,358,482	16,358,482
Total non-financial liabilities					28,685
Total liabilities					16,387,167

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

6 Analysis of financial assets and liabilities by measurement basis (continued)

As at 31 December 2013	Financial assets and liabilities at fair value	Loans and receivables	Available-for-sale securities	Other financial assets and liabilities at amortised cost	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
Assets					
Cash at bank and in hand	-	-	-	121,870	121,870
Loans and advances to HSBC undertakings	-	2,951,499	-	-	2,951,499
Assets held for sale	-	-	5,715	-	5,715
Financial investments	-	-	-	-	-
Prepayments and accrued income	-	-	-	16	16
Total financial assets	-	2,951,499	5,715	121,886	3,079,100
Total non-financial assets					29,878,540
Total assets					32,957,640
Liabilities					
Amounts owed to HSBC undertakings	-	-	-	728,396	728,396
Derivative liabilities	431	-	-	-	431
Loans from HSBC undertakings	-	-	-	16,029,552	16,029,552
Total financial liabilities	431	-	-	16,757,948	16,758,379
Total non-financial liabilities					-
Total liabilities					16,758,379

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

7 Derivatives

Fair values of derivatives

	2014	2013
	US\$000	US\$000
Liabilities		
Foreign exchange	-	431

Notional contract amounts of derivatives

	2014	2013
	US\$000	US\$000
Foreign exchange	-	53,011

The foreign exchange contracts are measured at fair value using Level 2 valuation techniques which use observable inputs. The fair value is equal to the difference between the US dollar equivalent of the notional contract amount at balance sheet date and the fixed US dollar amount receivable or payable stipulated in the foreign exchange contract.

8 Loans and advances to HSBC undertakings

			At 31 December 2014		At 31 December 2013	
	Nominal interest rate	Maturity date	Carrying amount	Fair value	Carrying amount	Fair value
			US\$000	US\$000	US\$000	US\$000
HSBC Capital Funding 1 (UK) Limited Partnership	EURIBOR+1.2425%	31/10/2017	1,214,750	1,226,650	1,377,200	1,372,769
HSBC Capital Funding 1 (UK) Limited Partnership	7.75%	31/10/2040	1,093,275	1,211,527	1,239,480	1,368,100
HSBC Bank A.S.	LIBOR+3.87%	28/12/2022	145,770	169,864	165,264	198,088
HSBC Bank A.S.	LIBOR+4.15%	28/12/2022	39,000	44,757	39,000	45,999
HSBC Mexico S.A. ¹	LIBOR+3.65%	31/01/2023	-	-	110,000	126,109
Accrued interest receivable			17,797	17,797	20,555	20,555
			2,510,592	2,670,595	2,951,499	3,131,620

¹ In 2014 there has been a change in classification of this loan as a result of a revised interpretation of the accounting of instruments containing contingent regulatory write off and conversion features. As a result, this loan is now presented under financial investments and measured at fair value. There has been no change in the economic nature of the transaction which remains to provide funding to the group entity and earn interest income, over the term of the loan agreement.

The loans are denominated in Euros and USD and the effective interest based on EURIBOR and LIBOR rates are 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.

Fair values were determined using valuation techniques with observable inputs (Level 2). The fair value of loans and advances to from HSBC undertakings are estimated using a modelled security as a proxy for the loan as well as various pricing inputs. Pricing inputs include nominal yield curve, credit spread, and coupon information.

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

9 Financial investments

			At 31 December 2014	At 31 December 2013
	Nominal interest rate	Maturity date	Carrying amount	Carrying amount
			US\$000	US\$000
HSBC Mexico S.A.	LIBOR+3.65%	31/01/2023	122,962	-

As explained in note 8, this loan was previously classified within Loans and Advances.

The loans are denominated in Euros and USD and the effective interest based on EURIBOR and LIBOR rates are 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.

Fair values were determined using valuation techniques with observable inputs (Level 2). The fair value of loans and advances to from HSBC undertakings are estimated using a modelled security as a proxy for the loan as well as various pricing inputs. Pricing inputs include nominal yield curve, credit spread, and coupon information.

