

**HSBC Overseas Holdings (UK) Limited**  
Registered No: 1656361

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

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**HSBC Overseas Holdings (UK) Limited**  
Registered No: 1656361

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

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## HSBC Overseas Holdings (UK) Limited

### Strategic Report

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#### Principal activities

During the year ended 31 December 2016 HSBC Overseas Holdings (UK) Limited (the 'Company') continued to be an investment holding company.

The Company is a limited company domiciled and incorporated in England and Wales.

#### Review of the Company's business

The business is funded principally by its parent, HSBC Holdings plc.

The performance of the Company's investments and the statement of comprehensive income and statement of financial position provide the key performance indicators.

#### Performance

The performance and position of the Company for the year ended 31 December 2016 and the state of the Company's financial affairs at that date are set out on pages 8 to 40.

The results of the Company show a profit before tax of US\$883 million for the year (2015: US\$293 million).

In May 2016, the Company purchased 184 preference shares of US\$0.01 in its wholly owned subsidiary, HSBC North America Holdings Inc., for a consideration of US\$1,840 million. This was financed by the Company through a loan from its parent company, HSBC Holdings plc. In addition to this, further loans of US\$6,500 million were made to the Company from its parent company, HSBC Holdings plc.

During the year, the Company provided loans to its subsidiary undertakings, HSBC North America Holdings Inc. and HSBC Canada Holdings (UK) Limited amounting to US\$6,000 million and US\$53.5 million respectively.

During the year, the Company's wholly owned subsidiary, Household International Europe Limited along with its subsidiaries, distributed substantially all of its remaining assets to the Company. The disposal was as a result of the proposed wind up and liquidation of all the subsidiaries in the sub group which subsequently occurred in January 2017. This resulted in a release of the provision for impairment in subsidiary undertakings of US\$130 million (2015: US\$nil).

The Company recognised the following dividends from HSBC undertakings:

	2016 US\$000	2015 US\$000
HSBC North America Holdings Inc.	171,973	107,746
HSBC Software Development (Guangdong) Limited	-	26,483
HSBC Canada Holdings (UK) Limited	760,000	265,000
	<u>931,973</u>	<u>399,229</u>

#### Key performance indicators

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

**HSBC Overseas Holdings (UK) Limited**

**Strategic Report (continued)**

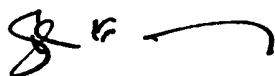
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**Principal risks and uncertainties**

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 15 of the Notes on the Financial Statements.

The Company's exposures to foreign currency, credit, market, liquidity and interest rate risk are limited due to the nature of its business, which is predominantly investing in or financing of subsidiaries. These transactions are generally funded by way of equity obtained from the parent company.

Signed on behalf of the Board



Director  
I F MacKinnon

Dated: 23 June 2017

Registered Office  
8 Canada Square  
London  
E14 5HQ  
Registered number: 1656361

## HSBC Overseas Holdings (UK) Limited

### Directors' Report

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#### Directors

The directors who served during the year were as follows:

Name	Resigned
R J Hennity	
I J Mackay	
I F MacKinnon	
B J S Mathews	
G A Francis	
B Pascoe	8 February 2017

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 director's and officers' liability insurance.

#### Dividends

Dividends of US\$412 million were declared and paid during the year (2015: US\$1,075 million).

The Directors intend to declare an interim dividend of US\$2,350 million payable in 2017.

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

The Company received dividends amounting to US\$30 million from HSBC North America Holdings Inc. in April 2017.

The Company also received a distribution of US\$2,500 million as a return of the cost of investment from its subsidiary, HSBC North America Holdings Inc. in April 2017.

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

#### Future developments

No change in the Company's activities is expected.

#### Going concern basis

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

#### Financial instruments

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 15 of the Notes to the Financial Statements.

## **HSBC Overseas Holdings (UK) Limited**

### **Directors' Report (continued)**

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#### **Capital management**

In line with HSBC Group policy, the Company maintains a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Company recognises the impact on shareholder returns of 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. The Company is not subject to externally imposed capital requirements.

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 Company defines capital as total equity, the components of which are set out in the balance sheet.

#### **Disclosure of information to auditor**

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

#### **Auditor**

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

**Directors' Report (continued)**

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**Statement of Directors' Responsibilities**

The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out in their report on page 7, is made with a view to distinguish the respective responsibilities of the Directors and of the Auditor in relation to the financial statements.

The Directors are responsible for preparing, in accordance with applicable law and regulations, a Strategic Report, a Directors' Report and financial statements for each financial year.

The Directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and have elected to prepare the Company's financial statements on the same basis.

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

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

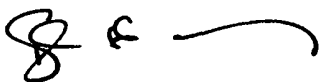
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether they have been prepared in accordance with IFRSs as adopted by the EU.

The Directors are required to prepare the financial statements on the going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

The Directors have responsibility for ensuring that sufficient accounting records are kept that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Signed on behalf of the Board



I F MacKinnon  
Director

Dated: 23 June 2017

Registered Office  
8 Canada Square  
London  
E14 5HQ  
Registered number :1656361

## **HSBC Overseas Holdings (UK) Limited**

### **Independent Auditors' Report to the Members of HSBC Overseas Holdings (UK) Limited**

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#### **Report on the financial statements**

##### *Our opinion*

In our opinion, HSBC Overseas Holdings (UK) Limited's financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### *What we have audited*

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

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

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

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

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

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

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

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

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

##### *Adequacy of accounting records and information and explanations received*

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

##### *Directors' remuneration*

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



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

*Our responsibilities and those of the Directors*

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

*What an audit of financial statements involves*

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

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements. We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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



Matthew Falconer (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
Date: 23 June 2017

## HSBC Overseas Holdings (UK) Limited

### Financial Statements

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

	Notes	2016 US\$000	2015 US\$000
Interest income		157,604	26,914
Interest expense		(335,495)	(132,120)
<b>Net interest expense</b>		<b>(177,891)</b>	<b>(105,206)</b>
Net trading expense		(503)	(970)
Dividend income		931,973	399,229
Other operating expense	2	(1)	-
<b>Net operating income</b>		<b>753,578</b>	<b>293,053</b>
General and administrative expense		(15)	(21)
Reversal of impairment on investment in subsidiaries		129,924	-
<b>Total operating expenses</b>		<b>129,909</b>	<b>(21)</b>
<b>Operating profit</b>		<b>883,487</b>	<b>293,032</b>
<b>Profit before tax</b>		<b>883,487</b>	<b>293,032</b>
Tax credit	6	35,384	20,171
<b>Profit for the year</b>		<b>918,871</b>	<b>313,203</b>

The accompanying notes on pages 12 to 40 form an integral part of these financial statements.

