HSIL Investments Limited
Registered No: 04430147

Annual Report and Financial Statements for the year ended 31 December 2017

HSBC

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Contents

HSIL Investments Limited

Strategic Report

Principal activities

HSIL Investments Limited (the 'Company') acts as an investment company and as a holding company for companies established primarily to acquire property and infrastructure investments. No change in the Company's activities is anticipated.

The principal activities of the Company are set out above. In addition, the Company is a subsidiary where its indirect parent, HSBC Specialist Investments Limited ('HSIL'), provides services by seeking new business and managing and divesting the asset portfolio.

Review of the Company's business

The business is funded by a parent undertaking through equity investment and by an indirect parent undertaking through borrowings.

The Company has no employees and all the related services are provided by an indirect parent company.

The Company's stakeholders are limited to its subsidiaries as listed in Note 9 and its parent and indirect parent companies.

Performance

The Company's results for the year under review are as detailed in the Income statement on page 9 of these Financial statements.

The key performance indicator for the Company is net operating profit which comprises gains, income and dividends from investments. The Company's investments are medium/long-term in nature and the level of profits or losses are expected to be determined by the performance and realisation of these investments.

The operating profit for the year was £52,689k (2016: profit of £9,214k). The operating profit for the year ended 31 December 2017 was driven by number of gains distributed from investments, offset by net impairment expenses of £4,112k (2016: £10,333k).

The Company's investments are made in both sterling and foreign currencies, principally Euro and US Dollar.

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, other than referred to above. The key performance indicators are included in the annual report of its ultimate parent, HSBC Holdings 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, as required under the Companies Act are set out in Note 17 of the financial statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of leaving the EU commencing on 29 March 2017. The ultimate economic impact of the UK leaving the EU is currently uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates. As described in Note 17, foreign exchange and interest rate risks are managed by the Company in the ordinary course of business and so any increased volatility as a result of the UK leaving the EU is not expected to have a material effect on the results and net assets of the Company. Additionally, any general adverse consequences for credit risk at a UK or EU macro-economic level that may arise as a consequence of the UK leaving the EU is not expected to translate into a material increase in credit risk for the Company given the nature of the Company's transactions, its counterparties and available security.

On behalf of the Board

J.P. Marlow

J P Marlow
Director

Dated 13 September 2018

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Directors

The Directors who served during the year were as follows:

Name	Appointed	Resigned
M C Anderson		22 March 2017
C R J Irvin	19 April 2017	
J Wilkinson	5 July 2017	
R J Cole		6 July 2017
J P Marlow		

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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017 (2016: nil).

Significant events since the end of the financial year

No 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.

Financial risk management

The principal financial risks and uncertainties facing the Company are set out in the Strategic Report.

Capital management

The Company is not subject to externally imposed capital requirements. It is a member of the HSBC Specialist Investments Group ('HSI') and capital management is performed at group level.

The Company defines capital as total shareholders' equity. It is HSBC's objective to maintain a strong 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.

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.

Disclosure of information to the Auditor and Statement of Directors' Responsibilities

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and each 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.

The following statement, which should be read in conjunction with the Auditor's statement of their responsibilities set out in their report on page 7 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 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.

On behalf of the Board

J.P. Marlow

J P Marlow
Director

Dated 13 September 2018

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Independent Auditors' Report to the Members of HSIL Investments Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSIL Investments Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with 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 for the year ended 31 December 2017 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; 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 on the financial statements, which include a description of the significant accounting policies.

Basis of opinion

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

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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

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 2017 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 5, 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.

Independent Auditors' Report to the Members of HSIL Investments Limited

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.