10 Investments in subsidiaries

	2014	2013
	US\$000	US\$000
Cost		
At 1 January	32,897,582	30,397,582
Additions	200,000	2,500,000
Repayment of capital	(2,500,000)	-
At 31 December	30,597,582	32,897,582
Impairment		
At 1 January	3,201,600	68,600
Charge	1,797,527	3,133,000
At 31 December	4,999,127	3,201,600
Net carrying amount at 31 December	25,598,455	29,695,982

Explanation of additions, disposals and other

The Company invested a further US\$200 million in HSBC Holdings B.V. and US\$2,500 million of capital was repaid by HSBC Private Banking Holdings (Suisse) S.A.

Impairment charge recognised

An impairment in HSBC Private Banking Holdings (Suisse) S.A. of US\$1,798 million was recognised in 2014 (2013: US\$3,133 million).

The Company's accounting policy for impairment of assets (other than financial assets) is described in Note 2(h). The following table sets out the investments in subsidiaries for which detailed impairment tests were undertaken and the assumptions used.

10 Investments in subsidiaries (continued)

Subsidiary	2014			2013		
	Carrying value	Discount rate	Nominal growth rate	Carrying value	Discount rate	Nominal growth rate
	at		beyond initial	at		rate beyond
	31 December 2014		cash flow projections	31 December 2013		initial cash flow projections
	US\$m	%	%	US\$m	%	%
HSBC Insurance (Bermuda) Limited	331	9.00	3.60	331	10.00	3.60
HSBC Private Banking Holdings (Suisse) SA	5,619	7.25	2.62	7,418	7.00	2.68
Total	5,950			7,749		

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: this growth rate reflects GDP and inflation for the countries within which the subsidiary operates. The rates are based on IMF forecast growth rates as these rates are regarded as the most relevant estimate of likely future trends. The rates used for 2013 and 2014 do not exceed the long-term growth rate for the countries within which the subsidiary operates; and

Discount rate: the discount 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 inputs reflecting a number of 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. 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. Externally-sourced cost of capital rates are used where, in management's judgement, those rates reflect more accurately the current market and economic conditions. For 2013 and 2014, internal costs of capital rates were consistent with externally-sourced rates; and

Management's judgement in estimating the cash flows: the future cash flows of 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.

10 Investments in subsidiaries (continued)

HSBC Insurance (Bermuda) Limited

HSBC Insurance (Bermuda) Limited holds insurance risk for the HSBC Group and, as such, is subject to the potential risk of future large claims. A comparison of carrying amount to value in use, calculated using a discount rate of 9.0% and a growth rate of 3.6%, did not result in the recognition of an impairment charge (2013: none). Due to inherent uncertainty in the nature of the business of HSBC Insurance (Bermuda) Limited, it is possible that the cost of settling insurance claims in the future could be different to that currently expected, which could result in material impairments to the investment in future periods.

HSBC Private Banking Holdings (Suisse) SA

HSBC Private Banking Holdings (Suisse) SA provides global private banking services in Europe. A comparison of carrying amount to value in use, calculated using a discount rate of 7.25% and a growth rate of 2.62%, resulted in the recognition of an impairment charge of US\$1,798 million.

Sensitivity to key assumptions for investment in HSBC Private Banking Holdings (Suisse) S.A.

Based on management's value in use calculation for its investment in HSBC Private Banking Holdings (Suisse) S.A., the Company has recognised an impairment of US\$1,798 million (2013: US\$3,133 million). Changes to the key assumptions used in the value in use calculation would have the following impact on the impairment recognised:

Key assumptions	Change in assumption	Impact on impairment
Discount rate	+/- 10 basis points	(US\$63m) / US\$66m
Normal growth rate	+/- 10 basis points	US\$57m /(US\$54m)

The principal subsidiary undertakings of the Company at 31 December 2014 were:

Name of Undertaking	Class of Capital	Country of Incorporation	Ownership Percentage 2014	Ownership Percentage 2013
HSBC Holdings B.V.	Ordinary Shares	The Netherlands	100%	100%
HSBC Holdings B.V.	Preference Shares	The Netherlands	100%	100%
HSBC Electronic Data Processing India Private Limited	Ordinary Shares	India	2.72%	2.72%
HSBC Insurance (Bermuda) Limited	Ordinary Shares	Bermuda	100%	100%
HSBC Private Banking Holdings (Suisse) SA	Ordinary Shares	Switzerland	100%	100%

There is unpaid share premium of US\$216 million which can be called upon at the discretion of a subsidiary, HSBC Insurance (Bermuda) Limited.