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

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

**HSBC Overseas Holdings (UK) Limited**

**Financial Statements (continued)**

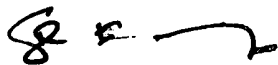
**Statement of financial position as at 31 December 2016**

	<i>Notes</i>	<b>2016</b> <b>US\$000</b>	<b>2015</b> <b>US\$000</b>
<b>Assets</b>			
Cash and cash equivalents	12	<b>50,967</b>	27,710
Loans and advances	7	<b>8,344,228</b>	2,262,202
Trade and other receivables	8	<b>2,795</b>	21,893
Financial investments		<b>85</b>	85
Prepayments and accrued income		<b>29,878</b>	52,378
Current tax asset		<b>56,886</b>	21,502
Investments in subsidiary undertakings	9	<b>36,951,878</b>	35,111,878
<b>Total assets</b>		<b><u>45,436,717</u></b>	<b><u>37,497,648</u></b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Loans from HSBC undertakings	10	<b>14,970,463</b>	7,538,265
<b>Total liabilities</b>		<b><u>14,970,463</u></b>	<b><u>7,538,265</u></b>
<b>Equity</b>			
Share premium account		<b>20,038,009</b>	20,038,009
Retained earnings		<b>10,428,245</b>	9,921,374
<b>Total equity</b>		<b><u>30,466,254</u></b>	<b><u>29,959,383</u></b>
<b>Total equity and liabilities</b>		<b><u>45,436,717</u></b>	<b><u>37,497,648</u></b>

Called up share capital is US\$202 (2015: US\$202) (See Note 11) but been rounded down to nil above, as balances are displayed in US\$000s.

The accompanying notes on pages 12 to 40 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 June 2017 and were signed on its behalf by:



I F MacKinnon  
Director

## HSBC Overseas Holdings (UK) Limited

### Financial Statements (continued)

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

	Notes	2016 US\$000	2015 US\$000
<b>Cash flows from operating activities</b>			
Profit before tax		883,487	293,032
Adjustments for:			
- non cash items included in profit before tax	12	(129,924)	-
- change in operating assets	12	41,598	(2,267,109)
- change in operating liabilities	12	-	2,263,498
- tax received		-	20,569
Net cash generated from operating activities		795,161	309,990
<b>Cash flows from investing activities</b>			
Net loans and advances to HSBC undertakings		(6,082,026)	-
Net cash outflow from investment in subsidiaries		(1,710,076)	-
Net cash used in investing activities		(7,792,102)	-
<b>Cash flows from financing activities</b>			
Loans from HSBC undertakings		7,432,198	-
Dividends paid		(412,000)	(1,075,000)
Net cash used in financing activities		7,020,198	(1,075,000)
<b>Net increase/(decrease) in cash and cash equivalents</b>		23,257	(765,010)
Cash and cash equivalents brought forward		27,710	792,720
<b>Cash and cash equivalents carried forward</b>		<u>50,967</u>	<u>27,710</u>

The accompanying notes on pages 12 to 40 form an integral part of these financial statements.

**HSBC Overseas Holdings (UK) Limited**

**Financial Statements (continued)**

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

	Share premium US\$000	Retained earnings US\$000	Total US\$000
<b>2016</b>			
At 1 January 2016	20,038,009	9,921,374	29,959,383
Profit for the year	-	918,871	918,871
Total comprehensive income for the year	-	918,871	918,871
Dividends to shareholders	-	(412,000)	(412,000)
At 31 December 2016	20,038,009	10,428,245	30,466,254

Called up share capital is US\$202 (2015: US\$202) (See Note 11) but been rounded down to nil above, as balances are displayed in US\$000s

The accompanying notes on pages 12 to 40 form an integral part of these financial statements.

	Share premium US\$000	Retained earnings US\$000	Total US\$000
<b>2015</b>			
At 1 January 2015	20,038,009	10,683,171	30,721,180
Profit for the year	-	313,203	313,203
Total comprehensive income for the year	-	313,203	313,203
Dividends to shareholders	-	(1,075,000)	(1,075,000)
At 31 December 2015	20,038,009	9,921,374	29,959,383

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

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**A Basis of preparation**

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

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

At 31 December 2016, there were no unendorsed standards effective for the year ended 31 December 2016 affecting these financial statements and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

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

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

**(b) Future accounting developments**

**Minor amendments to IFRSs**

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

**Major new IFRSs**

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

*IFRS 9 'Financial Instruments'*

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

**Classification and measurement**

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

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

#### Impairment

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

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

#### Hedge accounting

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

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

#### Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. The mandatory application date for the standard as a whole is 1 January 2018, but it is possible to apply the revised presentation for certain liabilities measured at fair value from an earlier date. The Company is assessing the impact that the impairment requirements will have on the financial statements.

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

*IFRS 15 'Revenue from Contracts with Customers'*

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers'. The original effective date of IFRS 15 has been delayed by one year and the standard is now effective for annual periods beginning on or after 1 January 2018 with early application permitted. IFRS 15 provides a principles-based approach for revenue recognition and introduces the concept of recognising revenue for performance obligations as they are satisfied. The standard should be applied retrospectively, with certain practical expedients available. The Company is not expected to be materially impacted by this standard.

**(c) Foreign currencies**

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

**(d) Presentation of information**

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

The functional currency of the Company is US Dollars, which is also the presentation currency of the financial statements of the Company.

