HSBC Trust Company (UK) Limited

Registration No: 106294

Annual Report and Financial Statements for the year ended 31 December 2019

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Contents

Strategic Report

Principal activities

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

The company is an authorised bank under the Financial Services and Markets Act 2000, authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA').

The company's principal activity is to provide wealth management services and products to customers of HSBC Holdings plc together with its subsidiaries (HSBC Group) in the UK including trusteeships. The company has no employees, and all related services are provided by the parent company.

The company is limited by shares.

The immediate parent undertaking is HSBC UK Bank plc (HSBC UK).

Review of the Company

During 2019, the company continued to deliver on strategic decisions as it sought to restructure, simplify activities and de-risk the company. One of the impacts of this was lower income than in prior year. The repositioning of the company over the past year has seen the assets under management and associated revenues decline.

Performance

The company's results for the year under review are as detailed in the income statement shown on page 11 of these financial statements.

The profitability of the company has decreased year on year, with profit after tax decreasing 61% since last year.

This is primarily driven by lower fee and commission income following the full year impact of the migration of the Premier Investment Management Service (PIMS) in to HSBC UK Bank plc in November 2018.

In 2018, it was agreed to migrate the Select Investment Fund (SIF) product to HSBC UK Bank plc in November 2019. The SIF revenue (£14.7m), expense (£4.1m), profit before tax (£10.6m) and associated tax (£2.9m) were included as discontinued operations in the 2018 accounts.

The first cohort migration took place on 23rd November 2019 with further migrations planned for 2020.

The company migrated £1.55bn Funds under Management (FUM), 43,036 customer accounts from a total of £7.69bn / 181,995 customers as part of the first migration. The migration includes both SIF and Investment Fund Plan (IFP).

Based on only 20% of the SIF & IFP FUM being migrated, they will not be disclosed as a discontinued operation per IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) for the current year.

The company reduced the amount of its share capital during the period by reducing the number of shares in issue, cancelling the entire amount standing to the credit of the share premium account and creating distributable reserves as appearing on Page 14.

As a company limited by shares, the company can reduce its share capital by a special resolution of its shareholders. The special resolution was supported by a solvency statement signed by all the Directors on 12th December 2019.

Section 172 Statement

As set out in section 172 of the UK Companies Act 2006 (the 'Act'), the Directors must act in good faith to promote the success of the company for the benefit of its members as a whole. In performing their duty, under the Act, the Board is required to have full regard to, amongst other things: the interests of our employees; the impact of our operations on the community and environment; and the need to foster the company's business relationships with key stakeholders in order to maintain a reputation for high standards of business conduct and enhance the sustainable long term success of the business.

The Directors are supported in the discharge of their duties by:

- An induction programme and ongoing training to provide an understanding of our business and financial performance and prospects.
- Management who present to Board and Committee meetings ensure that proposals contain all information relevant to determine the action that would most likely promote the success of the Company; and
- Carefully planned agendas for Board and Committee meetings, which provide sufficient time for the consideration and discussion of key matters.

Stakeholder Engagement

Building strong relationships with our stakeholders will help achieve our ambition in line with our purpose and values and promote the long term success of the Company. Our key stakeholders we consider in this regard are the people who work for us, bank with us, own us, supply us and regulate us.

Employees

We have a structured communications approach that uses leadership communications, campaigns and a regular flow of news to help colleagues to serve our customers better, make sense of our strategy, focus on our commercial priorities and provide clarity on issues. We build a sense of pride and purpose by recognising our colleagues' contributions to our business and celebrating our achievements.

Suppliers

The ethical and environmental code of conduct for suppliers of goods and services, which can be found on the HSBC public website, sets out how we work with our suppliers on ethical and environmental performance. The code of conduct for suppliers of goods and services raises conduct requirements related to the economic, environmental and social impacts associated with the supply of goods or services.

Customers

Ensuring customer feedback is actioned and communicated back to our customers has also been a big priority in 2019. Dedicated members of staff have been focussed on contacting customers who either flag issues through our feedback mechanisms to ensure a resolution is found, or who are promoters of the business to thank them for their feedback and to learn from these positive experiences.

HSBC UK

A strong relationship is maintained with HSBC UK through cross-directorships of the Chairman of the Board.

Matters to escalate to HBSC UK has been added as a standing agenda item to ensure that all key issues are reported to our sole shareholder in a timely manner.

As a wholly owned subsidiary, we also benefit from certain engagement practices which take place at a HSBC Group level which allows us to have more efficient and effective engagement practices. For details on some of the engagement that takes place with stakeholders at a HSBC Group level, please see HSBC Holdings plc 2019 Annual Report and Accounts and HSBC Holdings plc Environmental, Social and Governance Update.

Consideration of Stakeholders in Principal Decisions

The Board delegates authority for day-to-day management of the company to the executive team and engages management in setting, approving and overseeing execution of the business strategy and related policies. Management conduct much of the company's primary engagement with both internal and external stakeholders, with the outputs of this engagement activity providing critical insight and perspective for the Board when taking decisions or challenging management in respect of decisions made on behalf of the company.

