HSBC Finance (Netherlands)

Registration No: 2815114

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

HSBC

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Contents

Strategic Report

Principal activities

HSBC Finance (Netherlands) ('the Company') incorporated in England and Wales, with registration number 2815114. Its trading address is 8 Canada Square,London E14 5HQ.United Kingdom

During the year ended 31 December 2018, 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 reserves available for distribution as at 31 December 2018 reduced to $2,189m (2017: $4,890m) as a result of restructuring the Group's Asia operation to meet resolution and recovery requirements.

In October 2018, the Company's share capital was reduced by cancelling and extinguishing $4,300m of ordinary redeemable shares and with a conversion of the associated share premium of $200m to distributable reserves. In addition, a capital contribution of $14,277m was received from HSBC Holdings plc, which was used to repay loans from HSBC Holdings plc (Note 17).

In November 2018, the Company decreased its investment in HSBC Holdings B.V. by $20,425m following the transfer of the ownership of HSBC Asia Holdings B.V. to the Company, via a distribution in-specie of $26,410m. Subsequently, the investment in HSBC Asia Holdings B.V. was reduced by $26,391m following a $60,515m distribution in-specie from HSBC Asia Holdings B.V. to the Company. In addition, the Company sold HSBC Insurance (Bermuda) Limited for $400m at carrying value to HSBC Overseas Holdings (UK) Limited.

Performance

The performance and position of the Company for the year ended 31 December 2018 and the state of the Company's financial affairs at that date are set out on pages 7 to 26.

The results of the Company show a profit before tax of $45,551m for the year (2017: $8,618m) as a result of restructuring the Group's Asia operation.

The Company received the following dividends from other group undertakings:

	2018 $'000	2017 $'000
Dividends from ordinary shares		
HSBC Asia Holdings B.V.[1]	**34,269.168**	N/A
HSBC Holdings B.V.[2]	**11,616.952**	8,125,000
HSBC Private Banking Holdings (Suisse) S.A.	**55,000**	1,221,988
HSBC Insurance (Bermuda) Limited	**40,000**	9,000
HSBC Electronic Data Processing India Private Limited	**4,438**	1,875
	45,985,558	9,357.863

1Total dividend of $60,660m in the year, of which $26,391m was treated as a return of capital (Note 15)

2 Total dividend of $32,042m in the year, of which $20,425m was treated as a return of capital (Note 15)

During the year, the Company sold HSBC PB Service (Suisse) S.A. to HSBC Global Services Limited for $43.6m, at a $1m loss on sale.

Key performance indicators

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

Principal risks and uncertainties

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

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

On behalf of the Board

R J Hennity
Director

24 June 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name	Resigned
G A Francis	
R J Hennity	
I Mackinnon	
I J Mackay	31 December 2018
B J S Matthews	17 December 2018

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 $67,273m were declared and paid during the year (2017: $9,746m).

Significant events since the end of the financial year

The Company received dividends from HSBC Holdings B.V. of $220m in June 2019.

The Company paid a dividend of $290m to HSBC Holdings plc in June 2019.

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

Future developments

No change in the Company's activities is expected.

Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows 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 21 of the Notes on the financial statements.

Capital management

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

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

Independent auditors

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

Directors' responsibility statement

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

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

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

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

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

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

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

Disclosure of Information to Auditors

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

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

On behalf of the Board

R J Hennity
Director
24 June 2019

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the independent auditors to the members of HSBC Finance (Netherlands)

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Finance (Netherlands)'s financial statements:

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

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

Basis of opinion

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

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Carl Sizer (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
Birmingham
24 June 2019

Financial statements

Income statement for the year ended 31 December 2018

	Notes	2018 $'000	2017 $'000
Interest income		**130,201**	286,479
Interest expense		**(578,513)**	(667,887)
Net interest expense		**(448,312)**	(381,408)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	2	**15,038**	N/A
Loss from investments in subsidiaries	15	**(1,000)**	—
Dividend income		**45,985,558**	9,357,863
Other operating (expense)/income	3	**(363)**	595
Net operating income		**45,550,921**	8,977,050
General and administrative expenses		**(44)**	(34)
Impairment charge on investments in subsidiaries		**—**	(359,000)
Total operating expenses		**(44)**	(359,034)
Profit before tax		**45,550,877**	8,618,016
Tax credit	7	**77,135**	65,695
Profit for the year		**45,628,012**	8,683,711

Statement of comprehensive income for the year ended 31 December 2018

	2018 $'000	2017 $'000
Profit for the year	**45,628,012**	8,683,711
Other comprehensive expense		
Items that will be reclassified subsequently to profit and loss when specific conditions are met:		
Available-for-sale investments		
- fair value losses reclassified to the income statement	**N/A**	(9,099)
- income taxes	**N/A**	1,546
Other comprehensive expense for the year, net of tax	**—**	(7,553)
Total comprehensive income for the year	**45,628,012**	8,676,158

