

HSBC Global Services Limited

Registration No: 5639234

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



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

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Strategic Report

Principal activities

HSBC Global Services Limited ('the Company') is incorporated and domiciled in England and Wales with registration number 5639234. Its registered office address is 8 Canada Square, London, E14 5HQ, United Kingdom.

The Company is a wholly-owned subsidiary of HSBC Holdings plc.

The principal activities of the Company are to hold investments in finance and oversee the operations of its subsidiaries, including the provision of corporate governance advice, direction and a framework within which services are provided by its subsidiaries to other HSBC Group entities.

The Company seeks to optimise the capacity and capability of its subsidiaries, ensuring consistency, service quality control and the promotion of best practice.

The Company oversees the operations of its subsidiaries, which are located in Asia, North America, Middle East, the United Kingdom and Continental Europe, providing input to strategic and business continuity planning, the alignment to the functional blueprint through Business Services, appropriate capacity planning and providing leadership and management oversight.

Review of the Company's business

The Company's business is funded principally by its parent company, HSBC Holdings plc.

HSBC Holdings plc's strategic priority is to be 'the world's leading and most respected international bank'. It will achieve this by focusing on the needs of its customers and the societies it serves, thereby delivering long-term sustainable value to all its stakeholders.

To ensure operational continuity in resolution, HSBC Holdings plc has sought to remove operational dependencies that exist between different subsidiary banking entities within the HSBC Group (where one subsidiary bank provides critical services to another) by transferring critical services from the subsidiary banks to one of the Company's subsidiary service companies.

During 2018, the transfer of critical services from HSBC operating banks to subsidiaries of the Company continued. Further details of these transactions are discussed in the review of the Company's performance below.

Performance

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

The results of the Company show a pre-tax profit of \$105m in 2018 (2017: \$20m).

During the year, the Company earned the following dividend income from its subsidiaries.

	2018	2017
	\$m	\$m
Ordinary shares		
HSBC Electronic Data Service Delivery (Egypt) S.A.E.	2.0	0.1
HSBC Electronic Data Processing Lanka (Private) Limited	3.2	3.6
HSBC Electronic Data Processing (Malaysia) Sdn. Bhd.	19.7	9.1
HSBC Electronic Data Processing (Philippines) Inc.	11.2	7.4
HSBC Group Management Services Limited	31.6	—
HSBC Global Services (UK) Limited	37.9	—
Year ended 31 December	105.6	20.2

The Company had a total equity position of \$915m for 2018 (2017: \$358m). Additional equity injections of \$542m has been received during the year, which were used to enable investment in new subsidiaries.

Investment in subsidiaries have increased by \$565m to \$788m for 2018 (2017: \$223m). The Company increased its investment in HSBC Global Services (UK) Limited and HSBC Global Services (HK) Limited by \$190m and \$310m respectively, and established of new subsidiary HSBC Global Services (Canada) Limited with an investment of \$22.4m in 2018. In addition, as part of the establishment of the Servco Group the ownership of HSBC PB Services (Suisse) SA was purchased from HSBC Finance (Netherlands) for \$43.6m. An additional impairment loss of \$0.8m was recognised for HSBC Electronic Data Service Delivery (Egypt) S.A.E.

Key performance indicators

There are no key performance indicators that are specific to the Company. The key performance indicators of HSBC Holdings plc are included in its annual report. The performance of the Company is monitored against annually set budgets.

Principal risks and uncertainties

The principal financial risks and uncertainties facing the Company are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in Note 13 of the financial statements.

The most important non-financial types of risk are operational risk, conduct and regulatory risk, including financial crime compliance and reputational risk. The Directors have put in place procedures to monitor and manage these risks.


Operational risk is relevant to every aspect of the Company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk.

The long term success of the Company is closely linked to the confidence of its stakeholders. Safeguarding and building upon the Company's reputation is the responsibility of every employee. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk. The Company always aspires to the highest standards of conduct and, as a matter of routine, takes account of reputational risks to its business.

The Company is subject to the risks of the performance of its Subsidiaries which could result in impairment of these investments.

The UK is due to formally leave the EU in March 2019. Before this can happen the UK and EU have to finalise the Article 50 Withdrawal Agreement which will then need to be approved by their respective Parliaments. A comprehensive trade deal will not be concluded within this timeframe. A period of transition until 31 December 2020 has therefore been agreed between the UK and the EU. However, there will be no legal certainty until this is enshrined in the Withdrawal Agreement. 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 and counterparties.

On behalf of the Board



Maria Andrea Colin
Director

February 27, 2019

8 Canada Square
London, E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name	Appointed	Resigned
Iain James Mackay	15/12/2014	31/12/2018
Gary Maurice Andrew Phillips	07/04/2017	16/04/2018
Richard John Gray Harrison	07/04/2017	17/08/2018
Menasey Marc Moses	15/12/2014	
Andrew Mitchell Maguire	15/12/2014	
Iain Francis Mackinnon	20/03/2017	
Richard John Hennity	07/04/2017	
Helen Ruth Horgan	07/04/2017	
Maria Andrea Colin	16/06/2017	
Michael Stewart Henley	16/04/2018	

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

Dividends

Since the end of the previous financial year, the Company paid an interim dividend of \$86m on 20 Dec 2018 in respect of the year ended 31 December 2018 (2017: nil).