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

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

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

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



**(f) Critical accounting estimates and judgements**

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below as the critical accounting estimates and judgements, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these Financial Statements. Management's selection of the Company's accounting policies which contain critical estimates and judgements is listed below. It reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

- Impairment of Investment of subsidiary undertakings: refer to Note 9

**B Significant accounting policies**

**(a) Interest income and expense**

Interest income and expense for all interest bearing financial instruments is recognised in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Company that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

**(b) Dividend income**

Dividend income is recognised in the statement of comprehensive income when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

**(c) Financial assets and liabilities**

**Loans and receivables**

Loans and receivables include amounts due from HSBC undertakings and are not intended to be sold in the short term and have not been classified either as held-for-trading or designated at fair value. These assets are recognised when cash is advanced and are derecognised when the undertakings repay their obligations, or the assets 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.

**Available-for-sale financial assets**

Available-for-sale financial assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently re-measured at fair value and changes therein are recognised in other comprehensive income.

**Loans from HSBC undertakings**

Amounts owed to HSBC undertakings are recognised when cash is advanced or contractual arrangements are entered into. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

**(d) Impairment of assets (other than financial assets)**

The carrying amounts of the Company's investments in subsidiaries are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as the higher of the asset's fair value less costs to sell and its value in use.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Any impairment loss recognised in prior periods shall be reversed through the statement of comprehensive income if, and only if, there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

**(e) Derivatives**

Derivatives are recognised initially, and are subsequently remeasured, at fair value. Fair values of exchange-traded derivatives are obtained from quoted market prices. Fair values of over-the-counter derivatives are obtained using valuation techniques, including discounted cashflow models.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

As the Company's derivatives are used to manage foreign currency risk exposure all gains and losses from changes in the fair value are recognised in the income statement in 'Foreign exchange gain'.

**(f) Determination of fair value**

All financial instruments are recognised initially at fair value. In the normal course of business, the fair value of a financial instrument on initial recognition is the transaction price (that is, the fair value of the consideration given or received).

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued.

When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities, and prepayment and default rates. Additional factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when fair values are calculated using valuation techniques. Where a financial instrument has a quoted price in an active market and is part of a portfolio, the fair value of the portfolio is calculated as the product of the number of units and quoted price and no block discounts are made.

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

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

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#### 2 Other operating (expense)

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	2016	2015
	US\$000	US\$000
Foreign exchange loss	(1)	(3)
Other income	-	3
	<u>(1)</u>	<u>-</u>

#### 3 Employee compensation and benefits

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The company has no employees and hence no staff costs (2015: US\$nil).

#### 4 Remuneration of directors

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No director received any fees or emoluments from the Company during the year (2015: US\$nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

#### 5 Auditors' remuneration

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Certain expenses including auditors' remuneration have been borne by HSBC Holdings plc and are therefore not charged in arriving at profit before tax. Audit fees are disclosed in the financial statements of HSBC Holdings plc. The amount incurred in respect of the audit of these financial statements was US\$9,485 (2015: US\$9,742). There were no non-audit fees/services.

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

#### 6 Tax

##### Accounting policy

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

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

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

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

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

##### Tax credited to the income statement

	2016 US\$000	2015 US\$000
<b>Current tax</b>		
UK Corporation tax		
- for this year	(35,581)	(21,502)
- adjustments in respect of prior years	197	7
Overseas tax		
- for this year	-	1,324
Total current tax	(35,384)	(20,171)
Total tax credited to income statement	(35,384)	(20,171)

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

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

The rate reduction to 17% was enacted during the period in the Finance (No2) Act 2016.

**HSBC Overseas Holdings (UK) Limited****Notes on the Financial Statements (continued)**

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**Tax reconciliation**

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

	2016	Percentage of overall profit before tax	2015	Percentage of overall profit before tax
	US\$000		US\$000	
Profit before tax	883,487		293,032	
Tax at 20.00% (2015: 20.25%)	176,697	20.00%	59,339	20.25%
Adjustments in respect of prior period liabilities	197	0.02%	7	-
Permanent disallowables	100	0.01%	2	-
Non taxable income and gains	(212,378)	(24.04)%	(80,843)	(27.58)%
Local taxes and overseas withholding tax	-	-	1,324	0.45%
Total tax credited to income statement	<u>(35,384)</u>	<u>(4.01)%</u>	<u>(20,171)</u>	<u>(6.88)%</u>

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

#### 7 Loans and advances

	Nominal interest rate	Maturity date	2016 US\$000	2015 US\$000
HSBC North America Holdings Inc.	3M LIBOR+2.25%	27/05/2025	850,000	850,000
HSBC Canada Holdings (UK) Limited	FIXED+3.83%	30/06/2025	404,662	404,662
HSBC North America Holdings Inc.	6M LIBOR+2.455%	30/10/2025	1,000,000	1,000,000
HSBC Canada Holdings (UK) Limited	6M LIBOR+1.27%	22/04/2021	53,500	-
HSBC North America Holdings Inc.	3M LIBOR+1.53%	29/04/2021	600,000	-
HSBC North America Holdings Inc.	3M LIBOR+1.94%	29/04/2026	600,000	-
HSBC North America Holdings Inc.	3M LIBOR+1.44%	27/05/2021	600,000	-
HSBC North America Holdings Inc.	3M LIBOR+1.71%	27/05/2023	400,000	-
HSBC North America Holdings Inc.	3M LIBOR+1.79%	27/05/2026	450,000	-
HSBC North America Holdings Inc.	6M LIBOR+1.41%	29/06/2021	900,000	-
HSBC North America Holdings Inc.	3M LIBOR+1.72%	29/06/2026	900,000	-
HSBC North America Holdings Inc.	6M LIBOR+1.27%	03/08/2021	1,550,000	-
Accrued interest payable			36,066	7,540
<b>Loans and advances</b>			<b>8,344,228</b>	<b>2,262,202</b>

#### 8 Trade and other receivables

At 31 December 2016, US\$2.8 million (2015: US\$21.9 million) was due from HSBC undertakings. These both are non-interest bearing amounts and payable on demand.

The fair value of the amounts owed from HSBC undertakings is not significantly different to their carrying value on the balance sheet due to their short term nature.

