

HSBC Insurance Services Holdings Limited

Registered No: 2884575

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

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Registered No: 2884575

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

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Strategic Report

Principal activities

HSBC Insurance Services Holdings Limited (the 'Company') is a Limited company incorporated in England and Wales.

The Company continues to be an Investment holding company.

The Company has provided indemnities as part of the sale of subsidiaries in Note 11, whereby the Company could be liable for future costs.

Review of the Company's business

The business is funded equity investment and borrowings.

The Company's stakeholders are limited to its subsidiaries as listed in Note 10 and its parent company.

Performance

The performance and position of the Company for the year ended 31 December 2017 and the state of the Company's financial affairs at that date are set out on pages 9 to 30.

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

The results of the Company show a profit before tax of £1,474k for the year (2016: £1,365k).

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.

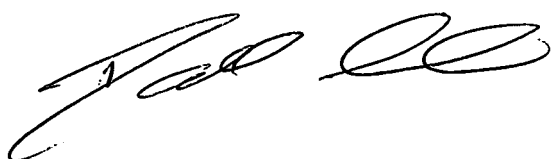
Strategic Report

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 16 on the financial statements.

The Company's exposures to liquidity and market risks are limited due to the nature of its business, which is predominantly investing in or financing of group companies. These transactions are generally funded by way of equity obtained from the parent Company.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'D A Clow', with a stylized flourish at the end.

D A Clow
Director

17 September 2018

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

The Directors who served during the year and up to the date of approval of the financial statements were as follows:

Name

D A Clow

M A Seed

The Articles of Association of the Company provide that in certain circumstances the Directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the UK Companies Act 2006.

Indemnity provisions of this nature have been in place during the financial year but have not been utilised by the Directors. All Directors have the benefit of Directors' and officers' liability insurance.

Dividends

Dividends of £7,500k were declared and paid during the year (2016: nil).

Significant events since the end of the financial year

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

Future developments

No change in the Company's activities is expected.

Going concern basis

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

Financial risk management

The financial risk management objectives and policies of the Company, together with an analysis of the exposure to such risks, are set out in Note 16 of the Notes to the Financial Statements.

Capital management

The Company is not subject to externally imposed capital requirements and is dependent on the HSBC group to provide necessary capital resources which are therefore managed on a group basis.

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

Report of the Directors

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.

Report of the Directors

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 Report of the Directors' and financial statements for each financial year.

Company law requires Directors 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.

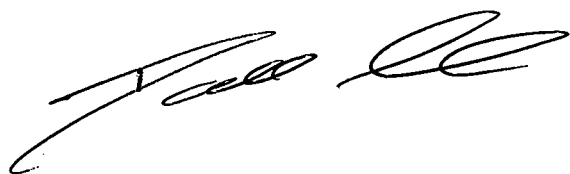
Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on a going concern basis unless it is not appropriate. Since the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on a going concern basis.

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

On behalf of the Board



D A Clow
Director

17 September 2018

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements for the year ended 31 December 2017 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes on the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

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

Reporting on other information

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

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

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

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

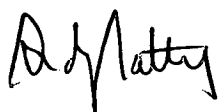
Other required reporting

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andrew Batty (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
United Kingdom

Dated: 17 September 2018

Financial Statements

Income statement for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Interest income		44	78
Net interest income		44	78
Other operating income	2	1,463	1,294
Net operating income		1,507	1,372
General and administrative expenses		(33)	(7)
Total operating expenses		(33)	(7)
Profit before tax		1,474	1,365
Tax expense	6	(305)	(278)
Profit for the year		1,169	1,087

Statement of comprehensive income for the year ended 31 December 2017

There has been no comprehensive income or expense other than the profit for the year as shown as above (2016: nil).

The accompanying notes on pages 13 to 30 form an integral part of these financial statements.

Financial Statements

Balance sheet as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Assets			
Cash and cash equivalents	8	10,500	18,974
Loans and advances to other group undertakings	9	1,242	1,359
Trade and other receivables		122	160
Investments in subsidiaries	10	369	369
Deferred tax assets	7	84	83
Total assets		<u>12,317</u>	<u>20,945</u>
Liabilities and equity			
Liabilities			
Trade and other payables		-	75
Accruals, deferred income and other liabilities		424	432
Current tax liabilities		284	1,017
Provisions	11	2,525	4,006
Total liabilities		<u>3,233</u>	<u>5,530</u>
Equity			
Called up share capital	12	1,000	1,000
Retained earnings		8,084	14,415
Total equity		<u>9,084</u>	<u>15,415</u>
Total liabilities and equity		<u>12,317</u>	<u>20,945</u>

The accompanying notes on pages 13 to 30 form an integral part of these financial statements.