Significant events since the end of the financial year

No significant 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, including future projections of profitability, cash flows and capital resources.

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in Note 13 of the Notes on the financial statements.

Engagement with employees and diversity

Building a more diverse and inclusive workforce is critical to developing a sustainable and successful business. Our approach aims to increase and leverage diversity of thought to improve workforce agility, enhance our risk management capability, drive innovation and grow markets. Our diversity and inclusion ambitions are focused on attracting, developing and retaining talent that reflects our customers and the communities where we do business, and deploying that talent effectively to anticipate and address expectations. A number of global employees networks support this strategy.

Employment of people with a disability

The Company is committed to providing equal opportunities to employees. The employment of people with a disability is included in this commitment. The recruitment, training, career development and promotion of people with a disability are based on the aptitudes and abilities of the individual. Should employees become disabled during employment with us, efforts are made to continue their employment and, if necessary, appropriate training, reasonable equipment and facilities are provided.

Employment policy

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance through management channels, oral communication and by way of attendance at internal seminars and training programmes. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. The involvement of employees in the performance of the Company is further encouraged through a profit participation scheme.

Capital management

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

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.

In line with HSBC Group's policy, the Company is to maintain a strong capital base to support the development of its business. The Company recognises the impact on shareholder returns on the level of equity capital employed and seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity.

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

The principal forms of capital are included in the following balances on the balance sheet: called up share capital, share premium account and retained earnings.

Overseas branches

Outside the United Kingdom, the Company has a branch office in Malaysia.

Independent auditors

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

Directors' responsibility statement

The following statement, which should be read in conjunction with the Auditors' 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 Auditors in relation to the financial statements.

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

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

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

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

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

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

Disclosure of Information to Auditors

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

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

On behalf of the Board



Maria Andrea Colin
Director
February 27, 2019

8 Canada Square
London, E14 5HQ
United Kingdom

Independent auditors' report to the members of HSBC Global Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Global Services Limited's financial statements:

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

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

Basis of opinion

We conducted our audit in accordance with International Standards of Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the 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 of our opinion.

Independence

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

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' responsibility statement 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.

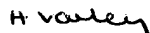
Other required reporting

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.



Heather Varley (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
Birmingham
February 27, 2019

Financial statements

Income statement for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Revenue	15	1,232,399	1,192,993
Cost of services purchased	15	(1,230,793)	(1,190,506)
Gross profit		1,606	2,487
Dividend income	8	105,604	20,217
Other operating income		3	12
Net operating income		107,213	22,716
Administrative expenses	2,3,4,5	(1,532)	(3,526)
Exchange (loss)/gain		(1,378)	3,941
Impairment loss	11	(800)	(4,000)
Total operating expenses		(3,710)	(3,585)
Operating profit		103,503	19,131
Finance income		1,392	764
Profit before tax		104,895	19,895
Tax expense	6	(2,865)	(2,980)
Profit for the year		102,030	16,915

Statement of comprehensive income for the year ended 31 December 2018

	2018 \$'000	2017 \$'000
Profit for the year	102,030	16,915
Other comprehensive (expense)/income net of tax		
- Foreign currency translation differences for foreign operations	(133)	654
Total comprehensive income for the year	101,897	17,569

Balance sheet at 31 December 2018

Registration No: 5639234

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents with HSBC undertakings	15	124,670	240,689
Receivables due from related parties	15	251,964	283,000
Other receivables	10	4	2
Current tax assets		101	9
Investments in subsidiaries	11	787,841	222,882
Deferred tax assets	7	118	58
Total assets		1,164,698	746,640
Liabilities and equity			
Liabilities			
Payables due to related parties	15	248,265	385,540
Accruals and other liabilities		397	2,691
Current tax liabilities		602	588
Total liabilities		249,264	388,819
Equity			
Called up share capital	12	**	*
Share premium	12	717,071	175,356
Translation reserve	12	(1,487)	(1,354)
General reserve	12	—	1
Retained earnings		199,850	183,818
Total equity		915,434	357,821
Total liabilities and equity		1,164,698	746,640

* Represent 8 ordinary shares at US\$1 each.

** Represent 11 ordinary shares at US\$1 each.

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

These financial statements were approved by the Board of Directors on February 27, 2019 and signed on its behalf by:



Maria Andrea Colin
Director

Statement of cash flows for the year ended 31 December 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Profit before tax		104,895	19,895
Adjustments for:			
Depreciation of property and equipment		—	270
Unrealised foreign exchange differences		(133)	628
Dividend income from subsidiaries		(105,604)	(20,217)
Impairment loss on investments in subsidiaries		800	4,000
Finance income		(1,392)	(764)
Loss on disposal of property and equipment		—	4
Equity-settled share-based payment transactions		4	7
Operating cash flows before change in working capital		(1,430)	3,823
Change in receivables due from related parties		31,036	(67,960)
Change in other receivables		(2)	67
Change in payables due to related parties		(137,279)	83,358
Change in accruals and other liabilities		(2,294)	(338)
Change in other financial liabilities		—	(72)
Cash (used in)/generated from operations		(109,969)	18,878
Tax paid		(3,002)	(2,495)
Net cash (used in)/generated from operating activities		(112,971)	16,383
Cash flows from investing activities			
Acquisition of property, plant and equipment		—	(3)
Investments in subsidiaries	11	(66,044)	(1)
Proceeds from disposal of property and equipment		—	2
Dividend income received		105,604	20,217
Bank interest received		1,392	764
Net cash generated from investing activities		40,952	20,979
Cash flows from financing activities			
Issue of ordinary share capital	11	42,000	—
Dividends paid		(86,000)	—
Net cash used in financing activities		(44,000)	—
Net (decrease)/increase in cash and cash equivalents		(116,019)	37,362
Cash and cash equivalents brought forward		240,689	203,327
Cash and cash equivalents carried forward	15	124,670	240,689

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

	Called up share capital \$'000	Share Premium \$'000	Retained earnings \$'000	Other reserves		Total equity \$'000
				Translation reserve \$'000	General reserve \$'000	
As at 31 Dec 2017	*-	175,356	183,818	(1,354)	1	357,821
Impact on transition to IFRS 9	—	—	—	—	—	—
At 1 Jan 2018	*-	175,356	183,818	(1,354)	1	357,821
Profit for the year	—	—	102,030	—	—	102,030
Other comprehensive losses / income (net of tax)						
- Foreign currency translation differences for foreign operations	—	—	—	(133)	—	(133)
Total comprehensive income/ (expense) for the year	—	—	102,030	(133)	—	101,897
Issue of share capital	**-	541,715	—	—	—	541,715
Dividends to shareholders	—	—	(86,000)	—	—	(86,000)
Equity-settled share-based payment transactions	—	—	2	—	(1)	1
At 31 Dec 2018	***-	717,071	199,850	(1,487)	—	915,434

	Called up share capital \$'000	Share Premium \$'000	Retained earnings \$'000	Other reserves		Total equity \$'000
				Translation reserve \$'000	General reserve \$'000	
At 1 Jan 2017	*-	175,356	166,903	(2,008)	1	340,252
Profit for the year	—	—	16,915	—	—	16,915
Other comprehensive losses / income (net of tax)						
- Foreign currency translation differences for foreign operations	—	—	—	654	—	654
Total comprehensive income/(expense) for the year	—	—	16,915	654	—	17,569
At 31 Dec 2017	*-	175,356	183,818	(1,354)	1	357,821

*Represent 8 ordinary shares at US\$1 each.

**Represent 3 ordinary shares at US\$1 each.

***Represent 11 ordinary shares at US\$1 each.

Equity is wholly attributable to equity shareholders of HSBC Global Services Limited.

Notes on the financial statements

1 Basis of preparation and significant accounting policies

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

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

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

Standards adopted during the year ended 31 December 2018

The Company has adopted the requirements of IFRS 9 'Financial Instruments' from 1 January 2018, with the exception of the provisions relating to the presentation of gains and losses on financial liabilities designated at fair value, which were adopted from 1 January 2017. This includes the adoption of 'Prepayment Features with Negative Compensation (Amendments to IFRS 9)' which is effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. The effect of its adoption is not considered to be significant. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the Company has exercised. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application. As permitted by IFRS 9, the Company has not restated comparatives.

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

Changes in accounting policies

The Company has applied IFRS 9 retrospectively with the date of initial application of 1 January 2018. In accordance with the transition provisions provided in IFRS 9, comparative information for 2017 was not restated and continued to be reported under the previous accounting policies governed under IAS 39. The cumulative effects of initially applying IFRS 9 were recognised as an adjustment of \$nil to the opening balances of retained earnings as at 1 January 2018.

(i) Classification and measurement of financial instruments

Until 31 December 2017, financial assets were classified as loans and receivables. Note 1.2 (i) set out the details of accounting policies for classification and measurement of financial instruments under IAS 39.

From 1 January 2018, the Company applies IFRS 9's classification approach to all types of financial assets as investment in debt instruments that are measured at amortised cost.

The new accounting policies for classification and measurement of financial instruments under IFRS 9 are set out in Note 1.2 (c).

(ii) Impairment

Until 31 December 2017, the Company assessed the impairment of loans and receivables based on the incurred impairment loss model. Note 1.2 (i) set out the details of accounting policies for impairment of financial assets under IAS 39.

From 1 January 2018, the Company applies expected credit loss ('ECL') model to determine impairment on financial assets that are measured at amortised cost. The new accounting policies for impairment under IFRS 9 are set out in Note 1.2 (c).