Depending on the nature of the issue in question the relevance of each stakeholder group may differ. Board decisions will not necessarily result in a positive outcome for all of our stakeholders, but by considering our purpose, vision and values, and having due regard for stakeholder relationships, the Board aims to ensure that its decisions promote the long term success of the company.

An example of a principal decision taken by the company during the year was the reduction of the company's issued share capital. Consideration was given to the benefits and risks of the proposed capital reduction, including the ongoing solvency of the company; the need to retain distributable reserves until it was appropriate to release the excess capital; and the impact on relevant stakeholders, including HSBC UK as the company's shareholder.

Key performance indicators

The Directors use Key Performance Indicators ('KPIs') to monitor the business. As well as the income statement and the balance sheet, these indicators include measures to identify the returns on different categories of assets and the risks to which the company is exposed.

Financial KPIs

	2019	2018
Profit for year (£'000)	9,485	24,204
Funds under management (£'bn)	7.0	7.1
Lost funds under management (£'bn)	0.6	0.5
New business value (£'bn)	0.5	0.8
Total equity at year end (£'000)	24,843	39,359

Principal risks and uncertainties

The principal financial risks and uncertainties facing the company are credit risk, market risk, liquidity risk and funding risk. These risks, the exposure to such risks and management of risk are set out in Note 20 of the financial statements.

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

Operational risk is relevant to every aspect of the company's business and covers a wide spectrum of issues. Losses arising from fraud, unauthorised activities, errors, omission, inefficiency, systems failure or from external events all fall within the definition of operational risk. The objective of the company's operational risk management is to manage and control operational risk in a cost effective manner within targeted levels of operational risk consistent with the company's risk appetite, as proposed by the Risk Management Committee set by the Board.

Regulators in the UK and other countries have continued to increase their focus on 'conduct' matters relating to fair outcomes for customers and orderly/transparent markets, including, for example, attention to sales processes and incentives, products and investment suitability, product governance, employee activities and accountabilities.

In the UK, the FCA is making increasing use of existing and new powers of intervention and enforcement, including powers to consider past business undertaken and implement customer compensation and redress schemes or other, potentially significant, remedial work. The FCA is also regulating areas of activity not previously regulated by them, such as consumer credit, and considering competition issues in the markets they regulate. Additionally, the FCA increasingly takes actions in response to customer complaints or where they see poor customer outcomes and/or market abuses, either specific to an institution or more generally in relation to a particular product.

Financial service providers face increasingly stringent and costly regulatory and supervisory requirements, particularly in the areas of capital and liquidity management, conduct of business, operational structures and the integrity of financial services delivery. Increased government intervention and control over financial institutions may significantly alter the competitive landscape.

In respect of regulatory risk, the UK regulators may take further actions that could result in changes in industry practices, sales and pricing.

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

Like other public and private organisations, the company continues to be a potential target of cyber-attacks, which in some cases disrupt services including the availability of the company's external facing websites, compromise organisations and customer information or expose security weaknesses. Management of cyber risks is coming under increased regulatory scrutiny.

The security of the company's information and technology infrastructure is crucial for maintaining the company's banking application process and protecting the company's customers and the HSBC brand.

The UK left the European Union ("EU") on 31 January 2020 and entered a transition period until 31 December 2020. During the transition period the UK will continue to be bound by EU laws and regulations. Beyond that date there is no certainty on what the future relationship between the UK and the EU will be. This creates market volatility and economic risk, particularly in the UK. We will continue to work with regulators, governments, our customers and colleagues to manage the risks resulting from the UK's exit from the EU as they arise.

On behalf of the Board

J. Hewitson

James E Hewitson
Director

22nd May 2020

8 Canada Square
London E14 5HQ

Report of the Directors

Directors

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

Name	Appointed	Resigned
D J Coke	06 May 2009	31 December 2019
J Coyle	01 March 2016	
D A Morse	16 March 2016	27 March 2019
P M Spencer	11 April 2016	
J E Hewitson	01 January 2020	

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

Details of interim dividend proposed during the financial year are set out in Note 6 of the financial statements. The company's directors propose an interim dividend of £9.4m, in respect of the year ended 31 December 2019.

Significant events since the end of the financial year

On 15th February 2020 the company migrated £3.62bn SIF/IFP FUM, 50,639 customer accounts. On March 19th 2020 a further £1.6bn of SIF/IFP FUM, 54,258 customer accounts were migrated, from a total of £6.0bn/126,869 customers. In total, we have migrated 87% of balances representing 83% of customers. There are further migrations planned for 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and have been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central banks relief actions and support measures in many countries to protect the economy.

Future developments

The company continues to work closely with its parent undertaking, HSBC UK Bank plc, to implement the optimum strategic solutions for the provision of Wealth Management services to HSBC Customers in the UK. The Select Investment Fund and Investment Fund Plan (SIF/IFP) began to migrate to HSBC UK Bank plc in 2019, with the remaining customers expected to migrate to HSBC UK Bank plc in 2020.
These services represent a significant proportion of the company's revenue.