Balance sheet at 31 December 2018
Registration No: 2815114

	Notes	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents	9	**13,942**	1,595,241
Loans and advances to other group undertakings	12	**2,685,005**	6,711,974
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	14	**367,016**	N/A
Trade and other receivables	13	**63,311**	53,870
Financial investments	14	**–**	118,477
Current tax assets		**81,197**	67,312
Investments in subsidiaries	15	**2,357,233**	23,253,302
Total assets		**5,567,704**	31,800,176
Liabilities and equity			
Liabilities			
Trade and other payables	16	**–**	725,888
Loans from other group undertakings	17	**3,046,482**	21,185,148
Deferred tax liabilities	8	**1,108**	1,371
Total liabilities		**3,047,590**	21,912,407
Equity			
Called up share capital	19	**–**	4,300,447
Share premium account		**–**	200,000
Other reserves		**331,000**	497,693
Retained earnings		**2,189,114**	4,889,629
Total equity		**2,520,114**	9,887,769
Total liabilities and equity		**5,567,704**	31,800,176

*Called up share capital is $36 (2017: $4,300m) (Note 19) but has been rounded down to nil in the disclosure above, which displays all balances in $000s

The accompanying notes on pages 12 to 26 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 24 June 2019 and signed on its behalf by:

R.J Hennity
Director

Statement of cash flows for the year ended 31 December 2018

		2018 $'000	2017 $'000
Cash flows from operating activities			
Profit before tax		**45,550,877**	8,618,016
Adjustments for:			
Non-cash items included in profit before tax	9	**(40,107,659)**	359,000
Change in operating liabilities	9	**(725,888)**	–
Tax credit received		**53,546**	111,235
Net cash generated from operating activities		**4,770,876**	9,088,251
Cash flows from investing activities			
Movements of financial investments		**–**	272,948
Net loans and advances from other group undertakings	12	**26,969**	1,743,813
Net cash inflow from investments in subsidiaries	15	**89,600**	1,971,872
Net cash generated from investing activities		**116,569**	3,988,633
Cash flows from financing activities			
Loans repayments to other group undertakings	17	**(111,744)**	(1,860,044)
Dividends paid		**(6,357,000)**	(9,746,471)
Net cash used in financing activities		**(6,468,744)**	(11,606,515)
Net (decrease)/increase in cash and cash equivalents		**(1,581,299)**	1,470,369
Cash and cash equivalents brought forward		**1,595,241**	124,872
Cash and cash equivalents carried forward	9	**13,942**	1,595,241

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

	Called up share capital	Share Premium	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Capital contribution reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 Dec 2017	**4,300,447**	**200,000**	**4,889,629**	**6,693**	**491,000**	**9,887,769**
Impact on transition to IFRS 9	–	–	6,693	(6,693)	–	–
At 1 Jan 2018	**4,300,447**	**200,000**	**4,896,322**	–	**491,000**	**9,887,769**
Profit for the year	–	–	45,628,012	–	–	45,628,012
Total comprehensive income for the year	–	–	45,628,012	–	–	45,628,012
Ordinary share conversion to distributable reserves	(4,300,447)	–	4,300,447	–	–	–
Share premium conversion to distributable reserves	–	(200,000)	200,000	–	–	–
Capital contribution	–	–	–	–	14,276,922	14,276,922
Dividends to shareholders	–	–	(52,835,667)	–	(14,436,922)	(67,272,589)
At 31 Dec 2018	–	–	**2,190,610**	–	**331,000**	**2,521,610**

	Called up share capital	Share Premium	Retained earnings	Other reserves: Available for sale fair value reserve	Other reserves: Capital contribution reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 Jan 2017	4,300,447	200,000	5,952,389	14,246	491,000	10,958,082
Profit for the year	–	–	8,683,711	–	–	8,683,711
Other comprehensive losses / income (net of tax)						
- available-for-sale Investments	–	–	–	(7,553)	–	(7,553)
Total comprehensive income/(expense) for the year	–	–	8,683,711	(7,553)	–	8,676,158
Ordinary share conversion to distributable reserves	–	–	–	–	–	–
Share premium conversion to distributable reserves	–	–	–	–	–	–
Capital contribution	–	–	–	–	–	–
Dividends to shareholders	–	–	(9,746,471)	–	–	(9,746,471)
At 31 Dec 2017	4,300,447	200,000	4,889,629	6,693	491,000	9,887,769

Called up share capital & share premium

Called up share capital is $36 (2017: $4,300m) (Note 19) but has been rounded down to nil in the disclosure above, which displays all balances in $000s

As a result of restructuring the Group's Asia operation to meet resolution and recovery requirements, on 22 October 2018, the share capital was reduced by cancelling and extinguishing $4,300m of ordinary redeemable shares and with a conversion of the associated share premium of $200m to distributable reserves.