The measurement category and the carrying amount of financial assets and financial liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	Measurement category		Carrying amount			
	IAS 39	IFRS 9	IAS 39 \$'000	Reclassification	Remeasurement	IFRS 9 \$'000
Assets						
Cash and cash equivalents with HSBC undertakings	(*)	Amortised cost (Loans and receivables)	240,689	—	—	240,689
Receivables due from related parties	(*)	Amortised cost (Loans and receivables)	283,000	—	—	283,000
Other receivables	(*)	Amortised cost (Loans and receivables)	2	—	—	2
Investments in subsidiaries	(*)	Amortised cost (Loans and receivables)	222,882	—	—	222,882
Liabilities						
Payables due to related parties	(*)	Amortised cost (Financial liabilities)	385,540	—	—	385,540
Accruals and other liabilities	(*)	Amortised cost (Financial liabilities)	2,691	—	—	2,691

(*) There was no impact on the classification and measurement recognised in relation to these financial assets and financial liabilities from the adoption of IFRS 9.

There is no financial impact arising from adoption of IFRS 9 to the retained earnings as at 1 January 2018.

(b) Future accounting developments

Minor amendments to IFRSs

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

Major new IFRSs

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

IFRS 16 'Leases'

IFRS 16 'Leases' has an effective date for annual periods beginning on or after 1 January 2019. IFRS 16 results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

Mandatory to implement for financial years commencing on or after 1 January 2019. The Company has assessed the impact of IFRS 16 'Leases' and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

Amendment to IAS 12 'Income Taxes'

An amendment to IAS 12 was issued in December 2017 as part of the annual improvement cycle. The amendment clarifies that a Company should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment is effective for annual periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period. As a consequence, income tax related to distributions on perpetual subordinated contingent convertible capital securities will be presented in profit or loss rather than equity.

Mandatory to implement for financial years commencing on or after 1 January 2019. The Company has assessed the impact of amendments to IAS 12 'Income Taxes' and expects that the standard will have no significant effect, when applied, on the financial statements of the Company.

(c) Foreign currencies

The functional currency of the Company is US dollars, which is also the presentational currency of the financial statements of the Company.

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

(d) Presentation of information

The financial statements 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 financial statements are prepared on the historical cost basis except for the financial assets and financial liabilities.

(e) Critical accounting estimates and judgements

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

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

(f) Going concern

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

1.2 Summary of significant accounting policies

(a) Income and expense

Interest income

Interest income for all financial instrument is recognised in 'Finance income' as it accrues, in the income statement using the effective interest method.

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Non-interest income

The Company provides business processing and knowledge processing services on a cost plus mark-up basis. Revenue is recognised over the period when the services are rendered to the related companies. Revenue from business processing and knowledge processing services constitutes as a single performance obligation. Accordingly, the transaction price will be based on cost plus mark-up basis. No element of financing deemed present as the revenue are made with a credit term of 30 days.

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) Investments in subsidiaries

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

(c) Financial instruments

Classification

From 1 January 2018, the Company classifies its financial instruments at amortised cost.

Recognition and derecognition

A financial asset or a financial liability is recognised in the statement of financial position when, and only when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when they are extinguished; i.e. when the obligation is discharged, cancelled, or expires.

Measurement

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs. In addition, financial liabilities are measured at amortised cost.

Impairment

Expected credit losses ("ECL") are recognised for receivables due from related parties and other financial assets held at amortised cost. The Company applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all receivables due from related companies and other receivables. The expected loss rates are based on the payment profiles of sales over a 60 months period before reporting date and the corresponding historical credit loss experienced within this period.

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery.

(d) Employee compensation and benefits

Share-based payments

The Company enters into equity-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the grant date if the employees have started to render services in respect of the award before the grant date. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

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Post-employment benefit plans

The HSBC group operates a number of pension schemes including defined benefit, defined contribution, and post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

(e) Tax

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

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

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

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

(f) Provisions

Provisions

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

(g) 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.

(h) 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.

(i) Accounting policies applicable prior to 1 January 2018

Initial recognition and measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when the Company becomes a party to the contractual provisions of the instrument. A financial instrument is recognised initially, at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instrument categories and subsequent measurement

The Company categorises financial assets as loans and receivables. Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables category comprises receivables and cash and cash equivalents. Financial assets categorised as loan and receivables are subsequently measured at amortised cost using the effective interest method. All financial assets are subject to review for impairment.

The Company classifies its financial liabilities as measured at amortised cost.

Derecognition

Financial assets are derecognised when the rights to receive cash flows investments have expired; or where the Company has transferred its contractual rights to receive the cash flows of the assets, and have transferred substantially all the risks and rewards of ownership, or where both control and substantially all the risks and rewards are not retained.

Financial liabilities are derecognised when they are extinguished; i.e. when the obligation is discharged, cancelled, or expires.

