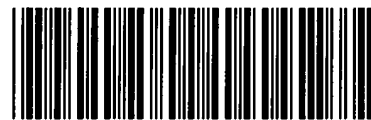


**HSBC Insurance Services Holdings Limited**  
Registered No: 2884575

**Financial Statements for the year ended 31 December 2016**

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**HSBC** 

**HSBC Insurance Services Holdings Limited**  
Registered No: 2884575

**Financial Statements for the year ended 31 December 2016**

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## **HSBC Insurance Services Holdings Limited**

### **Strategic Report for the year ended 31 December 2016**

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#### **Principal activities**

The principal activity of HSBC Insurance Services Holdings Limited (the 'Company') principal activity is to act as a holding company. The Company has provided indemnities as part of the sale of subsidiaries in note 11, whereby the Company could be liable for future costs.

#### **Review of the Company's business**

The business is funded equity investment and borrowings.

The Company's stakeholders are limited to its subsidiaries as listed in note 9 and its parent company.

#### **Performance**

The performance and position of the Company for the year ended 31 December 2016 and the state of the Company's financial affairs at that date are set out on pages 7 to 27 of these financial statements.

The results of the Company show a profit before tax of £1.37 million for the year (2015: £3.97 million).

As a holding company, the Company's performance is based on gains and losses associated with its subsidiaries. During the year the Company received no dividends.

#### **Key performance indicators**

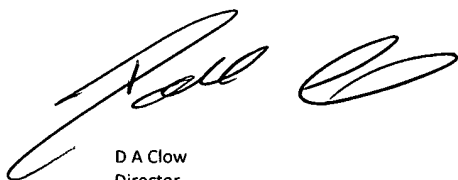
As the Company is managed as part of a global bank, there are no key performance indicators that are specific to the Company. The key performance indicators are included in the annual report of HSBC Bank plc. Ongoing review of performance of the Company is carried out by comparing actual performance against annually set budgets.

#### **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 15 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union with the process of leaving the EU ('Brexit') commencing on 29 March 2017. The ultimate economic impact of Brexit is currently uncertain and will depend on the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in volatility in respect of the principal risks affecting the Company. However this is not expected to have a material impact on the results or net assets of the Company given the nature of the Company's transactions, counterparties and available security.

Signed on behalf of the Board



D A Clow  
Director

Date: 18 September 2017  
Registered Office

8 Canada Square  
London  
E14 5HQ

## HSBC Insurance Services Holdings Limited

### Directors' Report for the year ended 31 December 2016

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#### Directors

The Directors who served during the year were as follows:

Name	Resigned
D A Clow	
A Buels	10 May 2016
M A Seed	

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

There was no dividend on the ordinary share capital during the year (2015: £nil).

The Directors intend to declare an interim dividend of £7,500,000 in respect of retained earnings from 2016, payable in the year ending 31 December 2017.

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

No other important events affecting the Company have occurred since the end of the financial year.

#### Future developments

No change in the Company's activities is expected.

#### Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company 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.

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

**Disclosure of information to Auditor**

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

**Auditor**

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

**Statement of Directors' Responsibilities**

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on page 6, 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



D A Clow  
Director

18 September 2017

Registered Office  
8 Canada Square  
London  
E14 5HQ

Registered number: 2884575

**Independent Auditors' Report to the Members of HSBC Insurance Services Holdings Limited**

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**Report on the financial statements**

*Our opinion*

In our opinion, HSBC Insurance Services Holdings Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 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.

*What we have audited*

The financial statements, included within the Financial Statements (the 'Annual Report'), comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of cash flows for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

**Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

**Other matters on which we are required to report by exception**

*Adequacy of accounting records and information and explanations received*

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, 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.

We have no exceptions to report arising from this responsibility.