In accordance under chapter 2 of part 13 of the Companies Act 2006, the reduction was approved by the Company's sole shareholder, HSBC Holdings plc, by way of special resolution on 22 October 2018 and filed at Companies House.

Capital contribution reserve

As a result of restructuring the Group's Asia operation, in October 2018, a capital contribution of $14,277m was received from HSBC Holdings plc, which was used to repay loans from HSBC Holdings plc (Note 17), on a net settlement basis.

In November 2018, as part of the $60,915m distribution from HSBC Holdings Asia B.V., the capital contribution of $14,277m and a past capital contribution of $160m from HSBC Holdings plc were distributed to the parent company, on a net settlement basis (Note 15).

The remaining other reserves of $331m represents a non-distributable capital contribution from the parent company HSBC Holdings plc.

Dividend per share

The 2018 dividend paid by the Company includes a net settlement amount of $60,915m due to restructuring the Group's Asia operation in relation to distribution from HSBC Holdings Asia B.V. (Note 15).

Dividend per share for the year was $3,161m (2017: $0.4m).

Equity is wholly attributable to equity shareholders of HSBC Finance (Netherlands).

Notes on the financial statements

1 Basis of preparation and significant accounting policies

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

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

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

Standards adopted during the year ended 31 December 2018

The Company has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Company has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives. Adoption increased net assets by $6m at 1 January 2018.

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

(b) Future accounting developments

Minor amendments to IFRSs

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

Major new IFRSs

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

(c) Foreign currencies

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

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

(d) Presentation of information

The financial statements have been prepared on the historical cost basis, modified by revaluation of financial assets designated at fair value and available-for-sale financial assets.

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

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

(e) Critical accounting estimates and judgements

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

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

(f) Going concern

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

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income and expense

Interest income and expense for all financial instruments, 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 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.

Non-interest income and expense

Dividend income is recognised when the right to receive a payment is established. This is the ex-dividend date for listed equity securities and usually the date when the shareholders approve the dividend for unlisted equity securities.

(b) Investments in subsidiaries

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

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

Critical accounting estimates and judgements

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

(c) Valuation of financial instruments

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

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

(d) Financial instruments measured at amortised cost

Loans and advances

Loans and advances to other group undertakings are those that have not been classified either as held-for-trading or designated at fair value. These loans are recognised when cash is advanced and are derecognised when the undertakings repay their obligations, or the loans are sold or written off, or substantially all 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.

Trade and other receivables

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

Loans from other group undertakings

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

Financial liabilities

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

(e) Impairment of amortised cost assets

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

All of the Company's exposures are with other HSBC group undertakings. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the group company's customer risk rating ('CRR'). The CRR of group companies have been virtually the same over the past few years, therefore the exposures are in stage 1. No ECL is recognised as no loss was expected for HSBC group undertakings.

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

(f) Loans and advances designated and otherwise mandatorily measured at fair value

Loans and advances are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- where the contractual cash flows of the asset fail Solely Payments of Principal and Interest;
- the use of the designation removes or significantly reduces an accounting mismatch;

Designated loans and advances assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred.. Subsequent changes in fair values are recognised in the income statement in 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'.

(g) Tax

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

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

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

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

(h) Provisions, contingent liabilities and guarantees

Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

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

(i) Called up share capital

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

(j) 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.

2 Net income from financial instruments measured at fair value through profit or loss

	2018	2017
	$'000	$'000
Net income arising on:		
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**15,038**	N/A
Year ended 31 Dec	**15,038**	N/A

3 Other operating (expense)/income

	2018	2017
	$'000	$'000
Foreign exchange (loss)/gain	**(363)**	595
Total other operating expenses	**(363)**	595

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2017: nil).

5 Directors' emoluments

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

6 Auditors' remuneration

Certain expenses including auditors' remuneration have been borne by HSBC Holdings plc and are therefore not charged in arriving at profit before tax. Audit fees are disclosed in the financial statements of HSBC Holdings plc. The amount incurred in respect of the audit of these financial statements was $19k (2017: $20k).