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

Dated: 13 September 2018

Income statement for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Interest income		**11**	-
Interest expense		**(2,726)**	(2,395)
Net interest expense		**(2,715)**	(2,395)
Gains less losses from financial investments		**57,729**	51,568
Dividend income		**754**	-
Other operating income/(expense)	*2*	**3,298**	(27,997)
Net operating income before loan impairment charges and other credit risk provision		**59,066**	21,176
Impairment on investments and subsidiaries		**(4,112)**	(10,333)
Net operating income		**54,954**	10,843
General and administrative expenses	*3*	**(2,265)**	(1,629)
Total operating expenses		**(2,265)**	(1,629)
Profit before tax		**52,689**	9,214
Tax (expense)/credit	*7*	**(9,639)**	3,370
Profit for the year		**43,050**	12,584

Statement of comprehensive income for the year ended 31 December 2017

	2017 £'000	2016 £'000
Profit for the year	**43,050**	12,584
Other comprehensive income		
Items that will be reclassified subsequently to profit and loss when specific conditions are met		
Available-for-sale investments		
- fair value changes taken on equity	**12,870**	59,861
- fair value gains transferred to the income statement	**(57,729)**	(51,568)
- associated current tax taken directly to equity	**3,364**	5,593
- associated deferred tax taken directly to equity	**4,263**	(5,388)
Other comprehensive (expense)/income for the year, net of tax	**(37,232)**	8,498
Total comprehensive income for the year	**5,818**	21,082

Balance sheet as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Cash and cash equivalents	10	**2,345**	7,456
Trade and other receivables		**-**	398
Financial investments	8	**131,075**	197,248
Current tax asset		**2,356**	997
Investments in subsidiaries	9	**2,138**	27,881
Total assets		**137,914**	233,980
Liabilities and equity			
Liabilities			
Loans from other group undertakings	11	**52,472**	150,143
Accruals, deferred income and other liabilities		**316**	266
Deferred tax liabilities	12	**1,125**	5,388
Total liabilities		**53,913**	155,797
Equity			
Called up share capital	13	**35,000**	35,000
Other reserves		**26,510**	63,742
Retained earnings/(accumulated losses)		**22,491**	(20,559)
Total equity		**84,001**	78,183
Total liabilities and equity		**137,914**	233,980

The accompanying notes on pages 14 to 33 form an integral part of these financial statements.

The financial statements on pages 9 to 13 were approved by the Board of Directors on 13 September 2018 and signed on its behalf by:

J.P. Marlow

J P Marlow
Director
Company Registered Number: 04430147

Statement of cash flows for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		**52,689**	9,214
Adjustments for:			
Non cash items included in profit before tax	10	**(56,915)**	(13,238)
Change in operating assets	10	**398**	(398)
Change in operating liabilities	10	**50**	(890)
Tax paid		**(7,634)**	-
Net cash used in operating activities		**(11,412)**	(5,312)
Cash flows from investing activities			
Purchase of financial investments		**(12,570)**	(34,220)
Proceeds from disposal of investments		**113,244**	84,261
Net cash generated from investing activities		**100,674**	50,041
Cash flows from financing activities			
Repayments of borrowings		**(94,373)**	(39,351)
Net cash used in financing activities		**(94,373)**	(39,351)
Net (decrease)/increase in cash and cash equivalents		**(5,111)**	5,378
Cash and cash equivalents brought forward		**7,456**	2,078
Cash and cash equivalents carried forward	10	**2,345**	7,456

Statement of changes in equity for the year ended 31 December 2017

			Other reserves	
	Called up share capital	**Accumulated (losses)/retained earnings**	**Available-for-sale fair value reserve**	**Total equity**
	£'000	**£'000**	**£'000**	**£'000**
2017				
At 1 January 2017	**35,000**	**(20,559)**	**63,742**	**78,183**
Profit for the year	**-**	**43,050**	**-**	**43,050**
Other comprehensive expense (net of tax)	**-**	**-**	**(37,232)**	**(37,232)**
At 31 December 2017	**35,000**	**22,491**	**26,510**	**84,001**

			Other reserves	
	Called up share capital	Accumulated losses	Available-for-sale fair value reserve	Total equity
	£'000	£'000	£'000	£'000
2016				
At 1 January 2016	35,000	(33,143)	55,244	57,101
Profit for the year	-	12,584	-	12,584
Other comprehensive income (net of tax)	-	-	8,498	8,498
At 31 December 2016	35,000	(20,559)	63,742	78,183

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 2017, there were no unendorsed standards effective for the year ended 31 December 2017 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 2017

There were no new standards applied during the year ended 31 December 2017.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2018 and 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. The Company not early adopted any of the amendments effective after 31 December 2017.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'. IFRS 9, 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.