*Directors' remuneration*

Under the Company Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Responsibilities for the financial statements and the audit**

*Our responsibilities and those of the directors*

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 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) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

*What an audit of financial statements involves*

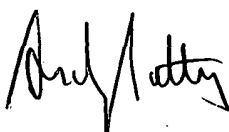
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Andrew Batty (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham

Dated: 22 September 2017



**HSBC Insurance Services Holdings Limited**

**Financial Statements for year ended 31 December 2016**

**Income statement for the year ended 31 December 2016**

	<i>Notes</i>	<b>2016 £'000</b>	<b>2015 £'000</b>
Interest income		<u>78</u>	<u>91</u>
<b>Net interest income</b>		<b>78</b>	<b>91</b>
Other operating income	5	<u>1,294</u>	<u>3,863</u>
<b>Net operating income</b>		<b>1,372</b>	<b>3,954</b>
General and administrative (expense)/income		<u>(7)</u>	<u>17</u>
<b>Total operating (expenses)/income</b>		<b>(7)</b>	<b>17</b>
 <b>Operating profit</b>		 <b>1,365</b>	 <b>3,971</b>
 <b>Profit before tax</b>		 <b>1,365</b>	 <b>3,971</b>
Tax expense	6	<u>(278)</u>	<u>(763)</u>
<b>Profit for the year</b>		<b>1,087</b>	<b>3,208</b>

The notes on pages 11 to 27 form an integral part of these financial statements.

**Statement of comprehensive income for the year ended 31 December 2016**

There has been no comprehensive income or expense other than the profit for the year as shown above (2015: £nil).

**HSBC Insurance Services Holdings Limited**

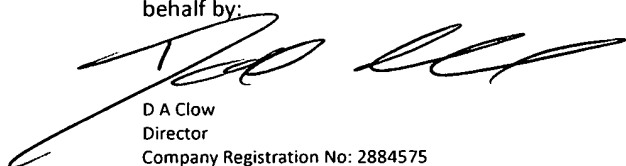
**Financial Statements for year ended 31 December 2016 (continued)**

**Statement of financial position as at 31 December 2016**

	Notes	2016 £'000	2015 £'000	2014 £'000
<b>Assets</b>				
Cash and cash equivalents	7	18,974	21,368	20,294
Loans and advances	8	1,359	1,126	1,066
Trade and other receivables		160	160	3,314
Investments in subsidiary undertakings	9	369	369	1,477
Deferred tax asset	10	83	88	142
<b>Total assets</b>		<b>20,945</b>	<b>23,111</b>	<b>26,293</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Trade and other payables		75	234	26
Accruals, deferred income and other liabilities		432	361	338
Current tax liabilities		1,017	743	765
Provisions	11	4,006	7,445	14,044
<b>Total liabilities</b>		<b>5,530</b>	<b>8,783</b>	<b>15,173</b>
<b>Equity</b>				
Called up share capital	12	1,000	1,000	1,000
Retained earnings		14,415	13,328	10,120
<b>Total equity</b>		<b>15,415</b>	<b>14,328</b>	<b>11,120</b>
<b>Total equity and liabilities</b>		<b>20,945</b>	<b>23,111</b>	<b>26,293</b>

The notes on pages 11 to 27 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 18 September 2017 and were signed on its behalf by:



D A Clow  
Director  
Company Registration No: 2884575

**HSBC Insurance Services Holdings Limited**

**Financial Statements for year ended 31 December 2016 (continued)**

**Statement of cash flows for the year ended 31 December 2016**

	<i>Notes</i>	<b>2016 £'000</b>	<b>2015 £'000</b>
<b>Cash flows from operating activities</b>			
Profit before tax		<b>1,365</b>	3,971
Adjustments for:			
- non cash items included in profit before tax	7	<b>(165)</b>	(227)
- change in operating assets	7	-	3,349
- change in operating liabilities	7	<b>(3,594)</b>	(6,382)
- tax paid		-	(731)
Net cash used in operating activities		<b>(2,394)</b>	(20)
<b>Cash flows from investing activities</b>			
Proceeds from disposal of subsidiary		-	1,094
Net cash generated from investing activities		-	1,094
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(2,394)</b>	1,074
Cash and cash equivalents brought forward		<b>21,368</b>	20,294
Cash and cash equivalents carried forward	7	<b>18,974</b>	21,368

The notes on pages 11 to 27 form an integral part of these financial statements.