7 Tax

Tax expense

	2018 $'000	2017 $'000
Current tax		
UK Corporation tax		
- For this year	**(81,197)**	(67,313)
- Adjustments in respect of prior years	**4,002**	1,576
Overseas tax		
- For this year	**323**	514
- For prior year	**–**	(472)
Total current tax	**(76,872)**	(65,695)
Deferred tax		
- For this year	**(294)**	–
- Effects of changes in tax rates	**31**	–
Total deferred tax	**(263)**	–
Year ended 31 Dec	**(77,135)**	(65,695)

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

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

In addition to the above, amount credited to the income statement, the aggregate amount of deferred tax relating to items that are credited directly to equity in 2018 was nil (2017: $1,546k).

Tax reconciliation

	2018 $'000	2018 (%)	2017 $'000	2017 (%)
Profit before tax	**45,550.877**		8,618.016	
Tax at 19.00% (2017: 19.25%)	**8,654,667**	**19.00**	1,658,968	19.25
Adjustments in respect of prior period liabilities	**4,002**	**0.01**	1,576	0.02
Permanent disallowables	**190**	**–**	69,108	0.80
Effects of overseas tax rates	**262**	**–**	–	–
Non-taxable income and gains	**(8,737,256)**	**(19.18)**	(1,801,389)	(20.90)
Tax rate changes	**31**	**–**	–	–
Effects of group relief/other relief	**961**	**–**	–	–
Amounts not recognised	**8**	**–**	–	–
Local taxes and overseas withholding taxes	**–**	**–**	42	–
Other	**–**	**–**	6,000	0.07
Year ended 31 Dec	**(77,135)**	**(0.17)**	(65,695)	(0.76)

8 Deferred tax

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

	2018 $'000	2017 $'000
At 01 Jan 2018	**(1,371)**	(2,917)
Other comprehensive income credit	**263**	1,546
At 31 Dec 2018	**(1,108)**	(1,371)

9 Reconciliation of profit before tax to net cash flow

	2018	2017
	$'000	$'000
Non-cash item included in profit and loss		
Impairment charge of investments	—	359,000
Dividend income	(40,109,120)	—
Fair value movements in financial assets designated at fair value	1,461	—
	(40,107,659)	359,000
Change in operating liabilities		
Change in trade and other payables	(725,888)	—
Cash and balances at central banks		
Cash at bank with other group undertakings	13,942	1,595,241
Interest and dividends		
Interest paid	(664,679)	(651,469)
Interest received	157,170	280,292
Dividends received	5,876,438	9,357,863

10 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.

	FVPL	Amortised cost	Total
At 31 Dec 2018	**$'000**	**$'000**	**$'000**
Assets			
Cash and cash equivalents	—	13,942	13,942
Loans and advances to other group undertakings	—	2,685,005	2,685,005
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	367,016	—	367,016
Trade and other receivables	—	63,311	63,311
Total financial assets	367,016	2,762,258	3,129,274
Total non-financial assets			2,438,430
Total assets			5,567,704
Liabilities			
Trade and other payables	—	—	—
Loans from other group undertakings	—	3,046,482	3,046,482
Total financial liabilities	—	3,046,482	3,046,482
Total non-financial liabilities			1,108
Total liabilities			3,047,590

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

	Loans and receivables	Available-for-sale securities	Financial assets and liabilities at amortised cost	Total
At 31 Dec 2017	$'000	$'000	$'000	$'000
Assets				
Cash and cash equivalents	—	—	1,595,241	1,595,241
Loans and advances to other group undertakings	6,711,974	—	—	6,711,974
Trade and other receivables	—	—	53,870	53,870
Financial investments	—	118,477	—	118,477
Total financial assets	6,711,974	118,477	1,649,111	8,479,562
Total non-financial assets				23,320,614
Total assets				31,800,176
Liabilities				
Trade and other payables	—	—	725,888	725,888
Loans from other group undertakings	—	—	21,185,148	21,185,148
Total financial liabilities	—	—	21,911,036	21,911,036
Total non-financial liabilities				1,371
Total liabilities				21,912,407

11 Fair value of financial instruments not carried at fair value

Fair value hierarchy

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

(a) Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

(b) Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

Fair values at the balance sheet date of the assets and liabilities set out below are estimated for the purpose of disclosure as follows:

		Fair values			
		Valuation techniques			
	Carrying amount	Quoted price	Observable inputs	Significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
At 31 Dec 2018					
Assets					
Loans and advances to other group undertakings	**2,685,005**	**–**	**2,846,151**	**–**	**2,846,151**
Liabilities					
Loans from other group undertakings	**3,046,482**	**–**	**3,206,392**	**–**	**3,206,392**

		Fair values			
		Valuation techniques			
	Carrying amount	Quoted price	Using observable inputs	With significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
At 31 Dec 2017					
Assets					
Loans and advances to other group undertakings	6,711,974	–	6,964,628	–	6,964,628
Liabilities					
Loans from other group undertakings	21,185,148	–	21,910,839	–	21,910,839