#### 9 Investment in subsidiary undertakings

##### Accounting policy

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

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

##### Critical accounting estimates and judgements

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

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

	2016 US\$000	2015 US\$000
<b>Cost</b>		
At 1 January	51,075,834	51,075,834
Additions	1,840,000	-
Disposals	(358,579)	-
At 31 December	<u>52,557,255</u>	<u>51,075,834</u>
	2016 US\$000	2015 US\$000
<b>Provision for impairment</b>		
At 1 January	(15,963,956)	(15,963,956)
Charge	129,924	-
Disposals	228,655	-
At 31 December	<u>(15,605,377)</u>	<u>(15,963,956)</u>
<b>Net carrying amount at 31 December</b>	<u>36,951,878</u>	<u>35,111,878</u>

### Explanation of additions, disposals and other

In May 2016, the Company purchased 184 preference shares of US\$0.01 in its wholly owned subsidiary HSBC North America Holdings Inc. for a consideration of US\$1,840 million.

During the year the Company's wholly owned subsidiary, Household International Europe Limited, distributed excess capital to the Company in preparation for its liquidation. This resulted in a US\$130 million reversal of the impairment provision held by the Company and a reduction of the cost and remaining provision to nil. This distribution had not been anticipated in previous years and no further distributions are expected.

### Impairment Testing

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

**Nominal long-term growth rate:** this growth rate reflects GDP and inflation for the countries within which the subsidiary operates. The rates are based on IMF forecast growth rates as these rates are regarded as the most relevant estimate of likely future trends. The rates used for 2015 and 2016 do not exceed the long-term growth rate for the countries within which the subsidiary operates; and

**Discount rate:** the discount rate used to discount the cash flows is based on the cost of capital assigned to each subsidiary, which is derived using a Capital Asset Pricing Model ('CAPM'). The CAPM depends on inputs reflecting a number of financial and economic variables including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. In addition, for the purposes of testing subsidiaries for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM with cost of capital rates produced by external sources. Externally-sourced cost of capital rates are used where, in management's judgement, those rates reflect more accurately the current market and economic conditions. For 2015 and 2016, internal costs of capital rates were consistent with externally-sourced rates; and



## **HSBC Overseas Holdings (UK) Limited**

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

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

When this exercise demonstrates that the expected cash flows of a subsidiary have declined and/or that its cost of capital has increased, the effect is to reduce the subsidiary's estimated recoverable amount.

If this is lower than the carrying value of the subsidiary, a charge for impairment will be recognised in the Company's statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In the event of a significant deterioration in economic and credit conditions compared with those reflected by management in the cash flow forecasts for the subsidiaries, a material adjustment to a subsidiary's recoverable amount may occur which may result in the recognition of an impairment charge in the statement of comprehensive income.

#### **HSBC North America Holdings Inc.**

There was no change during 2016 to the previous trend of losses and impairments seen in HSBC North America Holdings Inc. ("HNAH") group.

Management's valuation, based on 5 year cash flows, using the discount rate of 10.04% (2015: 10.02%) and the growth rate for the US of 4.21% (2015: 4.51%) indicated a recoverable amount for HNAH not significantly different from the carrying value.

The calculation for the fair value less cost of disposal is based on the Net Asset Value of the individual assets and liabilities adjusted to fair values where appropriate. To determine the fair value of the business as a whole, price/book ratios of comparable peer banks in the US were considered for the retail business. Considering lower estimated price/book ratio for other segments and in particular the subprime portfolio, a blended price / book ratio was determined that resulted in the fair value less cost of disposal being greater than the carrying value.

Based on this valuation, the impairment provision of US\$15.6 billion against the investment in HNAH remains unchanged.

#### **Sensitivity to key assumptions for investment in HSBC North America Holdings Inc.**

Based on management's assessment of the recoverable amount of its investment in HNAH, the Company has kept the carrying amount unchanged (2015 Impairment: US\$nil). Changes to the key assumptions used in the value in use calculation would have the following impact on the impairment recognised under the value in use valuation approach.

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

Key assumptions	Change in assumption	Impact on value in use - (loss)/gain
Discount rate	+/- 100 basis points	(US\$4,180m)/US\$5,863m
Nominal growth rate	+/- 162 basis points	US\$13,363m/(US\$3,347m)

## HSBC Canada Holdings (UK) Limited

HSBC Canada Holdings (UK) Limited operates as a holding company and provides banking and financial services through its subsidiaries. A comparison of carrying amount to value in use, calculated using a discount rate of 9% (2015: 8.9%) and a growth rate of 4.23% (2015: 4.21%), did not result in an impairment charge.

### Sensitivity to key assumptions for investment in HSBC Canada Holdings (UK) Limited

Based on management's value in use calculation for its investment in HSBC Canada Holdings (UK) Limited the Company has not recognised an impairment charge. Changes to the key assumptions used in the value in use calculation would have the following impact on the value in use:

Key assumptions	Change in assumption	Impact on value in use - (loss)/gain
Discount rate	+/- 100 basis points	(US\$2,130m)/US\$3,262m
Nominal growth rate	+/- 162 basis points	US\$5,416m/(US\$2,671m)

The principal subsidiary undertakings of the Company as at 31 December 2016 are set out below.

	Country of incorporation	Interest in Equity capital	Share class
Household International Europe Limited	United Kingdom	100.00%	Ordinary shares
HSBC Canada Holdings (UK) Limited	United Kingdom	100.00%	Ordinary shares
HSBC North America Holdings Inc.	United States	100.00%	Ordinary shares
HSBC Software Development (Guangdong) Limited	China	100.00%	Registered Capital shares

On 13 January 2017, Household International Europe Limited went into liquidation.

Details of all the Company's subsidiaries, as required under section 409 of the Companies Act 2006, are set out in Note 20.