**HSBC Insurance Services Holdings Limited**

**Financial Statements for year ended 31 December 2016 (continued)**

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

	Called up share capital £'000	Retained earnings £'000	Total £'000
<b>2016</b>			
At 1 January 2016	1,000	13,328	14,328
Profit for the year	-	1,087	1,087
Total comprehensive income for the year	-	1,087	1,087
At 31 December 2016	1,000	14,415	15,415

	Called up share capital £'000	Retained earnings £'000	Total £'000
<b>2015</b>			
At 1 January 2015	1,000	10,120	11,120
Profit for the year	-	3,208	3,208
Total comprehensive income for the year	-	3,208	3,208
At 31 December 2015	1,000	13,328	14,328

The notes on pages 11 to 27 form an integral part of these financial statements.

Equity is wholly attributable to ordinary shareholders.

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

---

**A Basis of preparation**

**(a) Compliance with International Financial Reporting Standards**

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ('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 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these financial statements and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

**Standards adopted during the year ended 31 December 2016**

There were no new standards applied during the year ended 31 December 2016. During 2016, the Company adopted a number of interpretations and amendments to standards which had an insignificant effect on the financial statements of the Company.

**(b) Future accounting developments**

**Minor amendments to IFRSs**

The IASB has published a number of minor amendments to IFRSs in the 'Annual Improvements to IFRSs 2012-2014' and in a series of stand-alone amendments, one of which has not yet been endorsed for use in the EU. The Company has not early adopted any of the amendments effective after 31 December 2016, and it expects they will have an immaterial impact, when adopted, on the financial statements of the Company.

**Major new IFRSs**

The IASB has published IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. IFRS 9 and IFRS 15 have been endorsed for use in the EU.

*IFRS 9 'Financial Instruments'*

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

**Notes on the Financial Statements (continued)**

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**Classification and measurement**

The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. However, based on an assessment of financial assets performed to date and expectations around changes to balance sheet composition, the Company expects that the overall impact of any change will not be significant.

For financial liabilities designated to be measured at fair value, gains or losses relating to changes in the Company's own credit risk are to be included in other comprehensive income.

**Impairment**

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are in 'stage 1'; financial assets that are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

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

**Transition**

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. 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 the IFRS9 will have a significant impact on this Company.

The joint Global Risk and Global Finance IFRS 9 Implementation Programme for HSBC group companies continues to progress with the documentation of Group accounting policy, the development of operating and system target operating models and the development, build and testing of risk modelling methodologies for the calculation of impairment nearing completion. HSBC group intends to perform a parallel run during the second half of 2017 to gain a better understanding of the potential effect of the new standard and for the governance framework to gain experience. The Company intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Financial Statements 2017. Until reliable estimates of the impact are available, particularly on the interaction with the regulatory capital requirements, further information on the expected impact on the financial position cannot be provided.

**Notes on the Financial Statements (continued)**

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*IFRS 15 'Revenue from Contracts with Customers'*

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Company has assessed the impact of IFRS 15 and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

**(c) Foreign currencies**

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

**(d) Presentation of information**

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

The functional currency of the Company is pounds sterling, which is also the presentation currency of the financial statements of the Company. The Financial statements have been prepared on the historical cost basis.

The Company is domiciled and incorporated in England and Wales.

**(e) Changes to the presentation of the Financial Statements and Notes on the Financial Statements**

The Company has changed its statement of financial position from the current/non-current to the liquidity basis of presentation and also changed the classification of certain items in the statement of financial position and the income statement in order to make the financial statements and notes thereon more reliable and relevant by adopting the presentation format of its ultimate parent HSBC Holdings plc and other HSBC group entities. For this year of transition, the statement of financial position includes two years of prior year comparatives.