11 Assets held for sale

In February 2014, the company disposed of its investment of US\$5.7 million in HSBC Columbia S.A. and HSBC Fiduciaria S.A. (together "HSBC Columbia") resulting in a loss on sale of US\$897 thousand.

12 Amounts owed to HSBC undertakings

At 31 December 2014, US\$663 million (2013: US\$728 million) was outstanding to HSBC undertakings. These are non-interest bearing amounts and are repayable on demand.

The fair value of the amounts owed to HSBC undertakings is not significantly different to the carrying value in the balance sheet.

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

13 Loans from HSBC undertakings

	Nominal interest rate	Maturity date	At 31 December 2014		At 31 December 2013	
			Carrying amount	Fair value	Carrying amount	Fair value
			US\$000	US\$000	US\$000	US\$000
HSBC Holdings plc	EURIBOR+2.36%	28/12/2022	1,360,520	1,435,810	1,542,464	1,668,118
HSBC Holdings plc	4.11%	28/12/2022	1,093,275	1,250,100	1,239,480	1,314,848
HSBC Holdings plc	LIBOR+1.31%	16/11/2022	10,551,400	10,928,962	10,551,400	10,839,677
HSBC Holdings plc	LIBOR+2.00%	28/12/2022	39,000	39,131	39,000	39,857
HSBC Holdings plc	LIBOR+1.94%	17/01/2023	110,000	109,925	110,000	111,970
HSBC Holdings plc	LIBOR+1.88%	31/10/2023	2,500,000	2,487,110	2,500,000	2,535,615
Accrued interest payable			41,261	41,261	47,208	47,208
			15,695,456	16,292,299	16,029,552	16,557,293

The loans are denominated in US Dollars and Euros and the effective interest based on LIBOR or EURIBOR 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.

Fair values were determined using valuation techniques with observable inputs (Level 2). The fair value of loans and advances to from HSBC undertakings are estimated using a modelled security as a proxy for the loan as well as various pricing inputs. Pricing inputs include nominal yield curve, credit spread, and coupon information.

14 Share capital

	2014	2014	2013	2013
	£/ Number of shares	US\$	£/ Number of shares	US\$
Allotted, called up and fully paid				
Ordinary shares of £1 each	19	32	18	32
Redeemable ordinary shares of £1 each	2,544,134,147	4,300,446,775	4,410,861,327	7,455,846,775

One new share was allotted in 2014 (2013: nil) and was issued at a premium of US\$200 million (2013: nil) to the parent, HSBC Holdings Plc. On 28 October 2014, the company cancelled and extinguished 1,867 million of redeemable ordinary shares of £1 each (USD\$3,155 million) and credited this amount to retained earnings.

All shares rank equally with one vote attached to each fully paid share.

The rights of the redeemable ordinary shares are briefly summarised as follows:

- (a) the holders are entitled (unless the Company in general meeting shall otherwise resolve) to any dividend or other distribution on the same terms and pari passu with the holders of any ordinary shares;
- (b) the Company is entitled to redeem the shares at any time before 31 December 2020 at par;
- (c) the holders rank pari passu with holders of ordinary shares on a return of assets in a liquidation or otherwise for repayment of paid up capital together with an amount equal to any premium; and
- (d) the holders are entitled to one vote per £1 nominal value as the holders of ordinary shares.

