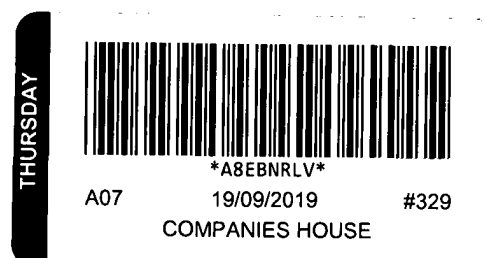


# HSBC Executor & Trustee Company (UK) Limited

**Registration No: 362578**

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



INTERNAL

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

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## Strategic Report

### Principal activities

HSBC Executor & Trustee Company (UK) Limited ('the Entity') is a limited company domiciled and incorporated in England and Wales. Its trading address is 8 Canada Square, London E14 5HQ, United Kingdom.

The Entity is limited by shares.

The Entity's principal activity is the administration of estates and trusts. The Entity has made no significant change during the period. The Entity has no employees, and all related services are provided by the parent company.

### Review of the Entity's business

Drawing on the strength of HSBC Group and the most suitable products from the marketplace, we work with our clients to provide solutions to grow, manage and preserve wealth for today and for the future. The Entity continues to simplify and improve the way it conducts its business, including complying with HSBC Global Standards, financial crime compliance measures, customer due diligence and tax transparency standards.

The Entity's results for the year ended 31 December 2018 are as detailed in the income statement shown in these financial statements. The income statement is indicative of the Entity's performance and as such individual key performance indicators are not considered in the strategic report.

### Principal risks and uncertainties

The principal financial risks and uncertainties facing the Entity 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 11 of the financial statements.

#### Market risk

Market risk is the risk that movements in market risk factors will affect the Entity's performance. Interest rate risk is the only type of market risk to which the Entity is directly exposed and this is managed by placing deposits with related group undertakings at call.

The Entity is indirectly exposed to market risk through their valuation of client investments in ISAs, structured products and managed portfolios, which impacts on the income derived from the management of these.

#### Credit risk

Credit risk is the risk that financial loss arises from a failure of a customer or counterparty to meet its obligations under the contract. The Entity's only significant credit exposure is to its parent and related group undertakings.

The maximum exposure to credit risk is represented by the carrying amount of all financial assets in the balance sheet. The Entity's exposure to credit risk is limited to HSBC Group entities and given their high credit ratings management does not expect these counterparties to fail to meet their obligations.

#### Liquidity and cashflow risk

Liquidity risk is the risk that the Entity will not be able to meet its financial obligations as they fall due. The Entity holds sufficient levels of cash balances at all times, such that operational cash flows can be met.

The Entity maintains a strong compliance culture and monitors the regulatory environment closely to react proactively to changes and reduce risks to the business.

The UK is due to formally leave the EU in 2019. Before this can happen the UK and the 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 principal risks affecting the Entity. However this is not expected to have a material impact on the results or net assets of the Entity given the nature of the Entity's transactions, counterparties and available security.

On behalf of the Board



D J Coke  
Director

5 September 2019

8 Canada Square  
London E14 5HQ  
United Kingdom

## Report of the Directors

### Directors

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

Name	Appointed	Resigned
D J Coke		
D A Morse		1 February 2019
M A Oates	14 January 2019	
V S Farrell	14 January 2019	

The Articles of Association of the Entity provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Entity 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 2018 (2017: nil).

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

No significant events affecting the Entity have occurred since the end of the financial year.

### Future developments

No change in the Entity's activities is expected.

### Going concern basis

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

### Capital management

The Entity defines capital as total shareholders' equity. It is the Entity'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 Entity's approach to capital management during the year.

### Independent auditors

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

## **Directors' responsibility statement**

The following statement, which should be read in conjunction with the auditor's statement of their responsibilities set out in their report on the next page, 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 Entity 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 Entity has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

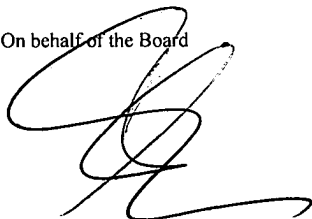
The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Entity and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for safeguarding the assets of the Entity 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 Entity'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 Entity's auditors are aware of that information.