In order to make the financial statements and notes thereon easier to understand, the Company has changed the location and the wording used to describe certain accounting policies within the notes, removed certain immaterial disclosures and changed the order of certain sections.

In applying materiality to financial statement disclosures, we consider both the amount and nature of each item. The main changes to the presentation of the financial statements and notes thereon in 2016 are as follows:

**Note 1B Summary of significant accounting policies :** accounting policies have been placed, wherever possible, within the relevant Notes on the financial statements and the changes in the wording are intended to more clearly set out the accounting policies. These changes in the wording do not represent changes in accounting policies.

**(f) 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 listed below as the critical accounting estimates and judgements, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these Financial Statements. Management's selection of the Company's accounting policies which contain critical estimates and judgements is listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

- Impairment of investment in subsidiary (Note 9)
- Deferred tax assets (Note 10)
- Provisions (Note 11)

**(g) 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.

**B Significant accounting policies**

**(a) Operating income**

**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.

Interest on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss

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

**(b) Financial assets and liabilities**

**(i) Loans and receivables**

Loans and receivables include loans and receivables originated by the Company which are not classified either as held for trading or designated at fair value. Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrowers 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.



**(ii) Financial liabilities**

Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase or issue. Financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. 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.

A group undertaking acts as a treasury function, providing funding for the Company through an inter-company current account.

**(c) 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 end of the reporting period. 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.

**(d) Statement of cash flows**

The statement of cash flows has been prepared on the basis that, with the exception of the liquidation of a subsidiary, transactions are classified under 'Operating activities'.

**(e) 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 ordinarily 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.

Fair values are calculated by discounting future cash flows on financial instruments, using equivalent current interest rates.

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**2 Employee compensation and benefits**

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The Company has no employees and hence no staff costs (2015: £nil).

Notes on the Financial Statements (continued)

**3 Remuneration of directors**

No director received any fees or emoluments from the Company during the year (2015: £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.

**4 Auditors' remuneration**

The amount incurred in respect of the audit of these financial statements was £13,085 (2015: £12,000). There were no non-audit fees.

**5 Other operating income**

	2016 £'000	2015 £'000
Gain on disposal of investments in subsidiaries	-	180
Claims arising from indemnities	1,294	3,683
	<u>1,294</u>	<u>3,863</u>

Claims arising from indemnities represent movement in provisions for claims arising from indemnities following the sale of subsidiaries as described in note 11.

**6 Tax**

**Accounting policy**

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes.

Deferred tax is calculated using the tax rates expected to apply in the periods as the assets will be realised or the liabilities settled.

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

## HSBC Insurance Services Holdings Limited

### Notes on the Financial Statements (continued)

#### Tax charged to the income statement

	2016 £'000	2015 £'000
<b>Current tax</b>		
UK Corporation tax		
- for this year	273	743
- adjustments in respect of prior years	-	(34)
<b>Total current tax</b>	<b>273</b>	<b>709</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	-	22
Effect of changes in tax rates	5	10
Adjustments in respect of prior years	-	22
<b>Total deferred tax</b>	<b>5</b>	<b>54</b>
<b>Total tax charged to income statement</b>	<b>278</b>	<b>763</b>

The UK corporation tax rate applying to the Company was 20.00% (2015: 20.25%).

#### Tax reconciliation

The tax charged 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:

	2016 £'000	Percentage of overall profit before tax	2015 £'000	Percentage of overall profit before tax
Profit before tax	1,365		3,971	
Tax at 20.00% (2015: 20.25%)	273	20.00%	804	20.25%
Adjustments in respect of prior period liabilities	-	-	(12)	(0.30)%
Impact due to changes in tax rates	5	0.37%	10	0.25%
Non taxable income and gains	-	-	(39)	(0.98)%
<b>Total tax charged to income statement</b>	<b>278</b>	<b>20.37%</b>	<b>763</b>	<b>19.22%</b>

The UK corporation tax rate applying to the Company was 20% (2015: 20.25%).

In the UK Budget on 8 July 2015, the UK Government proposed to reduce the main rate of UK corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020, instead of the reduction to 18% as originally planned.