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. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue exist.

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.

Hedge accounting

The general hedge accounting requirements aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. However, they do not explicitly address macro hedge accounting strategies, which are particularly important for banks. As a result, IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting.

Based on the analysis performed to date, the Company expects to exercise the accounting policy choice to continue IAS 39 hedge accounting and therefore is not currently planning to change hedge accounting, although it will implement the revised hedge accounting disclosures required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

Transitional impact

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. 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. Whilst adoption will impact classification, it is not expected to have a material impact on the measurement of assets. Impairment requirements will have no material effect on the net assets of the Company.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers' and it is effective for annual periods beginning on or after 1 January 2018. 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 Company will adopt the standard on its mandatory effective date, and the standard will be applied on a modified retrospective basis, recognising the cumulative effect, if any, of initially applying the standards as an adjustment to the opening balance of retained earnings. 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. Asset 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 functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company.

The financial statements have been prepared on the historical cost basis.

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 listed as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, 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.

- Valuation of financial instruments: refer to Note 1.2(b)
- Impairment of investments in subsidiaries: refer to Note 1.2(e)

(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

Operating income

Interest income and expense

Interest income and expense for all financial instruments except for 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

Fee income is earned from a diverse range of services provided by the Company to its customers. Fee income is accounted for as follows:

- Income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating a transaction, such as the acquisition of shares for a third party);and
- Income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services.)

Net trading income comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading, together with the related interest income, expense and dividends.

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 shareholders approve the dividend for unlisted equity securities.

Net income from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial assets and liabilities designated at fair value through profit or loss. Interest income, interest expense and dividend income in respect of those financial instruments are also included, except for interest arising from debt securities issued by the Company and derivatives managed in conjunction with those debt securities, which is recognised in 'Interest expense'.

(b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). 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, 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.

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgemental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

(c) 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 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 effective interest method, less impairment losses.

Impairment of loans and advances

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment losses are calculated on individual loans. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the balance sheet is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognised.

Individually assessed impairment losses are calculated by discounting the expected future cash flows of a loan at its original effective interest rate, and comparing the resultant present value with the loan's current carrying amount.

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 trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

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.

(d) Financial instruments measured at fair value

Available-for-sale financial assets

Available-for-sale financial assets are recognised on the trade date when the Company enters into contractual arrangements to purchase them, and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'.

Impairment of available-for-sale financial assets

Available-for-sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Impairment losses are recognised in the income statement within 'Loan impairment charges and other credit risk provisions' for debt instruments and within 'Gains less losses from financial investments' for equities.

(e) Investments in subsidiaries

The Company classifies investments in entities in 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.

(f) 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 any adjustment to tax payable in respect of previous years. The Company provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

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

(g) 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.

(h) 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.

2 Other operating income/(expense)

	2017	2016
	£'000	£'000
Foreign exchange gain/(loss)	**3,298**	(27,997)

Non-sterling investments within the HSI group are funded with debt in the same currency, however International Accounting Standards require only the gains or losses on the monetary assets (being debt and loan stock portion of the investment) and not the non-monetary assets (equity portion of the investments) to flow through the income statement causing a gain or loss.

3 General and administrative expenses

Included in general and administrative expense are £2,235k (2016: £1,577k) of management fees.

The Directors actively monitor the investments of the Company on an ongoing basis and for the year ended 31 December 2017, have recorded an additional provision against loan stock of £3,863k (2016: £12,163k). Subsidiary provisions charged in the current reporting year were £249k (2016: £1,830k credit).

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2016: nil).

5 Remuneration of Directors

No director received any fees or emoluments from the Company during the year (2016: 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

	2017	2016
	£'000	£'000
Audit fees		
- Fees relating to current year	**30**	21

There were no non-audit fees incurred during the year 2017 (2016: nil).