Going concern basis

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

Since early January 2020, the COVID-19 outbreak has spread across the globe and have been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central bank relief actions and support measures in many countries to protect the economy. These events have also increased the level of operational risk in our business due to the impact on our business operations, employees, customers and suppliers. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the company and its clients, the Directors have considered the impact in carrying out their assessment of the principal risks the company faces.

Financial risk management

The financial risk management objectives and policies of the company, together with an analysis of the exposure to such risks, as required under Part 1 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, are set out in Note 20 of the Notes on the financial statements.

The COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. There are a number of factors associated with the outbreak and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the company.

Capital management

The company defines capital as total shareholders' equity. It is the company's objective to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. There were no changes to the company's approach to capital management during the year, however the company did reduce the amount of its share capital during the period by reducing the number of shares in issue, cancelling the entire amount standing to the credit of the share premium account and creating distributable reserves.

Pillar 3 of the Basel regulatory framework is related to market discipline and aims to make firms more transparent by requiring them to publish specific details of their risks and capital, and how these are managed. Separate Pillar 3 disclosures are not required for the company as the company is included in the consolidated Pillar 3 disclosures of HSBC UK Bank plc. These disclosures are published as a separate document on www.hsbc.com, under Investor Relations.

The PRA is the supervisor of the company. The PRA sets capital requirements and receives information on the capital adequacy of the company. The company complied with the PRA's capital adequacy requirements throughout 2019. Our capital is calculated under Capital Requirements Regulation and the Capital Requirements Directive (CRD IV) and supplemented by the PRA Rulebook to effect the transposition of CRD IV directive requirements. The Basel III framework, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Basel III also introduces a number of capital buffers, including the Capital Conservation Buffer ('CCB'), Countercyclical Capital Buffer ('CCyB'), and other systemic buffers such as the Globally/Other Systemically Important Institutions ('G-SII'/'O-SII') buffer. CRD IV legislation implemented Basel III in the EU, and in the UK, the 'PRA Rulebook' for CRR firms transposed the various discretions under CRD IV legislation into UK requirements.

Regulatory capital

The company's capital base is made up of common equity tier 1. Common equity tier 1 capital is the highest quality form of capital, comprising shareholders' equity.

The company is regulated by the FCA7. The FCA's General Prudential sourcebook ('GENPRU') provides rules for calculating the actual capital and minimum capital resources requirements of the company. The company is expected to maintain capital at above the minimum requirement at all times.

Calculation of actual capital

	2019 £'000	2018 £'000
Tier 1 capital		
Shareholders' equity	**24,843**	39,359
Common equity tier 1 capital	**24,843**	39,359
Tier 1 capital	**24,843**	39,359
Total regulatory capital	**24,843**	39,359
Risk-weighted assets (Unaudited)		
Credit and counterparty risk	**5030**	4,690
Operational risk	**63,800**	80,216
Total	**68,830**	84,906
Capital ratios (%)		
Common equity tier 1 ratio	**36.09**	46.36
Tier 1 ratio	**36.09**	46.36
Total capital ratio	**36.09**	46.36

The company held capital resources above the minimum requirement throughout the year.

Independent auditors

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

Directors' responsibility statement

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

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

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

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

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

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

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

Disclosure of Information to Auditors

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

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

On behalf of the Board

J. Hewitson

J E Hewitson
Director

22nd May 2020

8 Canada Square
London E14 5HQ

Independent auditors' report to the members of HSBC Trust Company (UK) Limited

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Trust Company (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the directors.

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

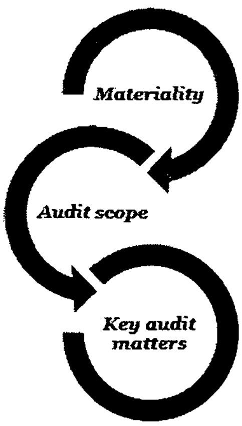
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Overall materiality: £627,000 (2018: £1,816,000), based on 5% of profit before tax.

We tailored the scope of our audit to ensure that we performed enough work to be able to express an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the entity operates.

Migration of Select Investment Fund and Investment Funds Plan

Impact of COVID-19

- *The scope of our audit*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations, the UK tax legislation and equivalent local laws and regulations applicable, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to the posting of inappropriate journal entries to increase revenue or reduce expenditure. Our audit procedures performed included identifying and testing journal entries posted that have a greater risk of fraud such as those posted by senior management or those posted outside of normal working practices. We also incorporated an element of unpredictability into our testing.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Migration of Select Investment Fund (SIF) and Investment Funds Plan (IFP) In November 2019, the company transferred approximately 25% of the SIF/IFP business to its parent company (HSBC UK Bank Plc) at book value. The rest of this product including the Corporate ISA (CISA) and Child Trust Fund (CTF) are all planned to be migrated in 2020. This represents a significant transaction for the Company and therefore an area of audit focus.	We assessed the appropriateness of the accounting for the transfer of the executed and planned SIF/IFP, CISA and CTF product migrations as well as the disclosures provided in the financial statements. We tested the accuracy of the product migration, specifically focussing on the cut-off of revenue from the related products. The accounting treatment adopted and disclosures in the financial statements are considered appropriate.
Impact of COVID-19 The COVID-19 outbreak has developed rapidly in 2020 following a significant number of infections not just within the UK but on a global scale. The directors have disclosed their assessment of the impact of this outbreak on the principal risks to the business in Note 20 – Management of financial risk and in Note 24 – Events after the balance sheet date. The directors have concluded that, whilst significant, the outbreak does not impact the measurement of any assets or liabilities as at 31 December 2019, or the conclusion that it remains appropriate to prepare the financial statements on a going concern basis.	We have reviewed management's assessment of the company's ability to continue as a going concern. This included reviewing the updated profitability forecast, their assessment of the adequacy of financial resources and arrangements in place to continue with its operations. We have reviewed management's disclosures in the financial statements including the report of the directors and have determined the disclosures to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the company's business activities, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£627,000 (2018: £1,816,000).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity and is a generally accepted auditing benchmark.