12 Loans and advances to other group undertakings

	Nominal interest rate	Maturity date	2018	2017
	(%)		$'000	$'000
HSBC Holdings B.V.	LIBOR +2.48	02/03/2027	**725,000**	725,000
HSBC Holdings B.V.	LIBOR +2.46	25/09/2026	**630,000**	630,000
HSBC Holdings B.V.	LIBOR +2.31	26/09/2023	**575,000**	575,000
HSBC Holdings B.V.	LIBOR +1.97	24/09/2021	**570,000**	570,000
HSBC Holdings B.V.	LIBOR +2.65	25/11/2025	**180,000**	180,000
HSBC Holdings B.V.[1]	LIBOR +1.73	05/01/2022	**–**	3,750,000
HSBC PB Service (Suisse) S.A.[2]	LIBOR +1.91	18/12/2032	**–**	250,000
Accrued interest receivable			**5,005**	31,974
At 31 Dec			**2,685,005**	6,711,974

1 Net settlement with HSBC Holdings plc (Note 17)

2 Reclassified under IFRS 9 to Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value (Note 14)

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

13 Trade and other receivables

	2018 $'000	2017 $'000
Amounts due from parent undertaking	63,311	53,870
At 31 Dec	63,311	53,870

Amounts due from other group undertakings are non-interest bearing and the fair value is not significantly different to the carrying value in the balance sheet as they are short term in nature.

Amounts due from other group undertakings are unsecured and non-interest bearing.

14 Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value & Financial investments

	Nominal interest rate %	Maturity date	2018 $'000	2017 $'000
HSBC Mexico S.A.	LIBOR +3.65	31/01/2023	110,043	118,477
HSBC Private Bank Suisse S.A.[1]	LIBOR +1.91	18/12/2032	256,973	N/A
At 31 December			367,016	118,477

1 Reclassified under IFRS 9 from Loans and advances to HSBC undertakings (Note 13)

The loan and advance to HSBC Private Bank Suisse S.A. and financial investment to HSBC Mexico S.A. previously classified as loans and receivable and available-for-sale under IAS 39, respectively, did not meet the Solely Payments of Principal and Interest requirement under IFRS 9 and were classified as FVPL upon adoption of IFRS 9 (Note 10).

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

The loans are carried at fair value, with any changes from remeasurement to fair value recognised under IFRS 9 in the income statement (Note 2) while under IAS 39 in other comprehensive income through the 'Available-for-sale reserve'.

Fair values were determined using valuation techniques with observable inputs (Level 2). The fair values of these loans and advances are estimated using pricing inputs including first call date, nominal yield curve, credit spread and coupon information.

15 Investments in subsidiaries

	2018 $'000	2017 $'000
Cost		
At 1 Jan	29,737,810	31,709,682
Additions	26,410,303	44,600
Disposals	(47,306,372)	(2,016,472)
At 31 Dec	8,841,741	29,737,810
Accumulated impairment		
At 1 Jan	(6,484,508)	(6,125,508)
Charge	–	(359,000)
At 31 Dec	(6,484,508)	(6,484,508)
Net book/carrying value at 1st Jan	23,253,302	25,584,174
Net book/carrying value at 31st Dec	2,357,233	23,253,302

Explanation of addition & disposals

As a result of restructuring the Group's Asia operation to meet resolution and recovery requirements, in November 2018, the Company decreased its investment in HSBC Holdings B.V. by $20,425m following the transfer of the ownership of HSBC Asia Holdings B.V. to the Company, via a distribution in-specie of $26,410m, on a net settlement basis.

Subsequently, the investment in HSBC Asia Holdings B.V. was reduced by $26,391m following a $60,515m distribution in-specie from HSBC Asia Holdings B.V. to the Company, on a net settlement basis.

In addition, the Company sold HSBC Insurance (Bermuda) Limited for $400m at carnying value to HSBC Overseas Holdings (UK) Limited, on a net settlement basis.

In June 2018, the investment in HSBC PB Service (Suisse) S.A. was sold to HSBC Global Services Limited for $43.6m, at a $1m loss on sale. HSBC PB Service (Suisse) S.A. had been acquired in 2017 for $44.6m.

Impairment testing of investment in subsidiaries

Impairment of investments

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

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

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

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

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

HSBC Private Banking Holdings (Suisse) S.A.

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 8.70% (2017: 8.20%) and a growth rate of 2.47% (2017: 2.17%), resulted in a value in use greater than the carrying value. There was no change to the impairment provision for the year (2017: $359m impairment recognised in the income statement).