7 Tax

Tax charged/(credited) to the income statement

	2017	2016
	£'000	£'000
Current tax		
UK Corporation tax		
- for this year	**1,008**	(4,436)
- adjustments in respect of prior years	**8,631**	1,074
Total current tax	**9,639**	(3,362)
Deferred tax		
Origination and reversal of temporary differences	**-**	(83)
Effect of changes in tax rates	**-**	8
Adjustments in respect of prior years	**-**	67
Total deferred tax	-	(8)
Total tax charged/(credited) to income statement	**9,639**	(3,370)

The UK corporation tax rate applying to the Company was 19.25% (2016: 20.00%).

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 previous 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.

Tax reconciliation

The tax charged/(credited) to the income statement differs to the tax charge/(credit) that would apply if all profits had been taxed at the UK Corporation tax rate as follows:

	2017	**Percentage of overall profit before tax**	2016	Percentage of overall profit before tax
	£'000	**%**	£'000	%
Profit before tax	**52,689**		9,214	
Tax at 19.25% (2016: 20.00%)	**10,141**	**19.25**	1,843	20.00
Adjustments in respect of prior years	**8,631**	**16.4**	1,141	12.4
Deferred tax temporary differences not provided	**-**	**-**	1,141	12.4
Effect of changes in tax rates	**-**	**-**	8	0.1
Non taxable income and gains	**(10,425)**	**(19.8)**	(11,110)	(120.6)
Permanent disallowables	**1,221**	**2.3**	3,607	39.1
Others	**71**	**0.1**	-	-
Total tax charged/(credited) to income statement	**9,639**	**18.3**	(3,370)	(36.6)

8 Financial investments

	Partnership capital	**Loan stock**	**Total**
	£'000	**£'000**	**£'000**
At 1 January 2017	**35**	**197,213**	**197,248**
Additions	**-**	**11,256**	**11,256**
Disposals	**-**	**(28,707)**	**(28,707)**
Revaluation	**-**	**(44,859)**	**(44,859)**
Impairment	**-**	**(3,863)**	**(3,863)**
At 31 December	**35**	**131,040**	**131,075**

	Partnership capital	Loan stock	Total
	£'000	£'000	£'000
At 1 January 2016	30	208,476	208,506
Additions	-	25,305	25,305
Disposals	-	(32,693)	(32,693)
Revaluation	5	8,288	8,293
Impairment	-	(12,163)	(12,163)
At 31 December	35	197,213	197,248

In addition to the Capital investments detailed above, the Company has the following loan commitments outstanding as at 31 December 2017 and 2016 to each Fund:

	InfraRed Environmental Infrastructure Fund (I) LP €'000	InfraRed European Active Real Estate Fund (I) L.P €'000	InfraRed Principal Book LP US$'000	InfraRed Infrastructure III (No.1) LP US$'000
Total commitment	**78,505**	**132,500**	**50,000**	**124,995**
Drawn	**(52,577)**	**(124,115)**	**(43,207)**	**(98,727)**
Remaining at 31 December 2017	**25,928**	**8,385**	**6,793**	**26,268**
GBP equivalent (£)	**23,006**	**7,440**	**5,028**	**19,444**

	InfraRed Environmental Infrastructure Fund (I) LP €'000	InfraRed European Active Real Estate Fund (I) L.P €'000	InfraRed Principal Book LP US$'000	InfraRed Infrastructure III (No.1) LP US$'000
Total commitment	78,505	132,500	50,000	124,995
Drawn	(52,577)	(124,115)	(43,068)	(83,930)
Remaining at 31 December 2016	25,928	8,385	6,932	41,065
GBP equivalent (£)	22,170	7,170	5,624	33,318

The committed loans are payable in periodic drawdowns determined by the General Partner of each Fund. The loans are non-interest bearing and repayable after all payments of appropriate provision for costs, liabilities, tax withheld, expenses and working capital requirements of the Funds and the accrued unpaid priority profit share to the respective General Partners. The loans are to be repaid by periodic distribution of returns generated by the Funds.

9 Investments in subsidiaries

	2017 £'000	2016 £'000
Cost		
At 1 January	**27,881**	27,881
Additions	**1,314**	-
Disposals	**(26,808)**	-
At 31 December	**2,387**	27,881
Provision for impairment		
At 1 January	-	(1,831)
(Charge)/reversal	**(250)**	2,142
FX credit/(charge)	**1**	(311)
At 31 December	**(249)**	-
Net carrying amount at 31 December	**2,138**	27,881

Details of all of the Company's subsidiaries, as required under section 409 of the Companies Act 2006, are set out below.