We agreed with the directors that we would report to them misstatements identified during our audit above £31,000 (2018: £90,800) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibility statement set out on page 6, 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.

Appointment

We were appointed by the directors on 31 March 2015 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

Carl Sizer (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
2nd June 2020

Financial statements

Income statement for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Interest income		201	636
Interest expense		(8)	(112)
Net interest income	2	**193**	524
Fee and commission income		24,579	10,537
Net fee income	2	**24,579**	10,537
Net operating income		**24,772**	11,061
General and administrative expenses		(11,765)	(7,032)
Total operating expenses		**(11,765)**	(7,032)
Operating profit		**13,007**	4,029
Profit before tax		**13,007**	4,029
Tax expense	5	(3,522)	(996)
Profit from continuing operations		**9,485**	3,033
Profit from discontinued operations	11	—	21,171
Profit for the year		**9,485**	24,204

Statement of comprehensive income for the year ended 31 December 2019

There has been no comprehensive income or expense other than the profit for the year as shown above (2018: nil).

Balance sheet at 31 December 2019

Registration No: 106294

	Notes	2019 £'000	2018 £'000
Assets			
Loans and advances to banks	9	56,037	77,064
Loans and advances to customers	10	390	485
Accrued income		3,923	4,340
Other assets	13	1,060	1,160
Investments in subsidiaries	12	5	5
Total assets		61,415	83,054
Liabilities and equity			
Liabilities			
Customer accounts	14	21,840	29,541
Accruals, deferred income and other liabilities	15	10,899	4,783
Current tax liabilities	5	3,510	8,878
Provisions	16	323	493
Total liabilities		36,572	43,695
Equity			
Called up share capital	19	—	15,000
Share premium account		—	100
Retained earnings		24,843	24,259
Total equity		24,843	39,359
Total liabilities and equity		61,415	83,054

The accompanying notes on pages 15 to 25 form an integral part of these financial statements:

These financial statements were approved by the Board of Directors on 22 May 2020 and signed on its behalf by:

J. Hewitson

J E Hewitson
Director

Statement of cash flows for the year ended 31 December 2019

		2019	2018
	Notes	£'000	£'000
Cash flows from operating activities			
Profit before tax from continuing operations		13,007	4,029
Profit before tax from discontinued operations		—	29,001
Adjustments for:			
Change in operating assets	7	612	5,999
Change in operating liabilities	7	(1,754)	(90,864)
Tax paid		(8,892)	(10,676)
Net cash used in operating activities		2,973	(62,511)
Cash flows from financing activities			
Dividends paid		(24,000)	(31,000)
Net cash used in financing activities		(24,000)	(31,000)
Net decrease in cash and cash equivalents		(21,027)	(93,511)
Cash and cash equivalents brought forward		77,064	170,575
Cash and cash equivalents carried forward	7	56,037	77,064

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Share Premium	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
At 1 Jan 2019	**15,000**	**100**	**24,259**	**39,359**
Profit for the year	—	—	9,485	9,485
Total comprehensive income for the year	—	—	9,485	9,485
Dividends to shareholders	—	—	(24,000)	(24,000)
Reduction in share capital	(15,000)	(100)	15,100	—
At 31 Dec 2019	*	—	**24,843**	**24,843**

At 1 Jan 2018	15,000	100	31,055	46,155
Profit for the year	—	—	24,204	24,204
Total comprehensive income for the year	—	—	24,204	24,204
Dividends to shareholders	—	—	(31,000)	(31,000)
Reduction in share capital	—	—	—	—
At 31 Dec 2018	15,000	100	24,259	39,359

Equity is wholly attributable to the equity shareholder of HSBC Trust Company (UK) Limited.

*The company reduced the amount of its share capital during the period by reducing the number of shares in issue (reduced by way of cancelling all except one ordinary £5 share), cancelling the entire amount standing to the credit of the share premium account and creating distributable reserves.

Notes on the financial statements

1. Basis of preparation and significant accounting policies

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

1.1. Basis of preparation

(a) Compliance with International Financial Reporting Standards

The financial statements of the company have been prepared in accordance with 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 2019, there were no unendorsed standards effective for the year ended 31 December 2019 affecting these financial statements, and the company application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

The company has adopted the requirements of IFRS 16 'Leases' which has had an insignificant effect on the financial statements of the company.

