HSBC Finance (Netherlands)

Registration No: 2815114

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

HSBC

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Contents

Strategic Report

Principal activities

HSBC Finance (Netherlands) ('the Company') is domiciled and incorporated in England and Wales as a private company, unlimited with share capital. Its trading address is 8 Canada Square, London E14 5HQ. United Kingdom.

During the year ended 31 December 2019, the Company continued to be an investment holding company.

Review of the Company's business

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

The reserves available for distribution as at 31 December 2019 were $1,942m (2018: $2,189m).

Dividends of $851m were declared and paid during the year (2018: $67,273m).

In 2018, HSBC Group restructured its Asia operations with the Company recognising distribution in-specie for HSBC Holdings B.V., and HSBC Asia Holdings B.V.

Performance

The performance and position of the Company for the year ended 31 December 2019 and the state of the Company's financial affairs at that date are set out on pages 7 to 24.

During 2019, $2.68bn loan and advance amounts from the Company's parent, HSBC Holdings plc, were net cash settled with $2.68bn loan and advance amounts repaid by HSBC Holdings B.V., (for further details, see Note 12 and 17).

The results of the Company show a profit before tax of $604m for the year (2018: $45,551m). There is a significant decrease in 2019 dividend income as prior year amounts include income received from subsidiaries in relation to the 2018 restructure of HSBC Group's Asia operations (Note 15).

The Company received the following dividends from other group undertakings:

	2019 $'000	2018 $'000
Dividends from ordinary shares		
HSBC Asia Holdings B.V.	**56,000**	34,269,168
HSBC Holdings B.V.	**425,000**	11,616,952
HSBC Private Banking Holdings (Suisse) S.A.	**300,000**	55,000
HSBC Insurance (Bermuda) Limited	**–**	40,000
HSBC Electronic Data Processing India Private Limited	**–**	4,438
	781,000	45,985,558

Dividend income for 2018 is greater than current year and is primarily due to HSBC Group's restructuring of its Asia operations in 2018 to meet resolution and recovery requirements (Note 15).

Section 172 statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a director to have regard, amongst other matters, to: the likely consequences of any decision in the long term; the interests of the company's employees; the need to foster the company's business relationships with suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the company.

As a Group, HSBC considers its stakeholders to be the people who work for us, bank with us, own us, regulate us and live in the societies we serve. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values, and operate the business in a sustainable way.

As a non-trading, intermediate holding company, the principal stakeholder of the Company is the Company's parent entity.

The Company made two types of principal decision during the year. The first was the declaration of dividends, including an in-specie dividend of the Company's subsidiary at the point of declaration, HSBC Asia Holdings (UK) Limited. In making the decisions, the Board took into consideration the profits available for distribution, the dividend policy, the capital position, the long-term interests of the Company and the interests of the Group as a whole.

The second type of principal decision taken by the Company during the year was the early repayment of intragroup loans to its parent. In making the decision, the Board took into consideration the capital position, the long-term interests of the Company and the interests of the Group as a whole.

Stakeholder engagement

The Board understands the importance of effective engagement with all of its stakeholders to the long-term success of the Company. For further information on the Company's key stakeholders and the manner in which the Board takes their interests into consideration when making decisions, see the section 172 statement, above.

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 performance of the Company is carried out by monitoring the subsidiary performance, including cash flows from and to each subsidiary.

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 21 on the financial statements.

The Company's exposures to liquidity and market risks (including foreign currency risks and interest rate risk) 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

I F MacKinnon
Director

25 June 2020

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Report of the Directors

Directors

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

Name	Appointed	Resigned
G A Francis	01 September 2014	
R J Hennity	30 September 2011	31 March 2020
I F MacKinnon	16 September 2016	

The Articles of Association of the Company contain a qualifying third-party indemnity provision, which entitles Directors and other officers 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 and up to the date of approval of the financial statements but have not been utilised by the Directors. Additionally, all Directors have the benefit of Directors' and officers' liability insurance.

Dividends

Dividends of $851m were declared and paid during the year (2018: $67,273m).