These financial statements on pages 9 to 12 were approved by the Board of Directors on 10 September 2018 and signed on its behalf by:



D A Clow
Director

17 September 2018

Company Registration No: 2884575

Financial Statements

Statement of cash flows for the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit before tax		1,474	1,365
Adjustments for:			
Non-cash items included in profit before tax	8	(1,346)	(1,479)
Change in operating assets	8	38	-
Change in operating liabilities	8	(101)	(2,280)
Tax paid		(1,039)	-
Net cash used in operating activities		(974)	(2,394)
Cash flows from financing activities			
Dividends paid		(7,500)	-
Net cash (used in)/generated from financing activities		(7,500)	-
Net decrease in cash and cash equivalents		(8,474)	(2,394)
Cash and cash equivalents brought forward		18,974	21,368
Cash and cash equivalents carried forward	8	10,500	18,974

The accompanying notes on pages 13 to 30 form an integral part of these financial statements.

Financial Statements

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

	Called up share capital £'000	Retained earnings £'000	Total equity £'000
2017			
At 1 January 2017	1,000	14,415	15,415
Profit for the year	-	1,169	1,169
Total comprehensive income for the year	-	1,169	1,169
Dividends to shareholders	-	(7,500)	(7,500)
At 31 December 2017	1,000	8,084	9,084

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

The accompanying notes on pages 13 to 30 form an integral part of these financial statements.

Dividend per Share

Dividend per Share for the year was £0.75 (2016: nil).

Equity is wholly attributable to equity shareholders of HSBC Bank plc.

1 Basis of preparation and significant accounting policies

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

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

At 31 December 2017, there were no unendorsed standards effective for the year ended 31 December 2017 affecting these financial statements and the Company's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2017

There were no new standards applied in 2017. However, during 2017, 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 which are effective from 1 January 2018 and 2019, some of which have been endorsed for use in the EU. The Company expects they will have an insignificant effect, when adopted on the financial statements. The Company has not early adopted any of the amendments effective after 31 December 2017.

Major new IFRSs

The IASB has published IFRS 9 'Financial Instruments' which has been endorsed for use in the EU.

IFRS 9 'Financial Instruments'

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

Classification and measurement

The classification and measurement of financial assets will depend on how these are managed (the Company's business model) and their contractual cash flow characteristics. These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income ('FVOCI') or fair value through profit or loss ('FVPL'). The combined effect of the application of the business model and the contractual cash flow characteristics tests may result in some differences in the population of financial assets measured at amortised cost or fair value compared with IAS 39. In addition, on transition to IFRS 9 entities are required to revoke previous designations of financial assets and financial liabilities measured at fair value through profit or loss where the accounting mismatch no longer exists and are permitted to revoke such designations where accounting mismatches continue to exist.

Impairment

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

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

Transitional impact

The requirements of IFRS 9 'Financial Instruments' will be adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods. The Company does not intend to restate comparatives. Adoption will have no material impact to net assets and impairment.

(c) Foreign currencies

The functional currency of the Company is Pounds sterling, which is also the presentational currency of the financial statements of the Company. Unless otherwise specified, all £ symbols represent Pounds sterling.

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 have been prepared on the historical cost basis.

All amounts have been rounded to the nearest thousand unless otherwise stated.

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

(e) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in section 1.2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these Financial Statements. Management's selection of the Company's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

(f) Going concern

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

1.2 Summary of significant accounting policies

(a) Income and expense

Operating income

Interest income

Interest income for all financial instruments except for those classified as held for trading or designated at fair value are recognised in 'Interest income' in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

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

Dividend income is recognised when the right to receive a payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

(b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Company recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction either until the transaction matures or is closed out, the valuation inputs become observable or the Company enters into an offsetting transaction.

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

Critical accounting estimates and judgements

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

(c) Financial instruments measured at amortised cost**Loans and advances**

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

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision or impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. When a trade receivable is uncollectable, it is written off against trade receivables and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited to the income statements.