(b) Future accounting developments

Minor amendments to IFRSs

The IASB published a number of minor amendments to IFRSs which are effective from 1 January 2020, some of which have been endorsed for use in the EU. The company expects they will have an insignificant effect, when adopted, on the financial statements of the company.

Major new IFRSs

The IASB has published IFRS 17 'Insurance contracts'. IFRS 17 has not yet been endorsed. The company expects they will have an insignificant effect, when adopted, on the financial statements of the company.

(c) Presentation of information

Capital disclosures under IAS 1 'Presentation of Financial Statements' ('IAS 1') have been included in the Report of the Directors: Capital Management on page 5.

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

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

(d) Critical accounting estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. There are no accounting policies or estimates that are deemed critical to the results and financial position, in terms of materiality of the items to which the policies applied, which involve a high degree of judgement and estimation.

(e) Going concern

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

1.2. Summary of significant accounting policies

(a) Income and expense

Interest income and expense

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

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

Non-interest income and expense

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

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

(b) Investments in subsidiaries

The company classifies investments in entities which it controls as subsidiaries. Where a company is governed by voting rights, the company consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

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

(c) Financial instruments measured at amortised cost

Financial assets

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, are measured at amortised cost. Such financial assets include most loans and advances to banks and customers.

Financial Liabilities

Customer Accounts, amounts owed to other group undertakings, represent financial liabilities. Financial liabilities are measured at amortised cost.

(d) Impairment of amortised cost financial assets

Expected credit losses are recognised for loans and advances to banks and customers and other financial assets held at amortised cost. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months or less, where the remaining life is less than 12 months, ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'.

Write-off

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

(e) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Tax

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

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

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

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

(g) Provisions

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

2. Operating Profit

Operating profit is stated after the following items of income and expense:

	2019	2018
	£'000	£'000
Fee income		
Fees earned on trust and other fiduciary activities where the company holds or invests assets on behalf of its customers	21,604	6,607
Fee expense		
Interest on financial instruments	8	112
General and administrative expenses		
Recharges from other group entities for services provided	9,729	5,398

Employee compensation and benefits

The company has no employees. The charges for all staff related services for the current and prior year has been borne by other HSBC Group companies and recharged as noted above.

3. Directors' emoluments

The aggregate emoluments of the Directors of the company, computed in accordance with the Companies Act 2006 as amended by statutory instrument 2008 No. 410, were:

	2019	2018
	£'000	£'000
Salaries and other emoluments	293	359
Year ended 31 Dec	293	359

No Director exercised share options over HSBC Holdings plc ordinary shares during the year. (2018: One Director exercised share options during 2018 at a value per share of £4.04).

Retirement benefits are accruing to 4 Directors (2018: 4) under money purchase schemes in respect of Directors' qualifying services. Contributions of £38,279 (2018: £15,749) were made during the year to money purchase arrangements in respect of Directors' qualifying services.

Discretionary bonuses for Directors are based on a combination of individual and corporate performance and are determined by the Remuneration Committee of the company's ultimate parent company, HSBC Holdings plc. The cost of any conditional awards under the HSBC Share Plan and the HSBC Plan 2011 ('the Plans') is recognised through an annual charge based on the fair value of the awards, apportioned over the period of service to which the award relates. Details of the Plans are contained within the Directors' Remuneration Report of HSBC Holdings plc.

Of these aggregate figures, the following amounts are attributable to the highest paid Director:

	2019	2018
	£'000	£'000
Salaries and other emoluments	236	234
Year ended 31 Dec	236	234

Pension contributions of £25,478 (2018: £7,723) were made by the company in respect of services by the highest paid Director during the year.

4. Auditors' remuneration

	2019	2018
	£'000	£'000
Audit fees for HSBC Trust Company (UK) Limited's statutory audit		
- Fees relating to current year	44	42
- Fees relating to previous year	39	—
Fees for other services provided to the company		
- Audit-related assurance services	224	280
Year ended 31 Dec	307	322

No fees were payable to PricewaterhouseCoopers LLP for the following types of services: internal audit services and services related to litigation, recruitment and remuneration.

5. Tax

Tax expense

	2019	2018
	£'000	£'000
Current tax		
UK Corporation tax		
- For this year	3,510	1,049
- Adjustments in respect of prior years	12	(53)
Total current tax on continuing operations	3,522	996
Total current tax on discontinuing operations	—	7,830
Year ended 31 Dec	3,522	8,826

The UK corporation tax rate applying to the company was 27% (2018: 27%), comprising 19% UK corporation tax rate as the company meets the definition of a banking company, 8% bank surcharge.

Tax reconciliation

	2019		2018	
	£'000	(%)	£'000	(%)
Profit before tax				
- Continuing activities	13,007		4,029	
- Discontinuing activities	—		29,001	
	13,007		33,030	
Tax at 19.00% (2018: 19%)	2,471	19.00	6,277	19.00
Adjustments in respect of prior years	12	0.09	(53)	(0.16)
Banking surcharge	1,040	8.00	2,642	8.00
Amounts not recognised	(1)	(0.01)	—	—
Banking surcharge allowance			(40)	(0.12)
Year ended 31 Dec	3,522	27.08	8,826	26.72

The effective tax rate for 2019 of 27% (2018 27%) reflecting the UK rate of corporation tax for banking entities.