Significant events since the end of the financial year

The Company paid a dividend of $85m to HSBC Holdings plc in March 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has 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. An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. The Company's investments remain well capitalised and the carrying values are supported by expected cash flows. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

Future developments

No change in the Company's activities is expected.

Going concern basis

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

Since early January 2020, the COVID-19 outbreak has spread across the globe and has 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. An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. The Company's investments remain well capitalised and the carrying values are supported by expected cash flows. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

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 21 of the Notes on 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 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.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP ('PwC') will therefore continue in office.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- 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 that 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

I F MacKinnon
Director
25 June 2020

Registered Office
8 Canada Square
London E14 5HQ
United Kingdom

Independent auditors' report to the members of HSBC Finance (Netherlands)

Report on the audit of the financial statements

Opinion

In our opinion, HSBC Finance (Netherlands)'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 Financial Statements (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 31 December 2019; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis of opinion

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

Independence

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

Conclusions relating to going concern

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

- 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.

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 Statement of directors' responsibilities in respect of the financial statements, 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.

Timothy Lawrence

Timothy Lawrence (Senior Statutory Auditor)
for and on behalf of **PricewaterhouseCoopers LLP**
Chartered Accountants and Statutory Auditors
London
25 June 2020

Financial statements

Income statement for the year ended 31 December 2019

	Notes	2019 $'000	2018 $'000
Interest income		**64,466**	130,201
Interest expense		**(78,757)**	(578,513)
Net interest expense		**(14,291)**	(448,312)
Net expense from financial instruments held for trading or managed on a fair value basis	3	**(94)**	(363)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	2	**22,154**	15,038
Loss from investments in subsidiaries	15	**—**	(1,000)
Dividend income		**781,000**	45,985,558
Net operating income		**788,769**	45,550,921
General and administrative expenses		**(17)**	(44)
Impairment charge on investments in subsidiaries	15	**(185,000)**	—
Total operating expense		**(185,017)**	(44)
Profit before tax		**603,752**	45,550,877
Tax (expense)/credit	7	**(186)**	77,135
Profit for the year		**603,566**	45,628,012

Statement of comprehensive income for the year ended 31 December 2019

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

Balance sheet at 31 December 2019
Registration No: 2815114

	Notes	2019 $'000	2018 $'000
Assets			
Cash and cash equivalents	9	**9,704**	13,942
Loans and advances to other group undertakings	12	**—**	2,685,005
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	14	**371,243**	367,016
Prepayments, accrued income and other assets	13	**82,694**	63,311
Current tax assets		**—**	81,197
Investments in subsidiaries	15	**2,172,233**	2,357,233
Total assets		**2,635,874**	5,567,704
Liabilities and equity			
Liabilities			
Loans from other group undertakings	17	**360,000**	3,046,482
Accruals, deferred income and other liabilities	16	**1,282**	—
Deferred tax liabilities	8	**1,912**	1,108
Total liabilities		**363,194**	3,047,590
Equity			
Called up share capital[1]	19	**—**	—
Other reserves		**331,000**	331,000
Retained earnings		**1,941,680**	2,189,114
Total equity		**2,272,680**	2,520,114
Total liabilities and equity		**2,635,874**	5,567,704

1 Called up share capital is $34 (2018: $36) (Note 19) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

The financial statements and its accompanying notes on pages 11 to 24 were approved by the Board of Directors on 25 June 2020 and signed on its behalf by:

I F MacKinnon
Director

Statement of cash flows for the year ended 31 December 2019

		2019 $'000	2018 $'000
Cash flows from operating activities			
Profit before tax		**603,752**	45,550,877
Adjustments for:			
Non-cash items included in profit before tax	*9*	**181,085**	(40,107,659)
Change in operating assets		**(13,407)**	—
Change in operating liabilities	*9*	**(6,482)**	(725,888)
Tax credit received		**81,814**	53,546
Net cash generated from operating activities		**846,762**	4,770,876
Cash flows from investing activities			
Net loans and advances from other group undertakings	*12*	**—**	26,969
Net cash inflow from investments in subsidiaries	*15*	**—**	89,600
Net cash generated from investing activities		**—**	116,569
Cash flows from financing activities			
Loans from/(repayments to) other group undertakings	*17*	**—**	(111,744)
Dividends paid		**(851,000)**	(6,357,000)
Net cash used in financing activities		**(851,000)**	(6,468,744)
Net decrease in cash and cash equivalents		**(4,238)**	(1,581,299)
Cash and cash equivalents brought forward		**13,942**	1,595,241
Cash and cash equivalents carried forward	*9*	**9,704**	13,942