2 Employee compensation and benefits

Total employee compensation

	2018	2017
	\$'000	\$'000
Wages, salaries and others	942	2,222
Social security costs	2	4
Share-based payment	4	7
Other pension costs	103	225
Year ended 31 Dec	1,051	2,458

	2018	2017
Monthly average number of persons (located in Malaysia) employed by the Company during the year	12	32
Year ended 31 Dec	12	32

3 Share-based payments

HSBC share award plans

Plans	Policy
Restricted share awards (including annual incentive awards delivered in shares) and Group Performance Share Plan ('GPSP')	<ul style="list-style-type: none"> An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years and GPSP awards vest after five years. Vested shares may be subject to a retention requirement post-vesting. GPSP awards are retained until cessation of employment. Awards granted from 2010 onwards are subject to malus provision prior to vesting. Awards granted to Material Risk Takers from 2016 onwards are subject to clawback post vesting.
International Employee Share Purchase Plan ('ShareMatch')	<ul style="list-style-type: none"> The plan was first introduced in Hong Kong in 2013 and now includes employees based in 25 jurisdictions. Shares are purchased in the market each quarter up to a maximum value of £750, or the equivalent in local currency. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

The Company participated in the following equity settled share compensation plans operated by the HSBC Group for the acquisition of HSBC Holdings plc shares.

(a) Restricted Share Plan, Share Match Scheme and others

The HSBC Holdings Restricted Share Plan and others are intended to align the interests of executives with those of shareholders by linking executive awards to the creation of superior shareholder value. This is achieved by focusing on predetermined targets. An assessment of performance over the relevant period ending on 31 December is used to determine the amount of the award to be granted. Deferred awards generally require employees to remain in employment over the vesting period and are not subject to performance conditions after the grant date. Deferred share awards generally vest over a period of three years. Vested shares may be subject to a retention requirement (restriction) post-vesting. The cost of the conditional awards is recognised through an annual charge based on the likely level of vesting of shares, apportioned over the period of service to which the award relates.

The Savings-Related Share Match Schemes was first introduced in Malaysia in 2014. Eligible HSBC employees will acquire HSBC Holdings ordinary shares. Shares are purchased in the market each quarter up to a maximum value of £750 or the equivalent in local currency over a period of one year. Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

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Movement on HSBC share awards

	2018 Number	2017 Number
Restricted share awards outstanding at 1 Jan	2,248	4,070
Additions during the year	339	408
Vested during the year	(1,618)	(2,258)
Forfeited during the year	—	—
Transferred in during the year	—	28
Transferred out during the year	(282)	—
Restricted share awards outstanding at 31 Dec	687	2,248
	2018 \$'000	2017 \$'000
Compensation cost recognised during the year	4	7
Year ended 31 Dec	4	7

The weighted average purchase price for all shares purchased by the Company for awards under the Restricted Share Plan and Share Match Scheme during 2018 is nil (2017: nil). The closing price of the HSBC share at 31 December 2018 was £6.47 (2017: £7.67). The weighted average remaining vesting period as at 31 December 2018 was 3.01 year (2017: 2.93 year).

HSBC share option plans

Plans	Policy
Savings-related share option plans ('Sharesave')	<ul style="list-style-type: none"> Two plans: the UK plan and the International Plan. The last grant of options under the International Plan was in 2012. From 2014, eligible employees can save up to £250 per month with the option to use the savings to acquire shares. Exercisable within six months following either the third or fifth anniversaries of the commencement of a three-year or five-year contract, respectively. The exercise price is set at a 20% (2017: 20%) discount to the market value immediately preceding the date of invitation.

(b) Saving-Related Share Option Schemes

The Savings-Related Share Option Schemes aims to align the interests of all employees with the creation of shareholder value under which eligible HSBC employees are granted options to acquire HSBC Holdings plc ordinary shares. Employees may make monthly contributions up to £250 (or its equivalent in RM) over a period of one, three or five years with the option to use the savings to acquire shares. Alternatively the employee may elect to have the savings repaid in cash. The last grant of options under this plan was in 2012. The options are exercisable within three months following the first anniversary of the commencement of a one-year savings contract or within six months following either the third or fifth anniversary of the commencement of three-year or five-year savings contracts, respectively. The exercise price is set at a 20% discount to the market value immediately preceding the date of invitation. The cost of the awards is amortised over the vesting period.

Calculation of fair values

The fair values of share options are calculated using a Black-Scholes model. The fair value of a share award is based on the share price at the date of the grant.

Movement on HSBC share option plans

	Savings-related share options	
	Number	WAEP ¹
		\$
Outstanding at 1 Jan 2018	278	7.25
Granted during the year	—	—
Exercised during the year	(242)	7.25
Vested during the year	(36)	7.25
Transferred in during the year	—	—
Outstanding at 31 Dec 2018	—	—
Weighted average remaining contractual life (years)	—	—

¹ Weighted average exercise price

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	Savings-related share options	
	Number	WAEP ¹
		\$
Outstanding at 1 Jan 2017	278	7.25
Granted during the year	—	—
Exercised during the year	—	—
Vested during the year	—	—
Transferred in during the year	—	—
Outstanding at 31 Dec 2017	278	7.25
Weighted average remaining contractual life (years)		0.1

¹ Weighted average exercise price

	2018	2017
	\$'000	US\$'000
Compensation cost recognised during the year	—	—
Year ended 31 Dec	—	—

The weighted average fair value of options granted during 2018 was nil (2017: nil).

4 Directors' emoluments

The Directors receive no emoluments in respect of their role in the Company as their services are deemed to be provided to the Company as part of their service to HSBC Group Management Services.