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

Changes to the key assumptions used in the value in use calculation would have the following impact on the value in use:

Key assumptions	Change in assumption	Impact on value in use - (loss)/gain
Discount rate	+/- 100 basis points	$(287)m/$391m
Nominal growth rate	+/- 100 basis points	$316m/$(230)m

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

	Country of incorporation	Interest in equity capital (%)	Share class
HSBC Holdings B.V.	The Netherlands	100	Ordinary shares
HSBC Holdings B.V.	The Netherlands	100	Preference shares
HSBC Asia Holdings B.V.	The Netherlands	100	Ordinary shares
HSBC Asia Holdings B.V.	The Netherlands	100	Preference shares
HSBC Private Banking Holdings (Suisse) S.A.	Switzerland	100	Ordinary shares
HSBC Electronic Data Processing India Private Limited	India	2.72	Ordinary shares

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out in Note 25.

16 Trade and other payables

	2018 $'000	2017 $'000
Amounts owed to other group undertakings	–	725,888
At 31 Dec	–	725,888

The above non-interest bearing amount was repaid to the parent company.

17 Loans from other group undertakings

	Nominal interest rate (%)	Maturity date	2018 $'000	2017 $'000
HSBC Holdings plc	LIBOR +2.48	02/03/2027	**725,000**	725,000
HSBC Holdings plc	LIBOR +2.46	25/09/2026	**630,000**	630,000
HSBC Holdings plc	LIBOR +2.31	26/09/2023	**575,000**	575,000
HSBC Holdings plc	LIBOR +1.97	24/09/2021	**570,000**	570,000
HSBC Holdings plc	LIBOR +1.66	18/08/2032	**250,000**	250,000
HSBC Holdings plc	LIBOR +2.65	25/11/2025	**180,000**	180,000
HSBC Holdings plc	LIBOR +1.94	17/01/2023	**110,000**	110,000
HSBC Holdings plc[1]	LIBOR +1.31	16/11/2022	**–**	10,551,400
HSBC Holdings plc[2]	LIBOR +1.73	05/01/2022	**–**	3,750,000
HSBC Holdings plc[1]	LIBOR +1.88	31/10/2023	**–**	2,500,000
HSBC Holdings plc[1]	LIBOR +3.01	20/04/2026	**–**	1,112,100
HSBC Holdings plc	LIBOR +2.50	22/12/2025	**–**	100,000
HSBC Holdings plc	LIBOR +2.00	28/12/2022	**–**	39,000
Accrued interest payable			**6,482**	92,648
At 31 Dec			**3,046,482**	21,185,148

1 Net settlement with capital contribution from HSBC Holdings plc

2 Net settlement with HSBC Holdings B.V, (Note 12)

The loans are denominated in US dollars and the effective interest based on US dollar LIBOR 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.

18 Maturity analysis of assets and liabilities

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

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalents	13,942	–	–	–	–	–	13,942
Loans and advances to other group undertakings	–	5,005	–	1,145,000	1,535,000	–	2,685,005
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	–	501	–	110,000	256,515	–	367,016
Trade and other receivables	–	63,311	–	–	–	–	63,311
Non-financial assets	–	–	81,197	–	–	2,357,233	2,438,430
At 31 Dec 2018	**13,942**	**68,817**	**81,197**	**1,255,000**	**1,791,515**	**2,357,233**	**5,567,704**
Liabilities and Equity							
Trade and other payables	–	–	–	–	–	–	–
Loans from other group undertakings	–	6,482	–	1,255,000	1,785,000	–	3,046,482
Non-financial liabilities	–	–	–	–	1,108	–	1,108
Equity	–	–	–	–	–	2,520,114	2,520,114
At 31 Dec 2018	–	**6,482**	–	**1,255,000**	**1,786,108**	**2,520,114**	**5,567,704**

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets							
Cash and cash equivalents	1,595,241	–	–	–	–	–	1,595,241
Loans and advances to other group undertakings	–	31,974	–	4,320,000	2,360,000	–	6,711,974
Trade and other receivables	–	53,870	–	–	–	–	53,870
Financial investments	–	414	–	-	118,063	–	118,477
Non-financial assets	–	–	67,312	–	–	23,253,302	23,320,614
At 31 Dec 2017	1,595,241	86,258	67,312	4,320,000	2,478,063	23,253,302	31,800,176
Liabilities and Equity							
Trade and other payables	725,888	–	–	–	–	–	725,888
Loans from other group undertakings	–	92,648	–	14,910,400	6,182,100	–	21,185,148
Non-financial liabilities	–	–	–	–	1,371	–	1,371
Equity	–	–	–	–	–	9,887,769	9,887,769
At 31 Dec 2017	725,888	92,648	–	14,910,400	6,183,471	9,887,769	31,800,176

19 Called up share capital

	Nominal value per share £	Number of Issued and fully paid shares	2018 Issued share capital	2017 Issued share capital
			$'000	$'000
Class of shares:				
Ordinary shares	1	19	–	–
Redeemable ordinary shares	1	–	–	4,300,447
Balance as at 31 Dec		19	–	4,300,447

During 2018, all of the 2,544,134,147 redeemable ordinary shares were redeemed (2017: nil).