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

#### 10 Loans from HSBC undertakings

	Nominal interest rate	Maturity date	2016 US\$000	2015 US\$000
HSBC Canada Holdings (UK) Limited	3M LIBOR+0.56%	30/04/2016	-	946,500
HSBC Holdings plc	3M LIBOR+1.95%	31/03/2021	4,000,000	4,000,000
HSBC Holdings plc	3M LIBOR+2.41%	17/12/2022	312,000	312,000
HSBC Holdings plc	3M LIBOR+2.09%	27/05/2025	850,000	850,000
HSBC Holdings plc	FIXED+3.83%	30/06/2025	404,662	404,662
HSBC Holdings plc	6M LIBOR+2.455%	30/10/2025	1,000,000	1,000,000
HSBC Holdings plc	6M LIBOR+1.27%	22/04/2021	500,000	-
HSBC Holdings plc	6M LIBOR+1.37%	29/04/2021	600,000	-
HSBC Holdings plc	6M LIBOR+1.79%	29/04/2026	600,000	-
HSBC Holdings plc	6M LIBOR+1.29%	27/05/2021	600,000	-
HSBC Holdings plc	6M LIBOR+1.57%	27/05/2023	400,000	-
HSBC Holdings plc	6M LIBOR+1.65%	27/05/2026	450,000	-
HSBC Holdings plc	6M LIBOR+2.95%	29/06/2026	1,840,000	-
HSBC Holdings plc	6M LIBOR+1.41%	29/06/2021	900,000	-
HSBC Holdings plc	6M LIBOR+1.72%	29/06/2026	900,000	-
HSBC Holdings plc	6M LIBOR+1.27%	03/08/2021	1,550,000	-
Accrued interest payable			63,801	25,103
At 31 December			<u>14,970,463</u>	<u>7,538,265</u>

#### 11 Called up share capital

##### Accounting policy

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

	2016 US\$	2015 US\$
Issued, allotted and fully paid up		
130 (2015: 130) Ordinary shares of £1 each		
As at 1 January and 31 December	<u>202</u>	<u>202</u>

No shares were allotted during the year ended 31 December 2016. All shares rank equally with one vote attached to each fully paid share.

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

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

##### Accounting policy

Cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months' maturity from the date of acquisition.

	2016 US\$000	2015 US\$000
a) Non-cash items included in profit and loss		
Impairment of investments	(129,924)	-
	<u>(129,924)</u>	<u>-</u>
b) Change in operating assets		
Change in prepayments and accrued income	22,500	(52,378)
Change in trade and other receivables	19,098	47,471
Change in loans and advances	-	(2,262,202)
	<u>41,598</u>	<u>(2,267,109)</u>
c) Change in operating liabilities		
Change in accruals and deferred income	-	(29)
Change in loans from HSBC undertakings	-	2,263,527
	<u>-</u>	<u>2,263,498</u>
d) Cash and cash equivalents comprise		
Cash at bank with HSBC undertakings	50,967	27,710
	<u>50,967</u>	<u>27,710</u>

**HSBC Overseas Holdings (UK) Limited**

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

**13 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 amortised cost.

The following table analyses the carrying amount of financial assets and liabilities by category as defined in IAS 39 and by balance sheet heading.

<b>At 31 December 2016</b>	<b>Loans and receivables US\$000</b>	<b>Available- for-sale securities US\$000</b>	<b>Financial assets and liabilities at amortised cost US\$000</b>	<b>Total US\$000</b>
<b>Assets</b>				
Cash and cash equivalents	-	-	50,967	50,967
Loans and advances	8,344,228	-	-	8,344,228
Trade and other receivables	-	-	2,795	2,795
Financial investments	-	85	-	85
<b>Total financial assets</b>	<b>8,344,228</b>	<b>85</b>	<b>53,762</b>	<b>8,398,075</b>
<b>Total non financial assets</b>				<b>37,038,642</b>
<b>Total assets</b>				<b>45,436,717</b>
<b>Liabilities</b>				
Loans from HSBC undertakings	-	-	14,970,463	14,970,463
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>14,970,463</b>	<b>14,970,463</b>
<b>Total non financial liabilities</b>				<b>-</b>
<b>Total liabilities</b>				<b>14,970,463</b>

**HSBC Overseas Holdings (UK) Limited**

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

At 31 December 2015	Loans and receivables US\$000	Available- for-sale securities US\$000	Financial assets and liabilities at amortised cost US\$000	Total US\$000
<b>Assets</b>				
Cash and cash equivalents	-	-	27,710	27,710
Loans and advances	2,262,202	-	-	2,262,202
Trade and other receivables	-	-	21,893	21,893
Financial investments	-	85	-	85
<b>Total financial assets</b>	<b>2,262,202</b>	<b>85</b>	<b>49,603</b>	<b>2,311,890</b>
<b>Total non financial assets</b>				<b>35,185,758</b>
<b>Total assets</b>				<b>37,497,648</b>
<b>Liabilities</b>				
Loans from HSBC undertakings	-	-	7,538,265	7,538,265
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>7,538,265</b>	<b>7,538,265</b>
<b>Total non financial liabilities</b>				<b>-</b>
<b>Total liabilities</b>				<b>7,538,265</b>

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

**Determination of fair value**

Fair values are determined according to the following hierarchy:

- (a) Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- (b) Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- (c) Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using models where one or more significant inputs are unobservable.

For all financial investments, the fair value is equal to the carrying value in the Statement of financial position, except as analysed below.

	Fair values		
	Valuation techniques		
	Carrying amount	Using observable inputs Level 2 US\$000	Total US\$000
<b>At 31 December 2016</b>			
<b>Assets</b>			
Loans and advances	8,344,228	8,566,823	8,566,823
<b>Liabilities</b>			
Loans from HSBC undertakings	14,970,463	15,383,960	15,383,960

	Fair values		
	Valuation techniques		
	Carrying amount	Using observable inputs Level 2 US\$000	Total US\$000
<b>At 31 December 2015</b>			
<b>Assets</b>			
Loans and advances	2,262,202	2,285,728	2,285,728
<b>Liabilities</b>			
Loans from HSBC undertakings	7,538,265	7,800,157	7,800,157

## 15 Management of financial risk

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

### a) Credit risk management

Credit risk is the risk of financial loss if a counterparty fails to meet an obligation under a contract.