On behalf of the Board



D J Coke  
Director  
5 September 2019

8 Canada Square  
London E14 5HQ  
United Kingdom

## **Report of the independent auditors to the members of HSBC Executor & Trustee Company (UK) Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, HSBC Executor & Trustee Company (UK) Limited's financial statements:

- give a true and fair view of the state of the Entity'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 IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

#### **Basis of opinion**

We conducted our audit in accordance with International Standards 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**

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

#### **Reporting on other information**

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

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

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

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

#### **Strategic Report and Report of the Directors**

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

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

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

### **Responsibilities of the Directors for the financial statements**

As explained more fully in the Directors' responsibility statement set out on page 3, 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](http://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.

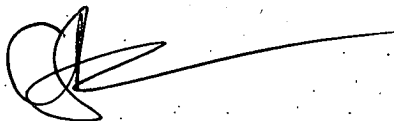
## **Other required reporting**

### **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 Entity, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Carl Sizer (Senior Statutory Auditor)  
For and on behalf of **PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
Birmingham

5 September 2019

## Financial statements

### Income statement for the year ended 31 December 2018

		2018	2017
	Notes	£'000	£'000
Interest income		1	—
<b>Net interest income</b>		<b>1</b>	<b>—</b>
Fee and commission income	2	16	23
<b>Net fee income</b>		<b>16</b>	<b>23</b>
<b>Net operating income</b>		<b>17</b>	<b>23</b>
General and administrative expenses		(5)	(5)
<b>Total operating expenses</b>		<b>(5)</b>	<b>(5)</b>
<b>Profit before tax</b>		<b>12</b>	<b>18</b>
Tax credit/(expense)	5	(3)	(3)
<b>Profit for the year</b>		<b>9</b>	<b>15</b>

### Statement of comprehensive income for the year ended 31 December 2018

All operations are continuing. There has been no comprehensive income or expense other than the profit for the year as shown above (2017: nil).



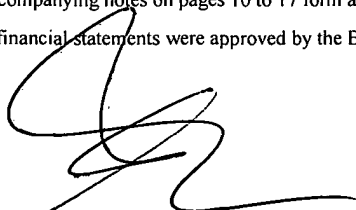
**Balance sheet at 31 December 2018**

**Registration No: 362578**

		2018	2017
	Notes	£'000	£'000
<b>Assets</b>			
Loans and advances to banks		239	226
Prepayments and accrued income		-	1
<b>Total assets</b>		<b>239</b>	<b>227</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Accruals, deferred income and other liabilities	9	12	8
Current tax liabilities		2	3
<b>Total liabilities</b>		<b>14</b>	<b>11</b>
<b>Equity</b>			
Called up share capital	10	100	100
Retained earnings		125	116
<b>Total equity</b>		<b>225</b>	<b>216</b>
<b>Total liabilities and equity</b>		<b>239</b>	<b>227</b>

The accompanying notes on pages 10 to 17 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 5 September 2019 and signed on its behalf by:



D J Coke  
Director

Statement of cash flows for the year ended 31 December 2018

		2018	2017
	Notes	£'000	£'000
Cash flows from operating activities			
Profit before tax		12	18
Adjustments for:			
Change in operating assets	6	1	-
Change in operating liabilities	6	4	2
Tax credit paid		(4)	(6)
Net cash generated from operating activities		13	14
Net increase in cash and cash equivalents		13	14
Cash and cash equivalents brought forward		226	212
Cash and cash equivalents carried forward	6	239	226

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

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 Jan 2018	100	116	216
Profit for the year	—	9	9
Total comprehensive income for the year	—	9	9
At 31 Dec 2018	100	125	225

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 Jan 2017	100	101	201
Profit for the year	—	15	15
Total comprehensive income for the year	—	15	15
At 31 Dec 2017	100	116	216

Equity is wholly attributable to equity shareholders of HSBC Executor & Trust Company (UK) Limited.

## Notes on the financial statements

### 1 Basis of preparation and significant accounting policies

The financial statements of the Entity 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 Entity 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 Entity's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

The financial statements have been prepared under the historical cost convention.

##### Standards adopted during the year ended 31 December 2018

The Entity 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. As a result, the effects of changes in those liabilities' credit risk is presented in other comprehensive income with the remaining effect presented in profit or loss. As permitted by the transitional requirements of IFRS 9, comparatives have not been restated. Adoption has had no significant impact on profits or net assets.

In addition, the Entity 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 Entity.

##### (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 Entity expects they will have an insignificant effect, when adopted, on the financial statements of the Entity.