15 Notes on the statement of cash flows

	2014 US\$000	2013 US\$000
Non-cash items included in profit before tax:		
Impairment of investments	1,797,527	3,133,000
Loss on disposal of financial investments	897	-
	<u>1,798,424</u>	<u>3,133,000</u>
Change in operating assets:		
Change in derivative assets	-	123
Change in loans and advances to HSBC undertakings	330,814	(228,815)
Change in prepayments and accrued income	16	(16)
	<u>330,830</u>	<u>(228,708)</u>
Change in operating liabilities:		
Amounts owed to HSBC undertakings	(65,371)	2,508
Change in derivative liabilities	(431)	431
Change in loans from HSBC undertakings	(334,096)	2,667,230
	<u>(399,898)</u>	<u>2,670,169</u>
Cash and cash equivalents comprise:		
Cash at bank with HSBC undertakings	<u>381,118</u>	<u>121,870</u>
Interest and dividends:		
Interest paid	(224,537)	(203,535)
Interest received	132,503	131,993
Dividends received	7,650,000	12,952,500

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

16 Maturity analysis of assets and liabilities

The following is an analysis, by remaining contractual maturities at the balance sheet date, of asset and liability line items that represent amounts expected to be recovered or settled within one year, and after more than one year.

As at 31 December 2014	Due within one year US\$000	Due after more than one year US\$000	Total US\$000
Assets			
Cash at bank and in hand	381,118	-	381,118
Loans and advances to HSBC undertakings	17,797	2,492,795	2,510,592
Financial investments	-	122,962	122,962
Assets held for sale	-	-	-
Prepayments and accrued income	-	-	-
Total financial assets	398,915	2,615,757	3,014,672
Total non-financial assets	-	25,715,733	25,715,733
Total assets	398,915	28,331,490	28,730,405
Liabilities			
Amounts owed to HSBC undertakings	663,026	-	663,026
Derivative liabilities	-	-	-
Loans from HSBC undertakings	41,261	15,654,195	15,695,456
Total financial liabilities	704,287	15,654,195	16,358,482
Total non-financial liabilities	-	28,685	28,685
Total liabilities	704,287	15,682,880	16,387,167
As at 31 December 2013			
Assets			
Cash at bank and in hand	121,870	-	121,870
Loans and advances to HSBC undertakings	2,637,235	314,264	2,951,499
Financial investments	-	-	-
Assets held for sale	5,715	-	5,715
Prepayments and accrued income	16	-	16
Total financial assets	2,764,836	314,264	3,079,100
Total non-financial assets	-	29,878,540	29,878,540
Total assets	2,764,836	30,192,804	32,957,640
Liabilities			
Amounts owed to HSBC undertakings	728,396	-	728,396
Derivative liabilities	431	-	431
Loans from HSBC undertakings	47,208	15,982,344	16,029,552
Total financial liabilities	776,035	15,982,344	16,758,379
Total non-financial liabilities	-	-	-
Total liabilities	776,035	15,982,344	16,758,379

17 Risk Management

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 (except August) 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 Finance (Netherlands). Exposure to these risks is monitored by HSBC Holdings plc's Asset and Liability Committee.

Credit Risk

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract.

Maximum exposure to credit risk

	2014 US\$000	2013 US\$000
Cash at bank and in hand	381,118	121,870
Loans and advances to HSBC undertakings	2,510,592	2,951,499
Financial investments	122,962	-
	3,014,672	3,073,369

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.

Cash flows payable by the Company under financial liabilities by remaining contractual maturities

At 31 December 2014

US\$000	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years
Amounts owed to HSBC undertakings	663,026	-	-	-	-
Loans from HSBC undertakings	-	116,947	227,059	908,238	16,887,119
Total	663,026	116,947	227,059	908,238	16,887,119

At 31 December 2013

US\$000	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years
Amounts owed to HSBC undertakings	728,396	-	-	-	-
Loans from HSBC undertakings	-	109,078	252,061	1,255,725	17,259,886
Total	728,396	109,078	252,061	1,255,725	17,259,886

17 Risk management (continued)

Market Risk

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 HSBC 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 currency sensitivity analysis

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US Dollar. The currencies giving rise to this risk are primarily Euro and Sterling, which amounted to assets of US\$5 million and liabilities of US\$3 million respectively (2013: assets of US\$12 million and US\$60 million respectively).

In respect of monetary assets and liabilities held in currencies other than the 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.