#### I. Maximum exposure to credit risk

	2016		2015	
	Maximum exposure US\$000	Exposure to credit risk (net) US\$000	Maximum exposure US\$000	Exposure to credit risk (net) US\$000
Cash and cash equivalents	50,967	50,967	27,710	27,710
Loans and advances	8,344,228	8,344,228	2,262,202	2,262,202
Trade and other receivables	2,795	2,795	21,893	21,893
<b>As at 31 December</b>	<b>8,397,990</b>	<b>8,397,990</b>	<b>2,311,805</b>	<b>2,311,805</b>

### b) Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.



**HSBC Overseas Holdings (UK) Limited**

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

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

<b>31 December 2016</b>	<b>On demand US\$000</b>	<b>Due within 3 months US\$000</b>	<b>Due between 1-5 years US\$000</b>	<b>Due after 5 years US\$000</b>	<b>Undated US\$000</b>	<b>Total US\$000</b>
<b>Assets</b>						
Cash and cash equivalents	50,967	-	-	-	-	50,967
Loans and advances	-	36,066	3,703,500	4,604,662	-	8,344,228
Trade and other receivables	-	2,795	-	-	-	2,795
Financial investments	-	-	85	-	-	85
Non-financial assets	-	-	-	-	37,038,642	37,038,642
<b>Total as at 31 December 2016</b>	<b>50,967</b>	<b>38,861</b>	<b>3,703,585</b>	<b>4,604,662</b>	<b>37,038,642</b>	<b>45,436,717</b>

<b>31 December 2016</b>	<b>On demand US\$000</b>	<b>Due within 3 months US\$000</b>	<b>Due between 1-5 years US\$000</b>	<b>Due after 5 years US\$000</b>	<b>Undated US\$000</b>	<b>Total US\$000</b>
<b>Liabilities and Equity</b>						
Loans from HSBC undertakings	-	63,800	8,150,000	6,756,663	-	14,970,463
Equity	-	-	-	-	30,466,254	30,466,254
<b>Total as at 31 December 2016</b>	<b>-</b>	<b>63,800</b>	<b>8,150,000</b>	<b>6,756,663</b>	<b>30,466,254</b>	<b>45,436,717</b>

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

31 December 2015	On demand US\$000	Due within 3 months US\$000	Due between 1-5 years US\$000	Due after 5 years US\$000	Undated US\$000	Total US\$000
<b>Assets</b>						
Cash and cash equivalents	27,710	-	-	-	-	27,710
Loans and advances	-	7,540	-	2,254,662	-	2,262,202
Trade and other receivables	-	21,893	-	-	-	21,893
Financial investments	-	-	85	-	-	85
Non financial assets	-	-	-	-	35,185,758	35,185,758
<b>Total as at 31 December 2015</b>	<b>27,710</b>	<b>29,433</b>	<b>85</b>	<b>2,254,662</b>	<b>35,185,758</b>	<b>37,497,648</b>

31 December 2015	On demand US\$000	Due within 3 months US\$000	Due between 1-5 years US\$000	Due after 5 years US\$000	Undated US\$000	Total US\$000
<b>Liabilities and Equity</b>						
Loans from HSBC undertakings	-	971,604	4,000,000	2,566,661	-	7,538,265
Equity	-	-	-	-	29,959,383	29,959,383
<b>Total as at 31 December 2015</b>	<b>-</b>	<b>971,604</b>	<b>4,000,000</b>	<b>2,566,661</b>	<b>29,959,383</b>	<b>37,497,648</b>

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 US\$000	Due between 3-12 months US\$000	Due between 1-5 years US\$000	Due after 5 years US\$000	Total US\$000
<b>At 31 December 2016</b>					
Loans from HSBC undertakings	181,921	290,562	9,881,887	7,658,817	18,013,187
	<u>181,921</u>	<u>290,562</u>	<u>9,881,887</u>	<u>7,658,817</u>	<u>18,013,187</u>

	Due within 3 months US\$000	Due between 3-12 months US\$000	Due between 1-5 years US\$000	Due after 5 years US\$000	Total US\$000
<b>At 31 December 2015</b>					
Loans from HSBC undertakings	68,480	1,046,828	666,021	6,913,638	8,694,967
	<u>68,480</u>	<u>1,046,828</u>	<u>666,021</u>	<u>6,913,638</u>	<u>8,694,967</u>

The balances in the table above may not agree directly with those in the Company's balance sheet as the table incorporates, on an undiscounted basis, all cash flows relating to principal and all future coupon payments.

**c) Market risk management**

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce income values. Exposure to these risks arises from short-term cash balances and funding positions with HSBC undertakings. The objective of the Company's risk management strategy is to reduce exposure to these risks and minimise volatility in economic income, cash flows and distributable reserves.

The principal tool for managing this is sensitivity analysis of changes in profit before tax to future changes in the exchange rates or interest rate.

**Foreign currency sensitivity analysis**

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US Dollar. The currencies giving rise to this risk amounted to net Sterling liabilities of US\$nil (2015: Sterling liabilities of US\$67.40 thousand) and Euros assets of US\$29.1 thousand (2015: Euros assets of US\$ 32.5 thousand).

In respect of monetary assets and liabilities held in currencies other than the US Dollars, the Company ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot, or forward rates where necessary to address short-term imbalances.

The Company's profit before tax would decrease by US\$nil profit after tax US\$nil (2015:US\$3.6 thousand, profit after tax US\$2.8 thousand) if the Sterling foreign exchange rate weakened by 5 per cent relative to the US dollar.

The Company's profit before tax would decrease by US\$1.53 million, profit after tax US\$1.23 million (2015:US\$1.7 million, profit after tax US\$ 1.4 million) if the Euros foreign exchange rate weakened by 5 per cent relative to the US dollar.

Foreign currency rate sensitivity analysis has been performed on the net asset / liability foreign exchange risk exposure as at the reporting date. An upward/downward movement in the USD: GBP or USD: EUR rate of 5 per cent has been assumed. If all other variables are held constant, the information above presents the likely impact on the Company's profit.

**Interest rate sensitivity analysis**

The Company held net liabilities of US\$8,357 million (2015: US\$5,178 million) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 100 basis points increase / (decrease) in LIBOR on these net liabilities would be a (decrease) / increase of profit before tax of US\$83.5 million (2015: US\$51.8 million) and after tax of US\$66.86 million (2015: US\$41.3 million).

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

#### 16 Related party transactions

Transactions with other related parties

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

	2016		2015	
	Highest balance during the year <sup>4</sup> US\$000	Balance at 31 December <sup>4</sup> US\$000	Highest balance during the year <sup>4</sup> US\$000	Balance at 31 December <sup>4</sup> US\$000
<b>Assets</b>				
Cash and cash equivalents <sup>1,2</sup>	66,129	50,967	812,612	27,710
Trade and other receivables <sup>1,3</sup>	21,893	2,795	26,412	21,893
Loans and advances <sup>1</sup>	8,351,607	8,344,228	2,262,202	2,262,202
Financial investments <sup>2</sup>	85	85	85	85
<b>Liabilities</b>				
Loans from HSBC undertakings <sup>1,3</sup>	15,521,275	14,970,463	7,538,266	7,538,265
<b>Income statement</b>			2016 US\$000	2015 US\$000
Interest income			157,604	26,914
Interest expense			(335,495)	(132,120)
Dividend income			931,973	399,229
Dividend expense			(412,000)	(1,075,000)

<sup>1</sup> These balances are with subsidiaries of the Company.