Financial liabilities

Amounts owned to other group undertakings represent financial liabilities and are included within trade and other payables. Financial liabilities are initially measured at fair value less any transaction costs that are directly attributable to the purchase of issue. Financial liabilities are recognised when the Company becomes party to the contractual provision of the instrument. The Company derecognises the financial liability when the Company's obligations specified in the contract expire, are discharged or cancelled. Subsequent to initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

(d) Investments in subsidiaries

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

For the purpose of determining this classification, the Company is considered to have control of an entity when it is exposed, or has rights to variable returns from its involvements with the entity and has the ability to affect those returns through its power over the entity.

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

Critical accounting estimates and judgements

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

(e) Tax

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

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

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

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

(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) Called up share capital

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

(h) Provisions, contingent liabilities and guarantees

Provisions

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

Critical accounting estimates and judgements

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. Professional expert advice is taken on the assessment of litigation, property (including onerous contracts) and similar obligations. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved. Provisions for customer remediation also require significant levels of estimation and judgement. The amounts of provisions recognised depend on a number of different assumptions, such as, the volume of inbound complaints, the projected period of inbound complaint volumes, the decay rate of complaint volumes, the population identified as systemically mis-sold and the number of policies per customer complaint.

Contingent liabilities, contractual commitments and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Notes on the Financial Statements

2 Other operating income

	2017 £'000	2016 £'000
Claims arising from indemnities	1,428	1,294
Non indemnity related movements	35	-
	<u>1,463</u>	<u>1,294</u>

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

3 Employee compensation and benefits

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

4 Directors' emoluments

No director received any fees or emoluments from the Company during the year (2016: nil). The Directors are employed by other companies within the HSBC Group and consider that their services to the Company are incidental to their other responsibilities within the HSBC Group.

5 Auditors' remuneration

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 £15,000 (2016: £13,085).

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

6 Tax

Tax expense

	2017 £'000	2016 £'000
Current tax		
- for this year	284	273
- adjustments in respect of prior years	21	-
Total current tax	<u>305</u>	<u>273</u>
Deferred tax		
- effect of changes in tax rates	-	5
Total deferred tax	<u>-</u>	<u>5</u>
Total tax expense for the year ended 31 December	<u>305</u>	<u>278</u>

Notes on the Financial Statements

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

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

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

Tax reconciliation

The tax charged to the income statement differs to the tax expense charge that would apply if all profits had been taxed at the UK corporation tax rate as follows:

	2017 £'000	%	2016 £'000	%
Profit before tax	1,474		1,365	
Tax at 19.25% (2016: 20.00%)	284	19.2	273	20.0
Adjustment in respect of prior years	21	1.5	-	-
Impact due to changes in tax rates	-	-	5	0.4
Total tax charged to the income statement	305	20.7	278	20.4

7 Deferred tax

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

	Property, plant and equipment £'000	Total £'000
At 1 January 2017	83	83
Foreign exchange and other	1	1
At 31 December 2017	84	84

	Property, plant and equipment £'000	Total £'000
At 1 January 2016	88	88
Foreign exchange and other	(5)	(5)
At 31 December 2016	83	83

Notes on the Financial Statements

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

	2017 £'000	2016 £'000
a) Non-cash items included in profit and loss		
Elimination of exchange differences	82	(185)
Other operating income - claims arising from indemnities (Note 2)	(1,428)	(1,294)
	<u>(1,346)</u>	<u>(1,479)</u>
	2017 £'000	2016 £'000
b) Change in operating assets		
Change in prepayments and accrued income	<u>38</u>	<u>-</u>
	2017 £'000	2016 £'000
c) Change in operating liabilities		
Change in accruals and deferred income	28	2
Change in trade and other payables	(75)	(157)
Change in provisions	(54)	(2,125)
	<u>(101)</u>	<u>(2,280)</u>
	2017 £'000	2016 £'000
d) Cash and cash equivalents comprise		
Cash and balances with other group undertakings	<u>10,500</u>	<u>18,974</u>
	2017 £'000	2016 £'000
e) Interest		
Interest received	<u>44</u>	<u>78</u>

9 Loans and advances

	2017 £'000	2016 £'000
Amounts due from other group undertakings	<u>1,242</u>	<u>1,359</u>

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

Notes on the Financial Statements

10 Investments in subsidiaries

	2017 £'000	2016 £'000
Cost		
At 1 January	589	589
At 31 December	589	589
	2017 £'000	2016 £'000
Provision for impairment		
At 1 January	(220)	(220)
At 31 December	(220)	(220)
Net carrying amount as at 31 December	369	369

	Country of incorporation	Interest in equity capital %	Share class
HSBC Global Shared Services (India) Private Limited	India	99.99	Ordinary shares
HSBC Insurance Management Services Limited	UK	100	Ordinary shares

Both companies are in the process of being liquidated.