5 Auditors' remuneration

	2018	2017
	\$'000	\$'000
Audit fees for HSBC Global Services Limited statutory audit:		
- Fees relating to current year	15	20
Fees for other services provided to the Company		
- Other non-audit services	3	3
Year ended 31 Dec	18	23

6 Tax

Tax expense

	2018	2017
	\$'000	\$'000
Current tax		
UK Corporation tax		
- For this year	(99)	586
- Adjustments in respect of prior years	13	2
Overseas tax		
- For this year	73	26
- For prior year	5	—
- withholding tax suffered	2,933	2,364
Total current tax	2,925	2,978
Deferred tax		
- Origination and reversals of temporary differences	(60)	11
- Adjustments in respect of prior years	—	(9)
Total deferred tax	(60)	2
Year ended 31 Dec	2,865	2,980

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

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. Additionally in the Budget on 16 March 2016 a further rate reduction to 17% was proposed from 1 April 2020 and this was enacted in the Finance (No2) Act 2016 on 6 September 2016. This has therefore been taken into the calculation of the UK related deferred tax balances as these balances will materially reverse after 1 April 2020.

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:

	2018		2017	
	\$'000	(%)	\$'000	(%)
Profit before tax	104,895		19,895	
Tax at 19% (2017: 19.25%)	19,930	19.00	3,830	19.25
Adjustment in respect of prior years	(13)	(0.01)	(7)	(0.04)
Non-deductible expenses (Permanent disallowable)	20	0.02	94	0.47
Income not taxable for tax purposes (Non-taxable income and gains)	(20,065)	(19.13)	(3,892)	(19.56)
Withholding tax suffered	2,933	2.80	2,364	11.88
Other items	60	0.06	591	2.97
Year ended 31 Dec	2,865	2.74	2,980	14.97

7 Deferred tax

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

	Property and equipment	Share-based payments	Others	Total
	\$'000	\$'000	\$'000	\$'000
At 1 Jan 2018	54	4	—	58
Acquisition and disposals	—	—	—	—
Income statement credit/(charge)	3	(2)	60	61
Equity statement credit	—	—	—	—
Other comprehensive income credit	—	—	—	—
Prior year adjustments	—	—	—	—
Foreign exchange and other	—	—	—	—
Origination and reversal of temporary differences	—	—	—	—
Transfer to reserves	—	(1)	—	(1)
At 31 Dec 2018	57	1	60	118

	Property and equipment	Share-based payments	Others	Total
	\$'000	\$'000	\$'000	\$'000
At 1 Jan 2017	53	6	—	59
Acquisition and disposals	—	—	—	—
Income statement charge	1	(2)	—	(1)
Equity statement credit	—	—	—	—
Other comprehensive income credit	—	—	—	—
Prior year adjustments	—	—	—	—
Foreign exchange and other	—	—	—	—
Origination and reversal of temporary differences	—	—	—	—
Transfer to reserves	—	—	—	—
At 31 Dec 2017	54	4	—	58

Deferred tax is not recognised in respect of the Company's investments in subsidiaries where remittance is not contemplated, where it has been determined that no additional tax will arise.

8 Dividend income

	2018	2017
	\$'000	\$'000
Dividend income from subsidiaries	105,604	20,217
Year ended 31 Dec	105,604	20,217

9 Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis at amortised cost. The table below provides an analysis of financial instruments categorised as account receivables ('AC') and financial liabilities ('FL') at amortised cost.

	Carrying Value	AC	FL
	\$'000	\$'000	\$'000
At 31 Dec 2018			
Assets			
Cash and cash equivalents	124,670	124,670	—
Receivables due from related parties	251,964	251,964	—
Other receivables	4	4	—
Total financial assets	376,638	376,638	—
Liabilities			
Payables due to related parties	248,265	—	248,265
Accruals, deferred income and other liabilities	397	—	397
Total financial liabilities	248,662	—	248,662
At 31 Dec 2017			
Assets			
Cash and cash equivalents	240,689	240,689	—
Receivables due from related parties	283,000	283,000	—
Other receivables	2	2	—
Total financial assets	523,691	523,691	—
Liabilities			
Payables due to related parties	385,540	—	385,540
Accruals, deferred income and other liabilities	2,691	—	2,691
Total financial liabilities	388,231	—	388,231

Financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

10 Other receivables

	2018	2017
	\$'000	\$'000
Non-trade-other receivables	4	2
At 31 Dec	4	2

11 Investments in subsidiaries

	2018	2017
	\$'000	\$'000
Cost		
At 1 Jan	226,882	226,881
Capital injection	565,759	1
At 31 Dec	792,641	226,882
Accumulated impairment		
At 1 Jan	4,000	—
Impairment loss	800	4,000
At 31 Dec	4,800	4,000
Carrying value at 1st Jan	222,882	226,881
Carrying value at 31st Dec	787,841	222,882

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The subsidiary undertakings of the Company at 31 December 2018 are:

	Country of incorporation	Issued and paid up capital 2018	Issued and paid up capital 2017
HSBC Electronic Data Processing (Guangdong) Limited	People's Republic of China	\$48.8m	\$48.8m
HSBC Electronic Data Processing (Philippines) Inc.	Philippines	\$30.0m	\$30.0m
HSBC Electronic Data Processing (Malaysia) Inc.	Malaysia	\$39.1m	\$39.1m
HSBC Electronic Data Processing Lanka (Private) Limited	Sri Lanka	\$22.7m	\$22.7m
HSBC Electronic Data Processing Delivery (Egypt) S.A.E	Egypt	\$9.0m	\$9.0m
HSBC Service Delivery (Polska) Sp Z.o.o	Poland	\$23.7m	\$23.7m
HSBC Global Management Services Limited	United Kingdom	\$23.1m	\$23.1m
HSBC Global Services (UK) Limited	United Kingdom	\$220.2m	\$30.4m
HSBC Global Services (Hong Kong) Limited	Hong Kong	\$310.0m	*-
HSBC Global Services (Canada) Limited	Canada	\$22.4m	-
HSBC PB Services (Suisse) SA.	Switzerland	\$43.6m	-

*Represents 1 ordinary share of HK\$10,000.

All the above subsidiaries are wholly owned. The principal countries of operation are the same as the countries of incorporation.

Investment in Subsidiaries have increased by \$565m to \$788m for 2018 (2017: \$223m). The Company increased its investment in HSBC Global Services (UK) Limited and HSBC Global Services (HK) Limited by \$190m and \$310m respectively, and established of new subsidiary HSBC Global Services (Canada) Limited with an investment of \$22.4m in 2018. In addition, as part of the establishment of the Servco Group the ownership of HSBC PB Services (Suisse) SA was purchased from HSBC Finance (Netherlands) for \$43.6m. An additional impairment loss of \$0.8m was recognised for HSBC Eletronic Data Service Delivery (Egypt) S.A.E.

During 2018, the Company entered into a settlement agreement with HSBC Holding plc for the new share subscription of \$310m into HSBC Global Services Limited, and for the share subscription of \$190m into HSBC Global Services (UK) Limited such that the proceeds were paid directly to HSBC Global Services (Hong Kong) Limited reflecting the onwads investment by the Company to these subsidiaries.

Impairment testing of investment in subsidiaries

At each reporting period end, the Company reviews investments in subsidiaries for indicators of impairment. Where these are identified an impairment review is performed. An impairment is recognised when the carrying amount exceeds the recoverable amount of that investment.

The recoverable amount is the higher of the investment's fair value less costs of disposal and its value in use. The value in use is calculated by discounting management's cash flow projections for the investment.

- The cash flow projections for each investment are based on the latest approved plans and a long-term growth rate is used to extrapolate the cash flows in perpetuity.
- The growth rate reflects GDP and inflation for the country within which the investment operates.
- The rate used to discount cash flows is based on the cost of capital assigned to each investment, which is derived using a capital asset pricing model ('CAPM'). CAPM depends on a number of inputs reflecting financial and economic variables, including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management judgement. In addition, for the purposes of testing investments for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM, with cost of capital rates produced by external sources for businesses operating in similar markets.

There is impairment loss recognised in investment in subsidiaries for HSBC Electronic Data Service Delivery (Egypt) S.A.E. of \$0.8m in 2018 (2017: \$4m).

12 Called up share capital and Reserves

(a) Share capital

	2018		2017	
	Number	\$	Number	\$
Issued, allotted and fully paid up				
Ordinary shares of \$1 each	11	11	8	8
Authorised				
Ordinary shares of \$1 each	100	100	100	100

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

b) Nature and purpose of the reserves

- **Share premium reserve**
The application of the share premium account is governed by Section 610 (2-3) of the Companies Act 2006.
- **Translation reserve**
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
- **General reserve**
The general reserve comprises deferred tax through reserve arising from share-based payment.

13 Management of financial risk

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

Credit risk management

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

Credit risk exists on receivables due from related parties. The maximum exposure to credit risk is represented by the carrying amount of these receivables. There were no significant concentrations of credit risk at the end of the reporting period. The average credit period is 30 days. However, there is no ECL allowance recognised during the financial year.

(a) Measurement of ECL (Simplified approach)

The expected loss rates are based on the payment profiles of sales over a period of 60 months before reporting date and the corresponding historical credit losses experienced within this period. There is no historical credit losses experienced by the Company in the last 60 months before reporting date, hence no expected credit loss is recognised. The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements of IFRS 9 are applied.

	Gross carrying/ nominal amount \$'000	Allowance/Provision for ECL ¹ \$'000
Cash and cash equivalents	124,670	—
Receivables due from related parties	251,964	—
Other receivables	4	—
Total gross carrying amount on balance sheet	376,638	—
At 31 Dec 2018	376,638	—

(b) Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Company's maximum exposure to credit risk on these assets:

At 31 Dec 2018	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	—	—	—	—	—
Gross carrying amount - receivables due from related parties	191,759	29,163	12,834	18,208	251,964
Loss allowance	—	—	—	—	—
Carrying amount (net of loss allowance)	191,759	29,163	12,834	18,208	251,964

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At 31 Dec 2017	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Gross carrying amount -					
receivables due from related parties	229,787	31,330	7,245	14,638	283,000
Loss allowance	—	—	—	—	—
Carrying amount (net of loss allowance)	229,787	31,330	7,245	14,638	283,000

Market risk management

Foreign currency risk

The Company's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments.