<sup>2</sup> These balances are with other related parties comprising of other HSBC Group Companies which are neither a parent nor subsidiary of the Company.

<sup>3</sup> These balances are with HSBC Holdings plc, the parent of the Company.

<sup>4</sup> The disclosure of the year-end balance and the highest balance during the year is considered the most meaningful information to represent transactions during the year.

The above outstanding balances arose in the ordinary course of business and are on substantially the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

**HSBC Overseas Holdings (UK) Limited**

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

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**17 Contingent liabilities and contractual commitments and guarantees**

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There were no contingent liabilities at 31 December 2016 (2015:US\$nil).

**18 Events after the balance sheet date**

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The Company received dividends amounting to US\$30 million from HSBC North America Holdings Inc. in April 2017.

The Company also received a distribution of US\$2,500 million as a return of the cost of investment from its subsidiary, HSBC North America Holdings Inc. in April 2017.

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

**19 Parent undertakings**

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The ultimate and immediate parent undertaking and ultimate controlling party is HSBC Holdings plc which is registered in England and Wales.

The financial statements of the Company are consolidated within the HSBC Holdings plc financial statements.

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

HSBC Holdings plc  
8 Canada Square  
London, E14 5HQ

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

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#### 20 Subsidiary undertakings

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In accordance with Section 409 of the Companies Act, 2006, a list of the Company's subsidiaries, the registered office address and effective percentage of equity owned at 31 December 2016 is disclosed below. The principal countries of operation are the same as countries of incorporation.

On 13 January 2017, Household International Europe Limited and HFC Bank Limited went into liquidation.

Subsidiaries	Interest(%)	Footnotes
Beneficial Company LLC	100.00%	2, 25
Beneficial Consumer Discount Company	100.00%	1, 28
Beneficial Financial I Inc.	100.00%	1, 34
Beneficial Florida Inc.	100.00%	1, 25
Beneficial Homeowner Service Corporation	100.00%	1, 25
Beneficial Kentucky Inc.	100.00%	1, 25
Beneficial Loan & Thrift Co.	100.00%	1, 25
Beneficial Louisiana Inc.	100.00%	1, 25
Beneficial Maine Inc.	100.00%	1, 25
Beneficial Massachusetts Inc.	100.00%	1, 25
Beneficial Michigan Inc.	100.00%	1, 25
Beneficial New Hampshire Inc.	100.00%	1, 25
Beneficial Oregon Inc.	100.00%	1, 25
Beneficial Rhode Island Inc.	100.00%	1, 25
Beneficial South Dakota Inc.	100.00%	1, 25
Beneficial Tennessee Inc.	100.00%	1, 33
Beneficial West Virginia, Inc.	100.00%	1, 36
Beneficial Wyoming Inc.	100.00%	1, 29
BFC Insurance Agency of Nevada	100.00%	1, 8
Cal-Pacific Services, Inc.	100.00%	1, 34
Capco/Cove, Inc.	100.00%	1, 20
Card-Flo #1, Inc.	100.00%	1, 4
Card-Flo #3, Inc.	100.00%	1, 25
CBS/Holdings, Inc.	100.00%	1, 20
CC&H Holdings LLC	100.00%	2, 26
Decision One Mortgage Company, LLC	100.00%	2, 32
Eagle Rock Holdings, Inc.	100.00%	1, 20
Ellenville Holdings, Inc.	100.00%	1, 20
Giller Ltd.	100.00%	1, 20

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

Subsidiaries	Interest(%)	Footnotes
GPIF Co-Investment, LLC	80.00%	2, 25
HFC Bank Limited	100.00%	1, 18
HFC Company LLC	100.00%	2, 25
Household Capital Markets LLC	100.00%	2, 25
Household Commercial Financial Services, Inc.	100.00%	1, 25
Household Finance Consumer Discount Company	100.00%	1, 25
Household Finance Corporation II	100.00%	1, 25
Household Finance Corporation III	100.00%	1, 25
Household Finance Corporation of Alabama	100.00%	1, 30
Household Finance Corporation of California	100.00%	1, 25
Household Finance Corporation of West Virginia	100.00%	1, 36
Household Finance Industrial Loan Company of Iowa	100.00%	1, 31
Household Finance Realty Corporation of Nevada	100.00%	1, 25
Household Finance Realty Corporation of New York	100.00%	1, 25
Household Financial Center Inc.	100.00%	1, 33
Household Industrial Finance Company	100.00%	1, 24
Household Industrial Loan Company of Kentucky	100.00%	1, 35
Household Insurance Group Holding Company	100.00%	1, 16
Household International Europe Limited	100.00%	1, 18
Household Pooling Corporation	100.00%	1, 40
Household Realty Corporation	100.00%	1, 25
HSBC AFS (USA) LLC	100.00%	2, 20
HSBC Americas Corporation (Delaware)	100.00%	1, 25
HSBC Bank Canada	100.00%	1, 19
HSBC Bank USA, National Association	100.00%	1, 7
HSBC Canada Holdings (UK) Limited	100.00%	1, 18
HSBC Capital (Canada) Inc.	100.00%	1, 12
HSBC Capital (USA), Inc.	100.00%	1, 25
HSBC Card Services Inc.	100.00%	1, 25
HSBC Columbia Funding, LLC	100.00%	2, 25
HSBC Consumer Lending (USA) Inc.	100.00%	1, 25
HSBC Credit Center, Inc.	100.00%	1, 25
HSBC Finance Corporation	100.00%	1, 25
HSBC Finance Mortgages Inc.	100.00%	1, 39
HSBC Financial Services (Uruguay) S.A.	50.00%	1, 41
HSBC Global Asset Management (Canada) Limited	100.00%	1, 9
HSBC Global Asset Management (USA) Inc.	100.00%	1, 14
HSBC Home Equity Loan Corporation II	100.00%	1, 25
HSBC Insurance Agency (USA) Inc.	100.00%	1, 15
HSBC International Finance Corporation (Delaware)	50.00%	1, 10
HSBC Investment Funds (Canada) Inc.	100.00%	1, 9