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

				Other reserves		
	Called up share capital	Share Premium	Retained earnings	Financial assets at FVOCI reserve	Capital contribution reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
At 1 Jan 2019	–	–	**2,189,114**	–	**331,000**	**2,520,114**
Profit for the year	–	–	**603,566**	–	–	**603,566**
Total comprehensive income for the year	–	–	**603,566**	–	–	**603,566**
Dividends to shareholders	–	–	**(851,000)**	–	–	**(851,000)**
At 31 Dec 2019	–	–	**1,941,680**	–	**331,000**	**2,272,680**

				Other reserves		
	Called up share capital	Share Premium	Retained earnings	Financial assets at FVOCI reserve	Capital contribution reserve	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 Dec 2017	4,300,447	200,000	4,889,629	6,693	491,000	9,887,769
Impact on transition to IFRS 9	–	–	6,693	(6,693)	–	–
At 1 Jan 2018	4,300,447	200,000	4,896,322	–	491,000	9,887,769
Profit for the year	–	–	45,628,012	–	–	45,628,012
Total comprehensive income for the year	–	–	45,628,012	–	–	45,628,012
Ordinary share conversion to distributable reserves	(4,300,447)	–	4,300,447	–	–	–
Share premium conversion to distributable reserves	–	(200,000)	200,000	–	–	–
Capital contribution	–	–	–	–	14,276,922	14,276,922
Dividends to shareholders	–	–	(52,835,667)	–	(14,436,922)	(67,272,589)
At 31 Dec 2018	–	–	2,189,114	–	331,000	2,520,114

Called up share capital & Share Premium

Called up share capital is $34 (2018: $36) (Note 19) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

Prior year movements in Called up share capital and Share Premium relate to the restructuring of HSBC Group's Asia operations to meet resolution and recovery requirements. The Called up share capital was reduced by cancelling and extinguishing $4,300m of ordinary redeemable shares and with a conversion of the associated share premium of $200m to distributable reserves.

Capital contribution reserve

There were no changes in the capital redemption reserve during the year.

Prior year movements relate to the restructuring of HSBC Group's Asia operations. Capital contribution of $14,277m was received from HSBC Holdings plc, which was used to repay loans from HSBC Holdings plc (Note 17), on a net settlement basis. The $14,277m and a past capital contribution of $160m from HSBC Holdings plc were distributed to the parent company, on a net settlement basis (Note 15).

Dividend per share

Dividend per share for the year was $44.8m (2018: $3,161m).

The 2018 dividend paid by the Company includes a net settlement amount of $60,915m relating to the restructuring of HSBC Group's Asia operations in relation to distribution from HSBC Holdings Asia B.V. (Note 15).

Equity is wholly attributable to equity shareholders of HSBC Finance (Netherlands).

Notes on the financial statements

1 Basis of preparation and significant accounting policies

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

1.1 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

At 31 December 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

IFRS 16 'Leases'

On 1 January 2019, Company adopted the requirements of IFRS 16 retrospectively. The Company does not hold any leases and therefore, there was no impact on the Company financial statements from the adoption of this standard.

Interest Rate Benchmark Reform: Amendments to IFRS 9 and IAS 39 'Financial Instruments'

Amendments to IFRS 9 and IAS 39 issued in September 2019 modify specific hedge accounting requirements so that entities apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of interest rate benchmark reform.

These amendments apply from 1 January 2020 with early adoption permitted. HSBC Holdings plc (ultimate parent company) has adopted the amendments that apply to IAS 39 from 1 January 2019 and has made the additional disclosures as required by the amendments.