In addition to the capital investments in subsidiaries detailed below, the Company has £7,536k of commitments outstanding as at 31 December 2017.

Subsidiaries	Country of incorporation	Interest in equity capital %	Share class	*Footnotes*
IRERE Property Investments (French offices) S.A.R.L	Luxembourg	100.00	Ordinary Shares	*1*
Infrared NF China Real Estate Company Limited	Guernsey	71.00	Ordinary Shares	*2*
GSI Retail Property Holdings Limited	Guernsey	0.00	Ordinary Shares	*3,4*

Footnotes:

Registered offices:

[1] *6, Rule Adolphe Grand-Duchy of Luxembourg L-1116 Luxembourg.*
[2] *2 Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey, GY1 2HT.*
[3] *Second Floor, St Peters House, Le Bordage, St Peter Port, GY1 1B, Guernsey.*
[4] *In July 2017, the Company fully disposed of its investment.*

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

a) Non-cash items included in profit and loss	**2017 £'000**	2016 £'000
Provisions for impairment-from AFS investment	**3,863**	12,163
Impairment of investments in subsidiaries	**249**	(1,831)
Foreign exchange (gain)/loss	**(3,298)**	27,997
Profit on disposal of investments	**(57,729)**	(51,567)
	(56,915)	(13,238)

b) Change in operating assets	**2017 £'000**	2016 £'000
Change in trade and other receivables	**398**	(398)

c) Change in operating liabilities	**2017 £'000**	2016 £'000
Change in accruals, deferred income and other liabilities	**50**	(890)

d) Cash and cash equivalents comprise	**2017 £'000**	2016 £'000
Cash at bank with other group undertakings	**2,345**	7,456

11 Loans from other group undertakings

	2017 £'000	2016 £'000
Amounts owed to other group undertakings	**52,472**	150,143

12 Deferred tax liabilities

The following table shows the deferred tax liabilities recognised in the Balance sheet and the related amounts recognised in the Income statement and other comprehensive income:

	Other temporary differences £'000	**Total £'000**
At 1 January 2017	**(5,388)**	**(5,388)**
Credited to other comprehensive income	**4,263**	**4,263**
At 31 December 2017	**(1,125)**	**(1,125)**

	Other temporary differences £'000	Total £'000
At 1 January 2016	(8)	(8)
Prior year adjustment	(67)	(67)
Credited to income statement	75	75
Charged to other comprehensive income	(5,388)	(5,388)
At 31 December 2016	(5,388)	(5,388)

The amount of temporary differences for which no deferred tax asset is recognised in the balance sheet is £251k (2016: £17,529k). This is in respect of other temporary differences. The deferred tax asset not recognised in the balance sheet is £42k (2016: £2,980k).

13 Called up share capital

	2017 £'000	2016 £'000
Issued, allotted up and fully paid up		
35,000,001 (2016: 35,000,001) Ordinary shares of £1 each		
As at 1 January and 31 December	**35,000**	35,000

14 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.

The following table analyses the carrying amount of financial assets and liabilities by category and by Balance sheet heading:

At 31 December 2017	**Loans and receivables**	**Available-for-sale securities**	**Financial liabilities at amortised cost**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Assets				
Cash and cash equivalents	2,345	-	-	2,345
Financial investments	-	131,075	-	131,075
Total financial assets	2,345	131,075	-	133,420
Total non-financial assets				4,494
Total assets				137,914
Liabilities				
Loans from other group undertakings	-	-	52,472	52,472
Accruals, deferred income and other liabilities	-	-	316	316
Total financial liabilities	-	-	52,788	52,788
Total non-financial liabilities				1,125
Total liabilities				53,913

At 31 December 2016	Loans and receivables	Available-for-sale securities	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000
Assets				
Cash and cash equivalents	7,456	-	-	7,456
Trade and other receivables	398	-	-	398
Financial investments	-	197,248	-	197,248
Total financial assets	7,854	197,248	-	205,102
Total non-financial assets				28,878
Total assets				233,980
Liabilities				
Loans from other group undertakings	-	-	150,143	150,143
Accruals, deferred income and other liabilities	-	-	266	266
Total financial liabilities	-	-	150,409	150,409
Total non-financial liabilities				5,388
Total liabilities				155,797

15 Fair value of financial instruments carried at fair value

Fair values are measured using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. The different levels have been defined as follows:

(a) Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.