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

11 Provisions

	2017 £'000	2016 £'000
At 1 January	4,006	7,445
Decrease in provision	(1,427)	(1,314)
Provision utilised and foreign exchange	(54)	(2,125)
At 31 December	2,525	4,006

The provisions primarily relate to indemnities provided to the purchasers of HSBC Actuaries and Consultants Limited on 1st December 2009, and HSBC Insurance Brokers Limited on 31st March 2010.

The maximum term for a claim to be recognised as part of these indemnities was 7 years which ended during 2017. No new claims can be submitted.

Provisions were recognised if an assessment of claims received determined a probable liability existed and whether the amount could be reliably estimated. Consequently, not all submitted claims will have a provision.

Future movements will relate to existing claims only and consist of provisions released during the year as per external legal advice or where following a review, a change in the current status of a claim has been recognised. A remote possibility remains where claims previously determined to have no legal basis have that decision reversed and a provision is now recognised.

Notes on the Financial Statements

12 Called up share capital

Class of shares	Nominal value per share (£)	Number of issued and fully paid shares	Issued share capital (£'000)
Ordinary shares of £0.10 each	0.10	10,000,000	1,000

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 at 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:

	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
At 31 December 2017			
Assets			
Cash and cash equivalents	-	10,500	10,500
Loans and advances to other group undertakings	1,242	-	1,242
Trade and other receivables	-	122	122
Total financial assets	1,242	10,622	11,864
Total non-financial assets			453
Total assets			12,317
Liabilities			
Accruals, deferred income and other liabilities	-	424	424
Total financial liabilities	-	424	424
Total non-financial liabilities			2,809
Total liabilities			3,233

Notes on the Financial Statements

	Loans and receivables £'000	Financial assets and liabilities at amortised cost £'000	Total £'000
At 31 December 2016			
Assets			
Cash and cash equivalents	-	18,974	18,974
Loans and advances to other group undertakings	1,359	-	1,359
Trade and other receivables	-	160	160
Total financial assets	1,359	19,134	20,493
Total non-financial assets			452
Total assets			20,945
Liabilities			
Trade and other payables	-	75	75
Accruals, deferred income and other liabilities	-	432	432
Total financial liabilities	-	507	507
Total non-financial liabilities			5,023
Total liabilities			5,530

14 Fair value of financial instruments not carried at fair value

Determination of fair value

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

- Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets.
- 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 models where one or more significant inputs are unobservable.

	Carrying amount £'000	Fair values Using observable inputs Level 2 £'000	Total £'000
At 31 December 2017			
Assets			
Loans and advances to other group undertakings	1,242	1,242	1,242

	Carrying amount £'000	Fair values Using observable inputs Level 2 £'000	Total £'000
At 31 December 2016			
Assets			
Loans and advances to other group undertakings	1,359	1,359	1,359

Notes on the Financial Statements

15 Maturity analysis of assets and liabilities

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

31 December 2017	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
Assets				
Cash and cash equivalents	10,500	-	-	10,500
Loans and advances to other group undertakings	-	-	1,242	1,242
Trade and other receivables	-	122	-	122
Non-financial assets	-	-	453	453
Total as at December 2017	10,500	122	1,695	12,317

31 December 2017	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
Liabilities and equity				
Accruals, deferred income and other liabilities	-	-	424	424
Non-financial liabilities	-	-	2,809	2,809
Equity	-	-	9,084	9,084
Total as at December 2017	-	-	12,317	12,317

31 December 2016	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
Assets				
Cash and cash equivalents	18,974	-	-	18,974
Loans and advances to other group undertakings	-	-	1,359	1,359
Trade and other receivables	-	160	-	160
Non-financial assets	-	-	452	452
Total as at December 2016	18,974	160	1,811	20,945

31 December 2016	On demand £'000	Due within 3 months £'000	Undated £'000	Total £'000
Liabilities and equity				
Trade and other payables	-	75	-	75
Non-financial liabilities	-	-	5,455	5,455
Equity	-	-	15,415	15,415
Total as at December 2016	-	75	20,870	20,945

16 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 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 Insurance Services Holdings 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 customer or counterparty of the Company fails to meet a payment obligation under a contract.

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

The Company's exposure to credit risk is minimised because amounts receivable from fellow group undertakings form the majority of the Company's financial assets. Such group undertakings are wholly owned subsidiaries of HSBC Holdings plc, and are part of the Business described above. Such counterparties have no history of default and have been able to meet their liabilities as they fall due. On this basis the Company considers the amounts due to be fully recoverable.