	CNY	Euro	GBP	HKD	MYR	Total
At 31 Dec 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	20,097	10,919	30,995	4,818	6,524	73,353
Receivables due from related parties	23,059	3,746	29,949	1,190	—	57,944
Total assets	43,156	14,665	60,944	6,008	6,524	131,297
Payables due to related parties	53,334	6,794	16,388	836	—	77,352
Total liabilities and equity	53,334	6,794	16,388	836	—	77,352
Net exposure	(10,178)	7,871	44,556	5,172	6,524	53,945

	CNY	Euro	GBP	HKD	MYR	Total
At 31 Dec 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	4,994	11,405	50,321	12,100	5,091	83,911
Receivables due from related parties	22,948	2,189	19,416	2,160	—	46,713
Total assets	27,942	13,594	69,737	14,260	5,091	130,624
Payables due to related parties	37,180	6,821	30,565	1,625	—	76,191
Total liabilities and equity	37,180	6,821	30,565	1,625	—	76,191
Net exposure	(9,238)	6,773	39,172	12,635	5,091	54,433

Sensitivity analysis

A 5% strengthening of the United States Dollars against the following currencies as at 31 December 2018 would have increased/ (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

	Profit or (Loss)
	2018 2017
	\$'000 \$'000
CNY	(535) (486)
EUR	414 356
GBP	2,345 2,062
HKD	272 665
MYR	343 268

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. A 5% weakening of the United States Dollars against the above currencies as at 31 December 2018 would have had the opposite effect of approximately the same amounts as shown above, assuming that all other variables remain constant.

The Company's receivables and payables are not significantly exposed to interest rate risk and price risk.

Liquidity risk management

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

The Company monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

HSBC Global Services Limited

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

	Due within 3 months \$'000	Total \$'000
Payables due to related parties	248,265	248,265
Accruals and other liabilities	397	397
At 31 Dec 2018	248,662	248,662
Payables due to related parties	385,540	385,540
Accruals and other liabilities	2,691	2,691
At 31 Dec 2017	388,231	388,231

14 Capital commitments

The Company does not have any capital commitment as of end of the reporting date.

15 Related party transactions

Transaction with other related parties

Transactions detailed below include amounts due to/from HSBC Holdings plc

	2018 Balance at 31 December \$'000	2017 Balance at 31 December \$'000
Assets		
Receivables due from immediate parent	18,040	44,449
Liabilities		
Payables due to immediate parent	156	146

The Company participates in various share awards schemes operated by HSBC Holdings plc whereby shares of HSBC Holdings plc are granted to employees of the Company. The Company recognises an expense in respect of these share awards. The cost borne by the Company in respect of these share awards is treated as a capital contribution and is recorded under 'Share-based payment reserves'. The balance of this reserve as at 31 December 2018 amounted to nil (2017: nil).

Revenue earned of \$108m (2017: \$164m) and receivables due from immediate parent are for services billed (services of providing business processing and knowledge processing services) to HSBC Holdings plc. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days.

Transactions detailed below include amounts due to/from other related parties

	2018 Balance at 31 December \$'000	2017 Balance at 31 December \$'000
Assets		
Cash and cash equivalents	124,670	240,689
Receivables due from other related parties	153,925	168,756
Liabilities		
Payable due to other related parties	81,528	226,899

Other related parties comprise other HSBC Group companies.

The cash and cash equivalents consist of bank balances with HSBC Bank plc and HSBC Bank Malaysia Berhad. During the year, interest of \$1.4m (2017: \$0.7m) was earned on these accounts.

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Revenue earned of \$776m (2017: \$795m) and receivables due from other related parties are for services billed (services of providing business processing and knowledge processing services) to other HSBC Group entities. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days.

Cost of services purchased of \$635m (2017: \$622m) and payables due to other HSBC Group companies are for services purchased (services of providing business processing and knowledge processing services) from other HSBC Group companies. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days.

Transactions detailed below include amounts due to/from subsidiaries

	2018 Balance at 31 December \$'000	2017 Balance at 31 December \$'000
Assets		
Receivable due from subsidiaries	79,999	69,795
Liabilities		
Payables due to subsidiaries	166,581	158,495

During 2018, the Company received dividend income from subsidiaries of \$106m (2017: \$20m).

Revenue earned of \$348m (2017: \$234m) and receivables due from subsidiaries are for services billed (services of providing business processing and knowledge processing services) to subsidiaries. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days.

Cost of services purchased of \$596m (2017: \$569m) and payables due to subsidiaries are for services purchased (services of providing business processing and knowledge processing services) from the subsidiaries. The outstanding balances arose from the ordinary course of business and on substantially the same terms as for comparable transactions with third party counterparts. The average credit period is 30 days.

16 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 parent undertaking is HSBC Holdings plc. All companies are registered in England and Wales.

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

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

17 Events after the balance sheet date

There are no significant events after the balance sheet date.