(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 models where one or more significant inputs are unobservable.

The following table sets out the financial instruments carried at fair value:

	2017	2016
	£'000	£'000
Beginning balance - 1 January	**197,248**	208,506
Additions	**11,256**	25,305
Disposals	**(28,707)**	(32,693)
Fair value changes taken on equity	**12,870**	59,861
Fair value gains reclassified to income statement	**(57,729)**	(51,568)
Provision for impairment	**(3,863)**	(12,163)
Ending balance - 31 December	**131,075**	197,248

The Company's investments in equity shares are generally not traded in active markets. In the absence of an active market, an investments fair value is estimated on the basis of an analysis of the investees' financial position and results, risk profile, prospects and other factors, as well as by reference to market valuations for similar entities quoted in an active market, or the price at which similar companies have changed ownership. The key unobservable input for these investments is the Net Asset Value ('NAV').

Cash and cash equivalents, trade and other receivables, loans from other group undertakings and accruals, deferred income and other liabilities carrying amount as shown in the balance sheet is a reasonable approximation of fair value as they are short term in nature.

	With significant unobservable inputs Level 3	**Total**
	£'000	**£'000**
At 31 December 2017		
Financial investments available-for-sale	**131,075**	**131,075**

	With significant unobservable inputs Level 3	Total
	£'000	£'000
At 31 December 2016		
Financial investments available-for-sale	197,248	197,248

16 Maturity analysis of assets and liabilities

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

31 December 2017	**On demand**	**Due within 3 months**	**Due between 3-12 months**	**Due between 1-5 years**	**Undated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Assets						
Cash and cash equivalents	2,345	-	-	-	-	2,345
Financial investments	-	-	-	131,075	-	131,075
Non-financial assets	-	-	-	-	4,494	4,494
Total as at 31 December 2017	**2,345**	**-**	**-**	**131,075**	**4,494**	**137,914**

31 December 2017	**On demand**	**Due within 3 months**	**Due between 3-12 months**	**Due between 1-5 years**	**Undated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities and Equity						
Loans from other group undertakings	52,472	-	-	-	-	52,472
Accruals, deferred income and other liabilities	20	197	79	20	-	316
Non-financial liabilities	-	-	-	-	1,125	1,125
Total as at 31 December 2017	**52,492**	**197**	**79**	**20**	**1,125**	**53,913**

31 December 2016	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Cash and cash equivalents	7,456	-	-	-	-	7,456
Trade and other receivables	-	398	-	-	-	398
Financial investments	-	-	-	197,248	-	197,248
Non-financial assets	-	-	-	-	28,878	28,878
Total as at 31 December 2016	7,456	398	-	197,248	28,878	233,980

31 December 2016	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities and Equity						
Loans from other group undertakings	150,143	-	-	-	-	150,143
Accruals, deferred income and other liabilities	20	-	172	74	-	266
Non-financial liabilities	-	-	-	-	5,388	5,388
Total as at 31 December 2016	150,163	-	172	74	5,388	155,797

17 *Management of financial 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.

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The Company's risk management policies are consistent with the HSBC Group's risk management policies.

The Company participates in transactions to which other HSBC group companies are also party. HSBC Specialist Investments Group ('HSI') has an established risk management process which considers the risks at the outset and on an ongoing basis in relation to each transaction from HSI's perspective - this will consolidate the risks of participating companies and, as such, offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant company.

As part of that process, the management will review the monthly management accounts of the Company. There were no changes in the Company's approach to risk management during the year.

a) Credit risk management

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its obligations under a contract. It arises principally from amounts owed by group undertakings. The maximum exposure to credit risk is represented by the carrying amount of receivables and inter-company loans at 31 December 2017.

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 held with other group entities 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.

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 8.

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.