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

**HSBC Insurance Services Holdings Limited**

**Notes on the Financial Statements (continued)**

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

**Accounting policy**

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.

	2016 £'000	2015 £'000
a) Non-cash items included in profit and loss		
Interest income	-	(6)
Elimination of exchange differences	(165)	(41)
Profit on disposal of investments in subsidiaries	-	(180)
	<u>(165)</u>	<u>(227)</u>
b) Change in operating assets		
Change in trade and other receivables	-	401
Change in other assets	-	2,948
	<u>-</u>	<u>3,349</u>
c) Change in operating liabilities		
Change in accruals and deferred income	2	9
Trade and other payables	(158)	208
Change in other liabilities	(3,438)	(6,599)
	<u>(3,594)</u>	<u>(6,382)</u>
d) Cash and cash equivalents comprise		
Cash and balances with other group undertakings	<u>18,974</u>	<u>21,368</u>
	<u>18,974</u>	<u>21,368</u>

**8 Loans and advances**

	2016 £'000	2015 £'000
Amounts due from group undertakings	<u>1,359</u>	<u>1,126</u>
Loans and advances	<u>1,359</u>	<u>1,126</u>

The amounts due from group undertakings represent cash held in an escrow account at HSBC China, therefore resulting in the company having restricted access.

**9 Investments in subsidiary undertakings**

**Accounting policy**

The Company classifies investments in entities which it controls as subsidiaries. Where an Company is governed by voting rights, the Company consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

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.

	2016 £'000	2015 £'000
<b>Cost</b>		
At 1 January	589	6,589
Disposals	-	(6,000)
At 31 December	589	589
	2016 £'000	2015 £'000
<b>Provision for impairment</b>		
At 1 January	(220)	(5,112)
Disposals	-	4,892
At 31 December	(220)	(220)
<b>Net carrying amount at 31 December</b>	<b>369</b>	<b>369</b>

**Principal subsidiary undertakings of HSBC Insurance Services Holdings Limited**

Principal Subsidiary	Country of Incorporation	Interest in equity capital	Security
HSBC Global Shared Services (India) Private Limited	India	99.9999%	Ordinary Shares
HSBC Insurance Management Services Limited	UK	100%	Ordinary Shares

HSBC Insurance Management Services Limited is in the process of being liquidated.

## 10 Deferred tax

### *Critical accounting estimates and judgements*

#### **Deferred tax assets**

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

	2016 £'000	2015 £'000
At 1 January	88	142
Origination and reversal of temporary differences	-	(22)
Adjustment in respect of prior years	-	(22)
Effect of changes in tax rates	(5)	(10)
At 31 December	<u>83</u>	<u>88</u>

	2016 £'000	2015 £'000
Deferred tax assets		
Property, plant and equipment	83	88

## 11 Provisions

### **Accounting policy**

Provisions are recognised when it is probable that an outflow of economic benefit 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.

*Critical accounting estimates and judgements*

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations.

Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

	Errors & Omissions Provisions £'000	Total £'000
<b>At 1 January 2016</b>	<b>7,445</b>	<b>7,445</b>
Decrease in provision	(1,314)	(1,314)
Provision utilised	(2,125)	(2,125)
<b>At 31 December 2016</b>	<b>4,006</b>	<b>4,006</b>

	Errors & Omissions Provisions £'000	Total £'000
<b>At 1 January 2015</b>	<b>14,044</b>	<b>14,044</b>
Decrease in provision	(6,317)	(6,317)
Provision utilised	(282)	(282)
<b>At 31 December 2015</b>	<b>7,445</b>	<b>7,445</b>

## HSBC Insurance Services Holdings Limited

### Notes on the Financial Statements (continued)

Following the sale of HSBC Actuaries and Consultants Limited on 1st December 2009, and HSBC Insurance Brokers Limited on 31st March 2010, the Company provided indemnities to the purchasers and provisions were established to the extent that the likely future outflow could be ascertained.