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

Maximum exposure to credit risk

	2017		2016	
	Maximum exposure £'000	Exposure to credit risk (net) £'000	Maximum exposure £'000	Exposure to credit risk (net) £'000
Cash and cash equivalents	10,500	10,500	18,974	18,974
Loans and advances to other group undertakings	1,242	1,242	1,359	1,359
Trade and other receivables	122	122	160	160
As at 31 December	11,864	11,864	20,493	20,493

Notes on the Financial Statements

b) Liquidity risk management

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet obligations as they fall due or will have access to such resources only at an excessive cost.

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings. The Company also has a line of credit with HSBC Bank plc which can be used for liquidity purposes.

31 December 2017	Due within 3 months £'000	Undated £'000	Total £'000
Trade and other payables	-	-	-
Accruals, deferred income and other liabilities	-	423	423
As at December 2017	-	423	423

31 December 2016	Due within 3 months £'000	Undated £'000	Total £'000
Trade and other payables	75	-	75
Accruals, deferred income and other liabilities	-	432	432
As at December 2016	75	432	507

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 other group 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.

Interest rate risk

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

A change of 50 basis points in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that other variables remain constant. The analysis is performed on the same basis for 2016.

	2017 £'000	2016 £'000
50 bp increase	53	95
50 bp decrease	(53)	(95)

Notes on the Financial Statements

Foreign exchange risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the £ Pound. The currency giving rise to this risk is primarily USD and Euro.

Foreign currency rate sensitivity analysis has been performed on the net assets foreign exchange risk exposure as at the reporting date. An upward/downward movement in the USD and Euro rate of 15 per cent has been assumed. If all other variables are held constant, the following information presents the likely impact on the Company's profit.

From the sensitivity analysis that has been performed, if the USD and Euro foreign exchange rate weakened by 15 per cent relative to the Pounds sterling, the impact on the Company's profits would be negligible.

Sensitivity analysis

The following tables analyse how a 15 percent strengthening/weakening of the USD/GBP and EUR/GBP rate at the reporting date would have increased/(decreased) profits by amounts shown below. This analysis assumes that all other variables remain constant. This analysis is performed on the same basis for 2016.

The USD/GBP rate as at 31 December 2017 was 0.7402 (2016: 0.8114). The EUR/GBP rate at 31 December 2017 was 0.8873 (2016: 0.8551).

As at 31 December 2017	Profit/(loss) 15% increase £'000	Profit/(loss) 15% decrease £'000
Loans and advances	186	(186)
Accruals, deferred income and other liabilities	(56)	56
Provisions	(188)	188
Net exposure	(58)	58
As at 31 December 2016		
Loans and advances	204	(204)
Accruals, deferred income and other liabilities	(61)	61
Provisions	(385)	385
Net exposure	(242)	242

17 Related party transactions

Transactions with other related parties

Balances with related parties

	2017		2016	
	Highest balance during the year £'000	Balance at 31 December £'000	Highest balance during the year £'000	Balance at 31 December £'000
Assets				
Cash and cash equivalents ¹	18,829	10,500	21,212	18,974
Loans and advances ²	1,359	1,242	1,388	1,359
Trade and other receivables ¹	160	122	9	160
Liabilities				
Trade and other payables ¹	667	-	1,795	75

¹ These balances are with HSBC Bank plc, the parent of the Company.

² These balances are with HSBC China, another HSBC Group Company.

	2017 £'000	2016 £'000
Income statement		
Interest income ^{1,2}	44	78

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.

18 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 Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC Bank plc. All companies are registered in England and Wales.

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

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

Notes on the Financial Statements

19 Events after the balance sheet date

There are no significant events after the balance sheet date.

20 Subsidiary undertakings

In accordance with Section 409 of the Companies Act 2006 a list of the Company's subsidiaries, the country of incorporation and the effective percentage of equity owned at 31 December 2017 is disclosed below.

Subsidiaries	Interest (%)	Footnotes
HSBC Global Shared Services (India) Private Limited	99.99%	1, 2
HSBC Insurance Management Services Limited	100.00%	1, 3

Reference	Description of Shares
1	Ordinary Shares

Reference	Registered Office
2	5260, M G Road, Mumbai, Maharashtra, 400 001, India
3	EY LLP, 1 More London Place, London, SE1 2AF, United Kingdom