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

20 Contingent liabilities, contractual commitments and guarantees

There were no contingent liabilities or financial guarantee contracts as at 31 December 2018 (2017: $216m).

In 2017, there was a contingent liability of $216m in relation to the unpaid share premium to HSBC Insurance (Bermuda) Limited. Following the sale of HSBC Insurance (Bermuda) Limited in 2018 the contingent liability was transferred as part of the sale.

21 Management of financial risk

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

Credit risk management

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

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

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

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

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet plus contractual commitments disclosed in Note 20.

Maximum exposure to credit risk

	2018		
	Maximum exposure	Offset	Net
	$'000	$'000	$'000
Cash and cash equivalents	**13,942**	**–**	**13,942**
Loans and advances to other group undertakings	**2,685,005**	**–**	**2,685,005**
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	**367,016**	**–**	**367,016**
Trade and other receivables	**63,311**	**–**	**63,311**
At 31 Dec	**3,129,274**	**–**	**3,129,274**

2017 Credit risk disclosures

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

Maximum exposure to credit risk

	2017		
	Maximum exposure	Offset	Net
	$'000	$'000	$'000
Cash and cash equivalents	1,595,241	–	1,595,241
Loans and advances to other group undertakings	6,711,974	–	6,711,974
Trade and other receivables	53,870	–	53,870
Financial investments	118,477	–	118,477
At 31 Dec	8,479,562	–	8,479,562

Liquidity risk management

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

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

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

	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	–	–	–	–	–	–
Loans from other group undertakings	–	38,335	115,004	1,794,565	2,110,598	4,058,502
At 31 Dec 2018	**–**	**38,335**	**115,004**	**1,794,565**	**2,110,598**	**4,058,502**

	On Demand	Due within 3 *months*	Due between *3-12 months*	Due between *1-5 years*	Due after 5 *years*	*Total*
	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	725,888	–	–	–	–	725,888
Loans from other group undertakings	–	164,707	494,120	17,372,481	6,768,200	24,799,508
At 31 Dec 2017	725,888	164,707	494,120	17,372,481	6,768,200	25,525,396

Market risk management

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

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

Foreign exchange risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US dollar. The currency giving rise to this risk is primarily Euro which amounted to $8m (2017: $8m).

From the sensitivity analysis that has been performed, if the Euro foreign exchange rate weakened by 5 per cent relative to the US dollars, the impact on the Company's profits would be negligible.

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

The Company held net assets of $13.9m (2017: net liabilities $12,708m) 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 assets would be an increase/(decrease) of profit before tax of $0.1m (2017: $127.1m) and after tax of $0.1m (2017: $102.6m).

22 Related party transactions

Transaction with other related parties

Balances with related parties

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

	2018		2017	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	$'000	$'000	$'000	$'000
Assets				
Cash and cash equivalents[1]	1,595,241	13,942	1,595,241	1,595,241
Loans and advances to other group undertakings[2]	6,711,974	2,685,005	8,482,618	6,711,974
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value[1]	367,016	367,016	N/A	N/A
Trade and other receivables[3]	63,311	63,311	111,277	53,870
Financial investments[1]	—	—	400,908	118,477
Liabilities				
Trade and other payables[3]	725,888	—	725,888	725,888
Loans from other group undertakings[3]	21,185,148	3,046,482	23,080,881	21,185,148

The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

	2018	2017
	$'000	$'000
Income statement		
Interest income[1,2]	130,201	286,479
Interest expense[3]	(578,513)	(667,887)
Dividend income[2]	45,985,558	9,357,863

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

23 Parent undertakings

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

HSBC Holdings plc is incorporated in England and Wales.

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

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

24 Events after the balance sheet date

The Company received dividends from HSBC Holdings B.V. of $220m in June 2019.

The Company paid a dividend of $290m to HSBC Holdings plc in June 2019.

There are no significant events after the balance sheet date.

25 HSBC Finance (Netherlands)'s subsidiaries and associates

In accordance with Section 409 of the Companies Act 2006 a list of the Company's subsidiaries, the country of incorporation and the effective percentage of equity owned at 31 December 2018 is disclosed below.