The maximum term of these indemnities is 7 years from the date of sale.

When claims received are assessed as sufficiently probable and the potential liability can be reliably estimated, a provision is established. These provisions are reviewed on a regular basis. The provision release during the year has arisen from external legal advice.

### 12 Called up share capital

#### Accounting policy

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.

	2016 £'000	2015 £'000
<b>Allotted, called up and fully paid up</b>		
1,000,000 Ordinary shares of £ 0.10 each (2015: 1,000,000)	1,000	1,000

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

All financial assets and financial liabilities are carried at amortised cost.

	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
<b>At 31 December 2016</b>			
<b>Assets</b>			
Cash and cash equivalents	18,974	-	18,974
Loans and advances	1,359	-	1,359
Trade and other receivables	160	-	160
<b>Total financial assets</b>	<b>20,493</b>	<b>-</b>	<b>20,493</b>
<b>Total non-financial assets</b>			<b>452</b>
<b>Total assets</b>			<b>20,945</b>
<b>Liabilities</b>			
Trade and other payables	-	75	75
Accruals, deferred income and other liabilities	-	432	432
<b>Total financial liabilities</b>	<b>-</b>	<b>507</b>	<b>507</b>
<b>Total non-financial liabilities</b>			<b>5,023</b>
<b>Total liabilities</b>			<b>5,530</b>



## HSBC Insurance Services Holdings Limited

### Notes on the Financial Statements (continued)

At 31 December 2015	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
<b>Assets</b>			
Cash and cash equivalents	21,368	-	21,368
Loans and advances	1,126	-	1,126
Trade and other receivables	160	-	160
<b>Total financial assets</b>	<b>22,654</b>	<b>-</b>	<b>22,654</b>
<b>Total non-financial assets</b>			<b>457</b>
<b>Total assets</b>			<b>23,111</b>
<b>Liabilities</b>			
Trade and other payables	-	234	234
Accruals, deferred income and other liabilities	-	361	361
<b>Total financial liabilities</b>	<b>-</b>	<b>595</b>	<b>595</b>
<b>Total non-financial liabilities</b>			<b>8,188</b>
<b>Total liabilities</b>			<b>8,783</b>

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

There are no material differences between the carrying value and the fair value of financial assets and liabilities as at 31 December 2016 and 31 December 2015.

In the opinion of the directors, the fair value of investments in subsidiary undertakings is not less than the amount stated in the statement of financial position.

#### 15 Management of financial risk

The Company has exposure to the following types of risk arising from its use of financial instruments; credit risk, liquidity risk and market risk. Market risk includes interest rate risk and foreign exchange risk.

The management of all risks which are significant, together with the quantitative disclosures not already included elsewhere in the financial statements, is described in this note.

Notes on the Financial Statements (continued)

a) Credit risk management

Credit risk is the risk that financial loss arises from the failure of counterparty to meet its obligations under a contract, and arises principally from amounts owed by group undertakings.

The Business manages credit risk for this Company as described above for risks generally.

The Company's exposure to credit risk is minimised because amounts receivable from fellow group undertakings form the majority of the Company's financial assets. Such group undertakings 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.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

b) Liquidity risk management

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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 Business manages liquidity risk for this Company as described above for risks generally. All financial liabilities are repayable on demand.

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

31 December 2016	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
<b>Assets</b>				
Cash and cash equivalents	18,974	-	-	18,974
Loans and advances	-	-	1,359	1,359
Trade and other receivables	-	160	-	160
Non-financial assets	-	-	452	452
<b>Total as at 31 December 2016</b>	<b>18,974</b>	<b>160</b>	<b>1,811</b>	<b>20,945</b>
31 December 2016	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
<b>Liabilities and equity</b>				
Trade and other payables	-	75	-	75
Non-financial liabilities	-	-	5,455	5,455
Equity	-	-	15,415	15,415
<b>Total as at 31 December 2016</b>	<b>-</b>	<b>75</b>	<b>20,870</b>	<b>20,945</b>