###### Major new IFRSs

The IASB has published IFRS 16 'Leases' and IFRS 17 'Insurance contracts'. IFRS 16 has been endorsed for use in the EU and IFRS 17 has not yet been endorsed. In addition, an amendment to IAS 12 'Income Taxes' has not yet been endorsed. The Entity expects they will have an insignificant effect, when adopted, on the financial statements of the Entity.

##### (c) Foreign currencies

The functional currency of the Entity is sterling, which is also the presentational currency of the financial statements of the Entity.

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 Entity as an individual undertaking and not about its group.

##### (e) Critical accounting estimates and judgements

There are no accounting policies or estimates that are deemed critical to the Entity's results and financial position, in terms of materiality of the items to which the policies applied, which involve a high degree of judgement and estimation.

##### (f) Going concern

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

### 1.2 Summary of significant accounting policies

#### (a) Income and expense

##### Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method.

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

Income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management services).

#### **(b) Financial instruments measured at amortised cost**

##### Loans and advances

Loans and advances to other group undertakings are those that have not been classified either as held-for-trading or designated at fair value. These loans are recognised when cash is advanced and are derecognised when the undertakings repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

#### **(c) Impairment of financial assets held at amortised cost**

Expected credit losses are recognised for loans and advances to banks and customers, other financial assets held at amortised cost. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which 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'.

##### Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

#### **(d) 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 Entity 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.

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

#### **(e) 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.

#### **(f) 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.

#### **(g) Accounting policies applicable prior to 1 January 2018**

##### Impairment of loans and advances

Loan impairment allowances represent management's best estimate of losses incurred in the loan portfolios at the balance sheet date. Management is required to exercise judgement in making assumptions and estimates when calculating loan impairment allowances on both individually and collectively assessed loans and advances.

Losses for impaired loans are recognised promptly when there is objective evidence that impairment of loan or portfolio of loan has occurred. Impairment allowances are calculated on individual loans or on groups of loans assessed collectively, are recorded as charges to the income statement and are recorded against the carrying amount of impaired loans on the balance sheet. Losses which may arise from future events are not recognised.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the balance sheet date is likely to be greater or less than that suggested by historical experience.

##### Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the income statement.

## 2 Operating Profit

	2018 £'000	2017 £'000
<b>Fee income</b>		
Fees earned on trust and other fiduciary activities where the Entity holds or invests assets on behalf of its customers	16	23
<b>General and administrative expenses</b>		
Recharge's from other group entities for services provided	3	5

The Entity has no employees. The charges for all staff related services for the current and prior year has been borne by other group Entities and recharged as noted above.

## 3 Directors emoluments

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

## 4 Auditors' remuneration

	2018 £'000	2017 £'000
<b>Audit fees for statutory audit</b>		
- Fees relating to current year	2	2
<b>Year ended 31 Dec</b>	<b>2</b>	<b>2</b>

## 5 Tax

### Tax expense

	2018 £'000	2017 £'000
<b>Current tax</b>		
UK corporation tax		
- For this year	3	3
<b>Year ended 31 Dec</b>	<b>3</b>	<b>3</b>

The UK corporation tax rate applying to the Entity was 19% (2017: 19.25%).

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

### Tax reconciliation

	2018		2017	
	£'000	(%)	£'000	(%)
Profit before tax	12		18	
Tax at 19% (2017: 19.25%)	3	19	3	19.25
<b>Year ended 31 Dec</b>	<b>3</b>	<b>19</b>	<b>3</b>	<b>19.25</b>

## 6 Reconciliation of profit before tax to Net cash flow

	2018 £'000	2017 £'000
<b>Change in operating assets</b>		
Change in prepayments and accrued income	1	—
	1	—
<b>Change in operating liabilities</b>		
Change in other liabilities	4	2
	4	2
<b>Cash and cash equivalents comprise</b>		
Loans and advances to banks of one month or less	239	226
	239	226

## 7 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.

	Amortised cost £'000
<b>At 31 Dec 2018</b>	
<b>Assets</b>	
Loans and advances to banks	239
Prepayments and accrued income	—
<b>Total financial assets</b>	<b>239</b>
<b>Total non-financial assets</b>	<b>—</b>
<b>Total assets</b>	<b>239</b>
<b>Liabilities</b>	
Accruals, deferred income and other liabilities	12
<b>Total financial liabilities</b>	<b>12</b>
<b>Total non-financial liabilities</b>	<b>2</b>
<b>Total liabilities</b>	<b>14</b>