6. Dividends

	2019		2018	
	£ per share	£'000	£ per share	£'000
Dividends declared on ordinary shares				
Interim dividend in respect of the previous year	8.00	24,000	10.33	31,000

The directors propose an interim dividend of £9.4m, (2018 £24m) in respect of the year ended 31 December 2019.

7. Reconciliation of profit before tax to Net cash flow from operating activities

	2019	2018
	£'000	£'000
Change in operating assets		
Change in accrued income	417	1,645
Change in loans and advances to customers	95	1,284
Change in other assets	100	3,070
	612	5,999
Change in operating liabilities		
Change in accruals and deferred income	6,116	181
Change in customer accounts	(7,700)	(85,079)
Change in other liabilities	(170)	(5,966)
	(1,754)	(90,864)
Cash and cash equivalents comprise		
Loans and advances to bank of one month or less	56,037	77,064

8. Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis at amortised cost.

9. Loans and advances to banks

	2019	2018
	£'000	£'000
Loans and advances to banks	56,037	77,064
At 31 Dec	56,037	77,064

10. Loans and advances to customers

	2019	2018
	£'000	£'000
Loans and advances to customers	390	485
At 31 Dec	390	485

Loans and advances to customers by industry sector

	2019		2018	
	Gross loans and advances to customers	Gross loan by industry as % of total gross loans	Gross loans and advances to customers	Gross loan by industry as % of total gross loans
	£'000	%	£'000	%
Personal	390	100.00	485	100.00
At 31 Dec	390	100.00	485	100.00

11. Discontinued operations

Details of profit from discontinued operations in the income statement are as follows:

	2019	2018
	£'000	£'000
Profit before tax:		
Premier Investment Management Service	—	18,390
Select Investment Fund	—	10,611
Profit before tax of discontinued operations	—	29,001
Tax:		
Premier Investment Management Service	—	(4,965)
Select Investment Fund	—	(2,865)
Tax	—	(7,830)
Profit after tax:		
Premier Investment Management Service	—	13,425
Select Investment Fund	—	7,746
Profit after tax of discontinued operations	—	21,171

Following a firm commitment made at the company board meeting on 13 December 2018 to migrate the Select Investment Fund (SIF) product to HSBC UK Bank plc in November 2019 the SIF revenue (£14.7m), expense (£4.1m), Profit before tax (£10.6m) and associated tax (£2.9m) were included as discontinued operations in the 2018 accounts. Funds under Management (FUM) termed as Client Segregated Money is held off balance sheet and is therefore not disclosed as a discontinued operation since it does not represent held for sale/distribution criterion per IFRS 5 for 2019.

There was an update to the migration on 5th March 2019 whereby it was agreed to convert the Investment Fund Plan (IFP) book and migrate alongside SIF. IFP was originally expected to remain in the company until April 2020 and therefore did not form part of the 2018 discontinued operations note.

On 7th June 2019, it was agreed that the migration of the two products would be split into mixed cohorts based on migration complexity, with the first cohort to be migrated by the end of 2019 and the remaining cohorts by April 2020.

The first cohort migration took place on 23rd November 2019. The company migrated £1.55bn FUM / 43,036 customer accounts from a total of £7.7bn / 181,995 customers as part of the first migration.
Based on only 20% of the SIF & IFP FUM being migrated, it will not be disclosed as a discontinued operation per IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) for the year.

On 15th February 2020 the company migrated £3.62bn SIF/IFP FUM, 50,639 customer accounts. On March 19th a further £1.6bn of SIF/IFP FUM, 54,258 customer accounts were migrated, from a total of £6.0bn/126,869 customers. In total, we have migrated 87% of balances representing 83% of customers. There are further migrations planned for 2020.

The Corporate ISA (CISA) and Child Trust Fund (CTF) products are expected to migrate from the company to HSBC UK in 2020. The revenues, expenses and associated tax of these products have not been disclosed as a discontinued operation as they do not qualify under IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) for the period.

12. Investments in subsidiaries

	Country of incorporation	Interest in equity capital (%)	Share class	No.of shares	Investment (£)
Midland Nominees Limited [1]	England	100	Ordinary £1.00	100	100
Turnsonic (Nominees) Limited [1]	England	100	Ordinary £1.00	2	2
St. Cross Trustees Limited [1]	England	100	Ordinary £1.00	5,000	5,000
HSBC Executor and Trustee (UK) Limited [1]	England	100	Ordinary £1.00	100,000	—

1 *Address: 8 Canada Square, London E14 5HQ, United Kingdom*

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out above. The principal countries of operation are the same as the countries of incorporation.

No investments in subsidiaries were impaired in 2019.

13. Other assets

	2019 £'000	2018 £'000
Amounts due from fellow subsidiaries	309	429
Accrued income	751	731
At 31 Dec	1,060	1,160

Amounts due from fellow subsidiaries were unsecured and repayable on demand.