The Company does not carry out hedge accounting and there was no impact on the financial statements from the adoption of this standard.

(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

IFRS 17 'Insurance Contracts'

The IASB has published IFRS 17 'Insurance Contracts'. IFRS 17 has not yet been endorsed but as the Company holds no insurance contracts, there will be no impact on the Company financial statements from the adoption of this standard.

There are no other new IFRSs published by the IASB effective from 1 January 2020 that will have an impact on the financial statements of the Company.

(c) Foreign currencies

The functional currency of the Company is US dollars, which is also the presentational currency of the financial statements of the Company. Unless otherwise specified, all $ symbols represent US dollars.

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

(d) Presentation of information

The financial statements have been prepared on the historical cost basis, modified by the revaluation of financial assets designated at fair value.

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 to follow, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different conclusions from those reached by management for the purposes of these financial statements.

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

(f) Going concern

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

Since early January 2020, the COVID-19 outbreak has spread across the globe and has 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. An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. The Company's investments remain well capitalised and the carrying values are supported by expected cash flows. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

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.

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.

Non-interest income and expense

Dividend income: At 30 June 2019, the Company changed its accounting practice on the recognition of dividends to recognise them on the date of payment rather than the date of declaration, in line with generally accepted accounting practice. Prior periods have not been restated as all the relevant amounts are clearly disclosed, and the change is not considered material.

(b) 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, which involves estimations of value in use reflecting management's best estimate of the future cash flows of the investment and the rates used to discount these cash flows, both of which are subject to uncertain factors as follows:

Judgements	Estimates
• The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. Where such circumstances are determined to exist, management re-tests for impairment more frequently than once a year when indicators of impairment exist. This ensures that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management's best estimate of future business prospects	• The future cash flows of each investment are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they reflect management's view of future business prospects at the time of the assessment • The rates used to discount future expected cash flows can have a significant effect on their valuation, and are based on the costs of capital assigned to the investment. The cost of capital percentage is generally derived from a capital asset pricing model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond management's control • Key assumptions used in estimating impairment in subsidiaries are described in Note 15

(c) 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 and 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.

(d) Financial instruments measured at amortised cost

Loans and advances

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

Loans from other group undertakings

Loans from other group undertakings are recognised when cash is advanced or contractual arrangements are entered into, which is generally on the trade date. These liabilities are initially measured at fair value less directly attributable transaction costs. The Company derecognises the financial liability when the Company 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.

Financial liabilities

Amounts owed 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 or 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.

(e) Impairment of amortised cost assets

Expected credit losses ('ECL') are recognised for loans and advances to other group undertakings and other financial assets held at amortised cost. At initial recognition, allowance 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 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'.

All of the Company's exposures are with other HSBC group undertakings. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the group company's customer risk rating ('CRR'). The CRR of group companies have been virtually the same over the past few years, therefore the exposures are in stage 1. No ECL is recognised as no loss was expected for HSBC group undertakings.

(f) Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

Financial assets in this category primarily relate to loans and advances. These are classified in this category if they meet one or more of the criteria set out below, and are so designated irrevocably at inception:

- where the contractual cash flows of the asset fail Solely Payments of Principal and Interest;
- the use of the designation removes or significantly reduces an accounting mismatch;

Designated loans and advances assets are recognised when the Company enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred.. Subsequent changes in fair values are recognised in the income statement in 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss'.

(g) 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.

(h) Contingent liabilities and guarantees

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.

(i) 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.

(j) 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.

2 Net income from financial instruments measured at fair value through profit or loss

	2019 $'000	2018 $'000
Net income arising on:		
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**22,154**	15,038
Year ended 31 Dec	**22,154**	15,038

3 Net expense from financial instruments held for trading or managed on a fair value basis

	2019 $'000	2018 $'000
Foreign exchange loss	**(94)**	(363)
Total other operating expenses	**(94)**	(363)

4 Employee compensation and benefits

The Company has no employees and hence no staff costs (2018: nil).