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

Subsidiaries	Interest(%)	Footnotes
HSBC Investments (Bahamas) Limited	99.99%	1, 37
HSBC Land Title Agency (USA) LLC	55.00%	2, 13
HSBC Markets (USA), Inc.	100.00%	1, 25
HSBC Mortgage Corporation (Canada)	100.00%	1, 19
HSBC Mortgage Corporation (USA)	100.00%	1, 25
HSBC Mortgage Services Inc.	100.00%	1, 25
HSBC North America Holdings Inc.	100.00%	1, 25
HSBC Overseas Investments Corporation (New York)	100.00%	1, 21
HSBC Private Bank International	100.00%	1, 5
HSBC Private Equity Advisors LLC	100.00%	2, 25
HSBC Private Wealth Services (Canada) Inc.	100.00%	1, 9
HSBC Realty Credit Corporation (USA)	100.00%	1, 25
HSBC Retail Services Inc.	100.00%	1, 25
HSBC Securities (Canada) Inc.	100.00%	1, 17
HSBC Securities (USA) Inc.	100.00%	1, 25
HSBC Securities Services (USA) Inc.	100.00%	1, 27
HSBC Software Development (Guangdong) Limited	100.00%	3, 38
HSBC South Point Investments (Barbados) LLP	100.00%	1, 6
HSBC Taxpayer Financial Services Inc.	100.00%	1, 25
HSBC Technology & Services (USA) Inc.	100.00%	1, 25
HSBC TFS I 2005 LLC	100.00%	2, 4
HSBC Trust Company (Canada)	100.00%	1, 19
HSBC Trust Company (Delaware), National Association	100.00%	1, 11
HSBC USA Inc.	100.00%	1, 21
HSI Asset Securitization Corporation	100.00%	1, 25
MM Mooring #2 Corp.	100.00%	1, 20
PTC New LLC	100.00%	2, 25
R/CLIP Corp.	100.00%	1, 25
Real Estate Collateral Management Company	100.00%	1, 25
Republic Overseas Capital Corporation	100.00%	1, 15
Somers & Co	100.00%	1, 23
SPE 1 2005 Manager Inc.	100.00%	1, 4
The London Gold Market Fixing Limited	100.00%	1, 22
Timberlink Settlement Services (USA) Inc.	100.00%	1, 25
Westminster House, LLC	100.00%	2, 25



## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

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#### Footnotes:

Description of shares	Reference
1	Ordinary Shares
2	LLC, no shares
3	Registered Capital Shares

Registered office	Reference
4	1209 Orange Street Wilmington Delaware 19899 United States
5	1441 Brickell Avenue Miami FL 33131 United States
6	15 Canada Square London E14 5GL United Kingdom
7	1800 Tysons Boulevard Suite 50 McLean Virginia 22102 United States
8	2156 Horse Prairie Drive Henderson NV 89052 United States
9	2910 Virtual Way Vancouver BC V5M 0B2 Canada
10	300 Delaware Avenue Suite 1400 Wilmington DE 19801 United States
11	300 Delaware Avenue Suite 1401 Wilmington DE 19801 United States
12	300, 885 West Georgia Street Vancouver BC V6C 3E9 Canada
13	3303 Express Drive North Islandia NY 11749 United States
14	452 Fifth Avenue 7th Floor New York NY 10018 United States
15	452 Fifth Avenue New York NY10018 United States
16	545 Washington Blvd., 11th Floor Jersey City NJ 07310 United States
17	70 York Street 7th Floor Toronto ON M5J 1S9 Canada
18	8 Canada Square London E14 5HQ United Kingdom
19	885 West Georgia Street Suite 300 Vancouver BC V6C 3E9 Canada
20	95 Washington Street Buffalo NY 14203 United States
21	C/O Corporation Trust Incorporated 351 West Camden Street Baltimore MD 21201 United States
22	C/O Hackwood Secretaries Limited One Silk Street London EC2Y 8HQ United Kingdom
23	C/O HSBC AFS (USA) LLC 452 Fifth Avenue New York NY 10018 United States
24	C/O The Corporation Trust Company 100 S. 5th Street-Suite 1075 Minneapolis MN 55401 United States
25	C/O The Corporation Trust Company 1209 Orange Street Wilmington DE 19801 United States
26	Corporation Service Company 2711 Centerville Road Suite 400 Wilmington DE 19808 United States
27	Corporation Service Company 830 Bear Tavern Road West Trenton NJ 08628 United States

## HSBC Overseas Holdings (UK) Limited

### Notes on the Financial Statements (continued)

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Registered office	Reference
28	CT Corporation System 1515 Market Street Registered Office Philadelphia PA 19102 United States
29	CT Corporation System 1720 Carey Avenue Cheyenne WY 82001 United States
30	CT Corporation System 2 North Jackson Street Suite 605 Montgomery AL 36104 United States
31	CT Corporation System 2222 Grand Avenue Des Moines IA 50312 United States
32	CT Corporation System 225 Hillsborough Street Raleigh NC 27603 United States
33	CT Corporation System 530 Gay Street Knoxville TN 37902 United States
34	CT Corporation System 800 S. Figueroa Los Angeles California 90017 United States
35	CT Corporation System Kentucky Home Life Building Louisville KY 40202 United States
36	CT Corporation System Secretary of State 707 Virginia Street East Charleston WV 25301 United States
37	MB&H Corporate Services Ltd Mareva House 4 George Street Nassau New Providence Bahamas
38	Room 305 No.886 Tianhe Bei Road, Tianhe District, Guangzhou Guangdong China
39	Suite 300, 3381 Steeles Avenue East Toronto ON M2H 3S7 Canada
40	The Corporation Trust Company of Nevada 311 S. Division Street Carson City NV 89703 United States
41	World Trade Center Montevideo Avenida Luis Alberto de Herrera 1248 Torre 1, Piso 15, Oficina 1502 Montevideo CP 11300 Uruguay