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**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 31 December 2017					
Loans from other group undertakings	**52,472**	**-**	**-**	**-**	**52,472**
Accruals, deferred income and other liabilities	**20**	**197**	**79**	**20**	**316**
	52,492	**197**	**79**	**20**	**52,788**

	On demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Total
	£'000	£'000	£'000	£'000	£'000
At 31 December 2016					
Loans from other group undertakings	150,143	-	-	-	150,143
Accruals, deferred income and other liabilities	20	-	172	74	266
	150,163	-	172	74	150,409

c) Market risk management

Market risk is the risk that movements in market risk factors, including foreign exchange rates, interest rates and equity prices 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.

The Company uses financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

Interest rate risk

The Company places all funds with fellow group companies. The Company manages its interest rate risk by placing deposits only at call or for fixed periods up to 3 months.

At the end of the reporting year the interest rate profile of the Company's interest-bearing financial instruments was:

	2017	2016
	£'000	£'000
Fixed rate instruments		
Loans from other group undertakings	**52,472**	150,143

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would have no effect on the result for the year.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points in interest rates at the reporting date would have (decreased)/increased profit for the year and total equity by the amounts shown below. This analysis assumes that other variables remain constant.

	Profit or loss	**Profit or loss**
	50 bp increase	***50 bp decrease***
	2017	**2017**
	£'000	**£'000**
Variable rate instruments		
Cash flow sensitivity (net)	**(507)**	**507**

	Profit or loss	Profit or loss
	50 bp increase	50 bp decrease
	2016	2016
	£'000	£'000
Variable rate instruments		
Cash flow sensitivity (net)	(801)	801

Foreign exchange risk

Exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2017 €'000	31 December 2017 US$'000
Financial investments available-for-sale	19,578	84,627
Cash and cash equivalents	383	422
Loans from other group undertakings	(36,635)	(105,844)
	(16,674)	(20,795)

	31 December 2016 €'000	31 December 2016 US$'000
Financial investments available-for-sale	77,328	89,825
Cash and cash equivalents	6,814	505
Loans from other group undertakings	(99,733)	(112,094)
	(15,591)	(21,764)

The following significant exchange rates applied during the year:

GBP	Average GBP rate		Average GBP rate	
	2017	2016	**2017**	2016
USD	**1.340919**	1.249216	**1.351000**	1.232500
EURO	**1.133376**	1.184685	**1.127007**	1.169521

Foreign exchange risk sensitivity analysis

The Company has used a sensitivity analysis technique that measures the estimated change to profit/(loss) and equity of either an instantaneous 10% strengthening or weakening in sterling against Euro and US currency from the rates applicable at year end.

A 10% strengthening of the following currencies against the pound sterling at year end would have increased/ (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the end of the reporting year and had been applied to risk exposures existing at that date.

This analysis also assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative year.

	Equity		*Profit or loss*	
	2017	2016	**2017**	2016
USD ('000)	**6,264**	7,288	**(7,803)**	(9,054)
EURO ('000)	**1,737**	6,612	**(3,217)**	(7,945)

18 Related party transactions

Balances with related parties:

	2017		2016	
	Highest balance during the year £'000	**Balance at 31 December £'000**	Highest balance during the year £'000	Balance at 31 December £'000
Assets				
Cash and cash equivalents[1]	**95,810**	**2,345**	15,426	7,456
Liabilities				
Loans from other group undertakings[2]	**160,390**	**52,472**	216,898	150,143

[1] Amounts are held with HSBC Bank plc.
[2] Amounts are held with HSBC Specialist Investments Limited.

	2017 £'000	2016 £'000
Income statement		
Interest expense	**2,726**	2,395

19 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. With effect from 2 January 2018, HSBC Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Property Funds (Holding) Limited. All companies are registered in England and Wales.

The results of the Company are included in the financial statements of HSBC Holdings plc and with effect from 2 January 2018 will be included in the financial statements of HSBC Bank plc.

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

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

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

20 Contingent liabilities and contractual commitments and guarantees

There were no contingent liabilities as at 31 December 2017 (2016: nil) other than the loan commitments disclosed in Notes 8 and 9.

21 Events after the balance sheet date

There are no significant events after the balance sheet date