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

	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
<b>At 31 Dec 2017</b>			
<b>Assets</b>			
Loans and advances to banks	226	—	226
Prepayments and accrued income	—	1	1
<b>Total financial assets</b>	<b>226</b>	<b>1</b>	<b>227</b>
<b>Total non-financial assets</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total assets</b>	<b>226</b>	<b>1</b>	<b>227</b>
<b>Liabilities</b>			
Accruals, deferred income and other liabilities	—	8	8
<b>Total financial liabilities</b>	<b>—</b>	<b>8</b>	<b>8</b>
<b>Total non-financial liabilities</b>	<b>—</b>	<b>—</b>	<b>3</b>
<b>Total liabilities</b>	<b>—</b>	<b>8</b>	<b>11</b>

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

For all financial instruments, the fair value is equal to the carrying value in the balance sheet, except as analysed below; that is because they are short-term in nature or reprice to current market rates frequently. Fair value is assumed to equal carrying value for all balances repricing in less than six months.

### Fair value hierarchy

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

- Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.
- 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.
- Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

	Fair values				
	Valuation techniques				
	Carrying amount	Quoted price	Observable inputs	Significant unobservable inputs	Total
	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
<b>At 31 Dec 2018</b>					
<b>Assets</b>					
Loans and advances to banks	239	—	239	—	239
<b>At 31 Dec 2017</b>					
<b>Assets</b>					
Loans and advances to banks	226	—	226	—	226

## 9 Accruals, deferred income and other financial liabilities

	2018 £'000	2017 £'000
Accruals and deferred income	2	4
Amounts owed to immediate parent undertaking	5	2
Amounts owed to other group companies	4	—
Other liabilities	1	2
<b>At 31 Dec</b>	<b>12</b>	<b>8</b>

Amounts repayable to other group undertakings are unsecured, interest free and have no fixed date of repayment.

## 10. Maturity analysis of assets and liabilities

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

	On demand £'000	Due within 3 months £'000	Due between 3 - 12 months £'000	Due between 1 - 5 years £'000	Due after 5 years £'000	Undated £'000	Total £'000
<b>Assets</b>							
Loans and advances to banks	239	—	—	—	—	—	239
Prepayment and accrued income	—	—	—	—	—	—	—
<b>At 31 Dec 2018</b>	<b>239</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>239</b>
<b>Liabilities and Equity</b>							
Accruals and other financial liabilities	12	—	—	—	—	—	12
Non-financial liabilities	—	—	2	—	—	—	2
Equity	—	—	—	—	—	225	225
<b>At 31 Dec 2018</b>	<b>12</b>	<b>—</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>225</b>	<b>239</b>

<b>Assets</b>							
Loans and advances to banks	226	—	—	—	—	—	226
Prepayment and accrued income	1	—	—	—	—	—	1
<b>At 31 Dec 2017</b>	<b>227</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>227</b>
<b>Liabilities and Equity</b>							
Accruals and other financial liabilities	8	—	—	—	—	—	8
Non-financial liabilities	—	—	3	—	—	—	3
Equity	—	—	—	—	—	216	216
<b>At 31 Dec 2017</b>	<b>8</b>	<b>—</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>216</b>	<b>227</b>

## 11 Called up share capital

	2018 Number	£'000	2017 Number	£'000
<b>Issued, allotted and partially paid up</b>				
Ordinary shares of £1 each, 40p paid	250,000	100	250,000	100
<b>As at 1 Jan and 31 Dec</b>	<b>250,000</b>	<b>100</b>	<b>250,000</b>	<b>100</b>

No restrictions relating to distributions or repayment of capital are attached to the Ordinary shares.



## 12 Management of financial risk

All of the Entity'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 Entity as a going concern.

### Credit risk management

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

Within the overall framework of the HSBC Group policy, the Entity has an established risk management process encompassing credit approvals, the control of exposures, credit policy direction to the business, and the monitoring and reporting of exposures. The management of the Entity is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to identify problem exposures in order to accelerate remedial action while building a portfolio of high quality risk assets. The Entity's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Regular reviews are undertaken to assess and evaluate levels of risk concentration.

The majority of the Entity's exposure to credit risk is to the ultimate parent undertaking, HSBC UK Bank plc.