If the Euro foreign exchange rates weakened by 5 per cent relative to the US dollar, the Company's profits would decrease by US\$0.3 million, profit after tax US\$0.2 million (2013: US\$0.6 million, profit after tax US\$0.5 million).

If the Sterling foreign exchange rates weakened by 5 per cent relative to the US dollar, the Company's profits would decrease by US\$0.1 million, profit after tax US\$0.1 million (2013: US\$3.2 million, profit after tax US\$2.4 million).

Foreign currency rate sensitivity analysis has been performed on the net asset / liability foreign exchange risk exposure as at the reporting date. An upward/downward movement in the USD: GBP and Euro 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.

Interest rate sensitivity analysis

The Company held net liabilities of US\$14,217million (2013: US\$14,177 million) 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 US\$142.2 million (2013: US\$141.8 million) and after tax of US\$111.6 million (2013: US\$108.8 million).

HSBC Finance (Netherlands)
Notes on the Financial Statements (continued)

18 Related party transactions

Balances with related parties

	Notes	2014 US\$000	2013 US\$000
Assets			
Cash at bank and in hand ¹		381,118	121,870
Loans and advances to HSBC undertakings ¹	8	2,510,592	2,951,499
Financial investments ¹	9	122,962	-
Assets held for sale ¹	11	-	5,715
Investments in subsidiaries ²	10	25,598,455	29,695,982
Total related party assets		28,613,127	32,775,066
Liabilities			
Amounts owed to HSBC undertakings ³	12	663,026	728,396
Derivative liabilities ¹	7	-	431
Loans from HSBC undertakings ³	13	15,695,456	16,029,552
Total related party liabilities		16,358,482	16,758,379

¹ These balances are with other related parties comprising of other HSBC Group Companies which are neither a parent nor subsidiary of the Company.

² These balances are with subsidiaries of the Company.

³ These balances are with the parent of the Company, HSBC Holdings plc.

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. Further explanations of material related party balances are included elsewhere in the Notes as referred to in the table.

Other related party transactions

Share capital – One new share was allotted (2013: nil) and was issued at a premium of US\$200 million (2013: nil) to the parent, HSBC Holdings Plc.

Dividends received - The Company received dividends of US\$6,550 million from HSBC Holdings B.V. (2013: US\$12,280 million) and US\$1,100 million from HSBC Private Banking Holdings (Suisse) S.A. (2013: \$673 million).

Dividends paid - Dividends of US\$9,705 million were paid to the parent Company during the year (2013: US\$12,830 million).

19 Contingent liabilities

Unpaid share premium of US\$216 million can be called upon at the discretion of the Company's subsidiary HSBC Insurance (Bermuda) Limited (2013: Unpaid share premium of US\$216 million).

20 Guarantees

In December 2014, the Company entered into a financial guarantee contract to guarantee a loan from HSBC Bank Plc to HSBC Investment Bank Holdings Plc. The maximum potential amount of future payments which the company is required to make is USD \$917million (EUR 755 million). In consideration of the guarantee being provided, the Company receives a guarantee fee from HSBC Investment Bank Holdings Plc.

21 Events after the balance sheet date

There were no significant events after the balance sheet date.

22 Capital management

In line with HSBC Group policy, the Company maintains a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Company recognises the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity. The Company is not subject to externally imposed capital requirements.

An annual Group capital plan is prepared and approved by the Board of HSBC Holdings plc. The Company manages its own capital within the context of the plan, which determines an appropriate amount and mix of capital required to support planned business growth. As part of HSBC's capital management policy, capital generated in excess of planned requirements is returned to shareholders, normally by way of dividends.

The Company defines capital as total equity, the components of which are set out in the balance sheet.

23 Parent undertaking

The Company's parent company is HSBC Holdings plc which is incorporated in England with limited liability under the UK Companies Act.

The accounts of the Company are consolidated within the HSBC Holdings plc financial statements, which are prepared in accordance with International Financial Reporting Standards. Copies of the financial statements of HSBC Holdings plc may be obtained from its registered office as stated below, or from the Group's web site, www.hsbc.com.

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