14. Customer accounts

	2019 £'000	2018 £'000
Retail customers		
Customer deposits	21,840	29,541
At 31 Dec	21,840	29,541

Customer savings deposits have variable interest rates and are repayable on demand.

15. Accruals, deferred income and other liabilities

	2019 £'000	2018 £'000
Accruals and deferred income	532	688
Amounts owed to other group companies	10,010	2,624
Other liabilities	357	1,471
At 31 Dec	10,899	4,783

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

16. Provisions

	Customer Remediation	
	2019 £'000	2018 £'000
At 1 Jan	493	237
Additions	392	298
Amounts utilised	(319)	(36)
Unused amounts reversed	(243)	(6)
At 31 Dec	323	493

Amounts are in respect of expected customer remediation.

17. Maturity analysis of assets and liabilities

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

	On demand	Due within 3 months	Due between 3 - 12 months	Due between 1 - 5 years	Due after 5 years	Undated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Assets							
Loans and advances to banks	56,037	—	—	—	—	—	56,037
Loans and advances to customers	—	—	—	—	—	390	390
Prepayment and accrued income	—	3,923	—	—	—	—	3,923
Other assets	1,060	—	—	—	—	—	1,060
Non-financial assets	—	—	—	—	—	5	5
At 31 Dec 2019	57,097	3,923	—	—	—	—	61,415
Liabilities and Equity							
Customer accounts	21,840	—	—	—	—	—	21,840
Accruals and other financial liabilities	1,184	9,344	366	—	—	5	10,899
Provisions	—	—	—	—	—	323	323
Non-financial liabilities	—	—	3,510	—	—	—	3,310
Equity	—	—	—	—	—	24,533	24,843
At 31 Dec 2019	23,024	9,344	3,876	—	—	25,171	61,415

Assets							
Loans and advances to banks	77,064	—	—	—	—	—	77,064
Loans and advances to customers	485	—	—	—	—	—	485
Prepayment and accrued income	4,340	-	—	—	—	—	4,340
Other assets	1,160	-	—	—	—	—	1,160
Non-financial assets	—	5	—	—	—	—	5
At 31 Dec 2018	83,049	5	—	—	—	—	83,054
Liabilities and Equity							
Customer accounts	29,541	—	—	—	—	—	29,541
Accruals and other financial liabilities	4,783	—	—	—	—	—	4,783
Provisions	—	—	—	—	—	493	493
Non-financial liabilities	—	—	8,878	—	—	—	8,878
Equity	—	—	—	—	—	39,359	39,359
At 31 Dec 2018	34,324	—	8,878	—	—	39,852	83,054

18. Offsetting of financial assets and financial liabilities

	Gross amounts	Net amounts in the balance sheet	Net amount
	£'000	£'000	£'000
Financial assets			
Loans and advances to customers	390	390	390
At 31 Dec 2019	390	390	390
Loans and advances to customers	485	485	485
At 31 Dec 2018	485	485	485
Financial liabilities			
Customer accounts	(21,840)	(21,840)	(21,840)
At 31 Dec 2019	(21,840)	(21,840)	(21,840)
Customer accounts	(29,541)	(29,541)	(29,541)
At 31 Dec 2018	(29,541)	(29,541)	(29,541)

19. Called up share capital and other equity instruments

Called up share capital and share premium

HSBC Trust Company (UK) Limited ordinary share of £5.00 each, issued and fully paid

	2019		2018	
	Number	£'000	Number	£'000
As at 1 Jan	3,000,000	15,000	3,000,000	15,000
movement	(2,999,999)	(14,999)	—	—
As at 31 Dec	**1**	**0**	3,000,000	15,000

HSBC Trust Company (UK) Limited share premium

	2019	2018
	£'000	£'000
At 1 Jan	**100**	100
movement	**(100)**	—
As at 31 Dec	—	100

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

20. Management of financial risk

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

The COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world and the economic environments in which they operate. There are a number of factors associated with the outbreak and its impact on global economies that could have a material adverse effect on (among other things) the profitability, capital and liquidity of financial institutions such as the company.
Should the COVID-19 outbreak continue to cause disruption to economic activity globally through 2020, there could be further impacts on our income due to equity markets volatility and weakness.
Any and all such events mentioned above could have a material adverse effect on our business, financial condition, results of operations, liquidity and capital position, as well as on our customers and suppliers.

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.

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

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

I. Maximum exposure to credit risk

	2019		
	Maximum exposure	Offset	Net
	£'000	£'000	£'000
Loans and advances at amortised cost	56,427	—	56,427
Other assets	4,988	—	4,988
At 31 Dec	61,415	—	61,415

	2018		
	Maximum exposure	Offset	Net
	£'000	£'000	£'000
Loans and advances to banks at amortised cost	77,549	—	77,549
Other assets	5,505	—	5,505
At 31 Dec	83,054	—	83,054

II. Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions (see loans and advances to customers by industry table on Note 10). The company uses a number of controls and measures to minimise undue concentration of exposure in the company's portfolios across industry, country and customer groups. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Due to the retail-based nature of its lending activities, the company is not exposed to any significant concentration risk.91.2% (2018: 92.8 %) of the credit risk exposure is to the parent undertaking, HSBC UK Bank plc.