## HSBC Insurance Services Holdings Limited

### Notes on the Financial Statements (continued)

31 December 2015	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
<b>Assets</b>				
Cash and cash equivalents	21,368	-	-	21,368
Loans and advances	-	-	1,126	1,126
Trade and other receivables	-	160	-	160
Non-financial assets	-	-	457	457
<b>Total as at 31 December 2015</b>	<b>21,368</b>	<b>160</b>	<b>1,583</b>	<b>23,111</b>

31 December 2015	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
<b>Liabilities and equity</b>				
Trade and other payables	-	234	-	234
Non-financial liabilities	-	-	8,549	8,549
Equity	-	-	14,328	14,328
<b>Total as at 31 December 2015</b>	<b>-</b>	<b>234</b>	<b>22,877</b>	<b>23,111</b>

#### c) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will affect the Company's income. The objective is to minimise market risk through managing and controlling the risk to acceptable parameters, while optimising the return on risk.

##### *Interest rate risk*

Cash deposits are placed with other group undertakings, and are placed on overnight or fixed deposits up to 3 months in duration.

A change of 50 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that other variables remain constant. The analysis is performed on the same basis for 2015.

	2016 £'000	2015 £'000
50 bp increase	95	107
50 bp decrease	(95)	(107)

Notes on the Financial Statements (continued)

Foreign currency risk

In respect of other monetary assets and liabilities held in currencies other than Pounds Sterling, the Company is exposed to foreign currency risk in respect of the investment in HSBC Global Shared Services (India) Private Limited which is denominated in INR, and long-term deposits with fellow Group undertaking denominated in USD. These exposures are not hedged.

In addition to the above, the Company is exposed to foreign exchange risk on balances held in USD in accruals and in EUR in Provisions. Management keep the foreign exchange exposure under review and will take appropriate action if required.

Sensitivity analysis

The following tables analyse how a 15 percent strengthening/weakening of the USD/GBP and EUR/GBP rate at the reporting date would have increased/(decreased) profits by amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2015.

The USD/GBP rate as at 31 December 2016 was 0.8114 (2015: 0.6747). The EUR/GBP rate at 31 December 2016 was 0.8551 (2015: 0.7343)

	Profit/(loss) 15% increase £'000	Profit/(loss) 15% decrease £'000
at 31 December 2016		
Loans and advances	204	(204)
Accruals, deferred income and other liabilities	(61)	61
Provisions	(385)	385
Net exposure	<u>(242)</u>	<u>242</u>

	Profit/(loss) 15% increase £'000	Profit/(loss) 15% decrease £'000
at 31 December 2015		
Loans and advances	169	(169)
Accruals, deferred income and other liabilities	(51)	51
Provisions	(330)	330
Net exposure	<u>(212)</u>	<u>212</u>

## 16 Related party transactions

Transactions with other related parties

### Balances with related parties

	2016		2015	
	Highest balance during the year <sup>3</sup> £'000	Balance at 31 December <sup>3</sup> £'000	Highest balance during the year <sup>3</sup> £'000	Balance at 31 December <sup>3</sup> £'000
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	21,212	18,974	22,090	21,368
Loans and advances <sup>2</sup>	1,388	1,359	1,126	1,126
Trade and other receivables <sup>1</sup>	9	160	2,920	160
<b>Liabilities</b>				
Trade and other payables <sup>1</sup>	1,795	75	830	234
			2016 £'000	2015 £'000
<b>Income statement</b>				
Interest income from other group undertakings			78	91

<sup>1</sup> These balances are with HSBC Bank plc, the parent of the Company.

<sup>2</sup> These balances are with HSBC China, another HSBC Group Company.

<sup>3</sup> 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.

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. All interest income/expense and dividend income/payments were due from/to related parties.

## 17 Parent undertakings

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

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

HSBC Holdings plc  
8 Canada Square  
London  
E14 5HQ

## 18 Events after the balance sheet date

There are no significant events after the balance sheet date.