#### I. Maximum exposure to credit risk

	2018		
	Maximum exposure	Offset	Net
	£'000	£'000	£'000
Loans and advances to banks at amortised cost	239	—	239
<b>At 31 Dec</b>	<b>239</b>	<b>—</b>	<b>239</b>
	2017		
	Maximum exposure	Offset	Net
	£'000	£'000	£'000
Loans and advances to banks at amortised cost	226	—	226
Other assets	1	—	1
<b>At 31 Dec</b>	<b>227</b>	<b>—</b>	<b>227</b>

#### II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 11). The Entity uses a number of controls and measures to minimise undue concentration of exposure in the Entity's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Due to the retail-based nature of its lending activities, the Entity is not exposed to any significant concentration risk. 98.8% (2017: 99.6 %) of the credit risk exposure is to the ultimate parent undertaking, HSBC UK Bank plc.

#### III. Credit quality

The five credit quality classifications defined below each encompass a range of more granular, internal credit rating grades, as well as external rating:

Quality classification	External credit rating
Strong	A- and above
Good	BBB+ to BBB-
Satisfactory	BB+ to B and unrated
Sub-standard	B- to C
Credit-impaired	Default

The five classifications below describe the credit quality of the Entity's lending. These categories each encompass a range of more granular, internal credit rating grades assigned to corporate and personal lending business.

##### Quality classification definitions

'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default.

'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.

'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.

'Credit-impaired' exposures have been assessed as impaired.

Distribution of financial instruments by credit quality

	Strong	Total
	£'000	£'000
Loans and advances to banks	239	239
At 31 Dec 2018	239	239
Loans and advances to banks	226	226
At 31 Dec 2017	226	226

**IV. Collateral and other credit enhancements**

The Entity follows guidelines as to the acceptability of specific classes of collateral or credit risk mitigation. While collateral is important in mitigating credit risk, it is the Entity practice to lend on the basis of the customer's ability to meet their obligations out of cash from resources rather than rely on the value of security offered.

Summary of loan book analysed by collateral type is provided below

	2018	2017
	£'000	£'000
Unsecured	239	226
Loans and advances	239	226

**Liquidity risk management**

Liquidity risk is the risk that the Entity 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 Entity holds sufficient levels of cash balances at all times, such that operational cash flows can be met.

**Market risk management**

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

The Entity's objective is to manage and control market rate exposures while maintaining a market profile consistent with its risk appetite.

Disclosures on market price risk, foreign exchange risk and interest rate risk are provided below.

**Market price risk**

The Entity is indirectly exposed to market price risk through their valuation of client investments in managed portfolios, which impacts on the income derived from the management of these.

**Foreign exchange risk**

The Entity has no material foreign exchange risk as all balances and transactions are in sterling.

**Interest rate risk**

Interest rate risk is the risk that a change in interest rates will affect the Entity's performance. The Entity manages its interest rate risk by placing deposits with HSBC Bank plc. A change in 100bp in interest rates at the reporting date would have increased/decreased profits by £2k (2017: £2k). This analysis assumes that other variables remain constant.

## 13 Related party transactions

### (a) Transactions with Directors and other Key Management Personnel

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Entity and includes members of the Board of Directors.

### (b) Transactions with other related parties

Transactions detailed below include amounts due to/from HSBC Trust Company (UK) Limited.

	2018 Balance at 31 December £'000	2017 Balance at 31 December £'000
Liabilities		
Other liabilities	4	2
	2018 £'000	2017 £'000
Income statement		
General and administrative expenses	3	5

Transactions detailed below include amounts due to/from other group entities.

	2018 Balance at 31 December £'000	2017 Balance at 31 December £'000
Assets		
Loans and advances to banks	239	226
Liabilities		
Other liabilities	5	—
	2018 £'000	2017 £'000
Income statement		
Interest income	1	—

The above transactions were made in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

## 14 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. HSBC UK Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Trust Company (UK) Limited. On 1 July 2018 the immediate parent undertaking of HSBC Trust Company (UK) Limited changed from HSBC Bank plc to HSBC UK Bank plc as part of structural changes within HSBC Group to meet Ring Fenced Bank requirements. All companies are registered in England and Wales.

Copies of HSBC Holdings plc's and HSBC UK Bank plc's consolidated financial statements can be obtained from

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

HSBC UK Bank plc  
1 Centenary Square  
Birmingham B1 1HQ  
United Kingdom  
www.hsbc.com

## 15 Events after the balance sheet date

There are no significant events after the balance sheet date.