III. Credit quality

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

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

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

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

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

'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
'Credit-impaired' exposures have been assessed as impaired.

The company categorises all exposures on its Financial Assets as Stage 1.

Distribution of financial instruments by credit quality

	Strong	Good	Total
	£'000	£'000	£'000
Loans and advances to banks	56,037	—	56,037
Loans and advances to customers	—	390	390
At 31 Dec 2019	56,037	390	56,427
Loans and advances to banks	77,064	—	77,064
Loans and advances to customers	—	485	485
At 31 Dec 2018	77,064	485	77,549

IV. Collateral and other credit enhancements

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

Summary of loan book analysed by collateral type is provided below

	2019	2018
	£'000	£'000
Unsecured	56,427	77,549
Loans and advances	56,427	77,549

Liquidity risk management

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

The company is included in the HSBC UK Liquidity Group ('Liquidity Group') which is managed as a single operating entity, in line with the application of the UK liquidity regulations as agreed with the PRA. Each member agrees to provide liquidity support when necessary.

Market risk management

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

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

Market Risk is managed and controlled through limits approved by the Risk Management Meeting (RMM) of the HSBC Group Management Board for HSBC Holdings and the global businesses. These limits are allocated across business lines and approved by the HSBC Group's legal entities, including HSBC UK.

An independent risk unit develops risk management policies and measurement techniques, and reviews limit utilisation on a daily basis.

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

Market price risk

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

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

Foreign exchange risk

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

Interest rate risk

Interest rate risk is the risk that a change in interest rates will affect the company's performance. Deposits received from customers are at variable rates of interest, generally linked to customer rates offered by HSBC UK Bank plc. The company places all funds with its parent, HSBC UK Bank plc.

21. Legal proceedings and regulatory matters

The company is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters recognised in note 15, the company considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2019 (See Note 16). Where an individual provision is material, the fact that a provision has been made is stated and quantified. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

22. Related party transactions

(a) Transactions with Directors and other Key Management Personnel

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

Compensation of Key Management Personnel

The following represents the compensation for Directors and other Key Management Personnel of the company in exchange for services rendered to the company for the period they served during the year.

	2019 £'000	2018 £'000
Short-term employee benefits	293	234
Post-employment benefits	38	8

(b) Transactions with other related parties

Transactions detailed below include amounts due to/from HSBC UK Bank plc.

	2019 £'000	2018 £'000
Assets		
Loans and advances to banks	**56,035**	77,064
Liabilities		
Other liabilities	**1,108**	-

	2019 £'000	2018 £'000
Income statement		
Interest income	**81**	371
General and administrative expenses	**7,541**	5,345

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

	2018 £'000	2018 £'000
Assets		
Other assets	**309**	429
Liabilities		
Other liabilities	**8,902**	2,624

	2019 £'000	2018 £'000
Income statement		
Fee income	**3,433**	3,930
Fee expense	**-**	12,407
General and administrative expenses	**254**	4,751

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

23. Parent undertakings

The ultimate parent undertaking and ultimate controlling party is HSBC Holdings plc which is the parent undertaking of the largest group to consolidate these financial statements. HSBC UK Bank plc is the parent undertaking of the smallest group to consolidate these financial statements.

The immediate parent undertaking is HSBC UK Bank plc.
Copies of HSBC Holdings plc's and HSBC UK Bank plc's consolidated financial statements can be obtained from;

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

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

24. Events after the balance sheet date

On 15th February 2020 the company migrated £3.62bn SIF/IFP FUM, 50,639 customer accounts. On March 19th 2020 a further £1.6bn of SIF/IFP FUM, 54,258 customer accounts were migrated, from a total of £6.0bn/126,869 customers. In total, we have migrated 87% of balances representing 83% of customers. There are further migrations planned for 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and have been classified by the World Health Organisation as a Pandemic. This is causing ongoing disruption to business and economic activity, and is resulting in substantial and substantive government and central bank relief actions and support measures in many countries to protect the economy. These events have also increased the level of operational risk in our business due to the impact on our business operations, customers and suppliers. Whist it cannot be predicted how long the disruption will continue or the full extent of the impact on the company and its clients, the Directors have considered the impact in carrying out their assessment of the principal risks the company faces. The directors have concluded that the COVID-19 outbreak does not impact the measurement of the assets and liabilities as at 31st December 2019 and that the financial statements should be continued to be prepared on a going concern basis.

The directors propose an interim dividend of £9.4m, in respect of the year ended 31 December 2019. There are no other significant events after the balance sheet date.

25. Client segregated money

The company holds cash in respect of client investments in ISAs, structured products and managed portfolios in segregated trust accounts with HSBC UK Bank plc and other external banks. As at 31 December 2019 the cash amounted to £37,978,258 (2018: £38,024,155). The cash is not shown as the company's assets or liabilities respectively as it is held on behalf of clients.