Subsidiaries	Interest (%)	Footnotes
Cordico Management AG	100.00%	1,14
Corhold Limited	100.00%	1,22
HSBC Asia Holdings (UK) Limited	100.00%	1,11
HSBC Asia Holdings B.V.	100.00%	2,11
HSBC Asset Management (India) Private Limited	100.00%	1,8
HSBC Bank Egypt S.A.E	94.54%	1,7
HSBC Electronic Data Processing India Private Limited	100.00%	1,18
HSBC Financial Services (Lebanon) s.a.l.	99.60%	1,15
HSBC Holdings B.V.	100.00%	2,11
HSBC IM Pension Trust Limited	100.00%	1,11
HSBC InvestDirect (India) Limited	54.49%	1,12
HSBC InvestDirect Financial Services (India) Limited	54.49%	1,12
HSBC InvestDirect Sales & Marketing (India) Limited	53.94%	1,9
HSBC InvestDirect Securities (India) Private Limited	61.38%	1,12
HSBC Investment Bank Holdings B.V.	100.00%	1,11
HSBC Investment Company (Egypt) S.A.E (In liquidation)	97.82%	1,6

Subsidiaries	Interest (%)	Footnotes
HSBC Private Bank (Luxembourg) S.A.	100.00%	1,4
HSBC Private Bank (Monaco) SA	100.00%	1,5
HSBC Private Bank (Suisse) SA	100.00%	1,21
HSBC Private Banking Holdings (Suisse) SA	100.00%	1,21
HSBC Professional Services (India) Private Limited	97.93%	1,9
HSBC Property (UK) Limited	100.00%	1,11
HSBC Securities (Egypt) S.A.E.	92.65%	1,7
HSBC Securities (Philippines) Inc.	100.00%	3,10
HSBC Securities and Capital Markets (India) Private Limited	100.00%	1,9
HSBC Services Japan Limited	100.00%	1,19
HSBC Software Development (India) Private Limited	100.00%	1,17
HSBC Software Development (Malaysia) Sdn Bhd	100.00%	1,24
HSBC Trust Company AG	100.00%	1,14
Sico Limited	100.00%	1,25
Societe Immobiliere Atlas S.A.	100.00%	1,21
Vadep Holding AG	100.00%	1,20

Associates	Interest (%)	Footnotes
The Saudi British Bank	40.00%	1,13
HSBC Saudi Arabia Ltd	49.00%	1,16

Reference	Description of Shares
1	Ordinary Shares
2	Ordinary and Preference Shares
3	Nominal

Reference	Registered Office
4	16 Boulevard d'Avranches , Luxembourg, L-1160
5	17, avenue d'Ostende , Monaco, 98000
6	3, Aboul Feda Street, Zamalek, Cairo , Egypt
7	306 Corniche El Nil , Maadi, Egypt, 11728
8	3rd Floor, Merchantile Bank Chamber 16, Veer Nariman Road, Fort, Mumbai, India, 400001
9	52/60 M G Road, Fort, Mumbai, India, 400 001
10	7/F The Enterprise Centre - Tower I, 6766 Ayala Avenue corner Paseo De Roxas, Makati City, Philippines
11	8 Canada Square , London, United Kingdom, E14 5HQ
12	9-11 Floors, NESCO IT Park Building No. 3 Western Express Highway, Goregaon (East), Mumbai, India, 400063
13	*Al Amir Abdulaziz Ibn Mossaad Ibn Jalawi Street, Riyadh, Saudi Arabia*
14	Bederstrasse 49 , Zurich, Switzerland, CH-8002
15	Centre Ville 1341 Building - 4th Floor Patriarche Howayek Street (facing Beirut Souks), PO Box Riad El Solh, Lebanon, 9597
16	HSBC Building 7267 Olaya - Al Murrooj, Riyadh, Saudi Arabia, 12283 - 2255
17	HSBC Centre River Side, West Avenue, 25B Raheja woods, Kalyaninagar, Pune, India, 411006
18	HSBC House Plot No.8, Survey No.64 (Part), Hightec City Layout Madhapur, Hyderabad, India, 500081
19	MB&H Corporate Services Ltd Mareva House, 4 George Street, Nassau, Bahamas
20	Philippe Kaiser Baarerstrasse 8, Zug, Switzerland, 6300
21	Quai des Bergues 9-17 , Geneva, Switzerland, 1201
22	Rawlinson and Hunter Limited Woodbourne Hall, PO Box 3162, Road Town, Tortola, British Virgin Islands, VG1110
23	Rua Funchal, n° 160, SP Corporate Towers, Torre Norte, 19° andar, cj 191A - Parte, São Paulo, Brazil, 04551-060
24	Suite 1005, 10th Floor, Wisma Hamzah Kwong Hing No. 1, Leboh Ampang, Kuala Lumpur, Malaysia, 50100
25	Woodbourne Hall, Road Town PO Box 3162, Tortola, British Virgin Islands