5 Directors' emoluments

None of the Directors of the Company received any emoluments in respect of their services as Directors of the Company (2018: 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.

6 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 $21k (2018: $19k).

There were no other audit procedures, tax and non-audit services provided where fees were incurred during the year (2018: nil).

7 Tax

Tax expense/(credit)

	2019 $'000	2018 $'000
Current tax		
UK Corporation tax		
- For this year	**341**	(81,197)
- Adjustments in respect of prior years	**(1,027)**	4,002
Overseas tax		
- For this year	**409**	323
- Foreign tax relief	**(341)**	–
Total current tax	**(618)**	(76,872)
Deferred tax		
- For this year	**898**	(294)
- Effects of changes in tax rates	**(94)**	31
Total deferred tax	**804**	(263)
Year ended 31 Dec	**186**	(77,135)

The UK corporation tax rate applying to the Company was 19.00% (2018: 19.00%).

A reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020 was enacted in the Finance (No2) Act 2016 on 6 September 2016. However, in the UK budget on 11 March 2020, it was announced that the cut in the tax rate to 17% will not occur and the UK Corporation Tax Rate will instead remain at 19%. As this was not substantively enacted by the balance sheet date, deferred tax balances as at 31 December 2019 continue to reflect the planned rate reduction. If the deferred tax liability as at 31 December 2019 were re-measured at 19% it would increase by $224,853.

Tax reconciliation

	2019		2018	
	$'000	(%)	$'000	(%)
Profit before tax	**603,752**		45,550,877	
Tax at 19.00% (2018: 19.00%)	**114,713**	**19.00**	8,654,667	19.00
Adjustments in respect of prior period liabilities	**(1,027)**	**—**	4,002	0.01
Permanent disallowables	**35,150**	**6.00**	190	—
Effects of overseas tax rates	**68**	**—**	262	—
Non-taxable income and gains	**(148,389)**	**(25.00)**	(8,737,256)	(19.18)
Tax rate changes	**(322)**	**—**	31	—
Effects of group relief/other relief	**—**	**—**	961	—
Amounts not recognised	**(7)**	**—**	8	—
Year ended 31 Dec	**186**	**—**	(77,135)	(0.17)

8 Deferred tax

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

	2019	2018
	$'000	$'000
At 01 Jan 2019	**(1,108)**	(1,371)
Income statement (charge)/credit	**(804)**	263
At 31 Dec 2019	**(1,912)**	(1,108)

9 Reconciliation of profit before tax to net cash flow

	2019	2018
	$'000	$'000
Non-cash item included in profit and loss		
Impairment charge of investments	**185,000**	—
Interest income	**813**	—
Dividend income	**—**	(40,109,120)
Fair value movements in financial assets designated at fair value	**(4,728)**	1,461
	181,085	(40,107,659)
Change in operating assets		
Change in prepayment and accrued income	**(13,407)**	—
	(13,407)	—
Change in operating liabilities		
Change in trade and other payables	**—**	(725,888)
Change in loans from other group undertakings	**(6,482)**	—
	(6,482)	(725,888)
Cash and balances at central banks		
Cash at bank with other group undertakings	**9,704**	13,942
	9,704	13,942
Interest and dividends		
Interest paid	**(83,954)**	(664,679)
Interest received	**69,471**	157,170
Dividends received	**781,000**	5,876,438

10 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.

At 31 Dec 2019	FVPL $'000	Amortised cost $'000	Total $'000
Assets			
Cash and cash equivalents	**–**	**9,704**	**9,704**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**371,243**	**–**	**371,243**
Prepayments, accrued income and other assets	**–**	**82,694**	**82,694**
Total financial assets	**371,243**	**92,398**	**463,641**
Total non-financial assets			**2,172,233**
Total assets			**2,635,874**
Liabilities			
Loans from other group undertakings	**–**	**360,000**	**360,000**
Accruals, deferred income and other liabilities	**–**	**1,282**	**1,282**
Total financial liabilities	**–**	**361,282**	**361,282**
Total non-financial liabilities			**1,912**
Total liabilities			**363,194**

At 31 Dec 2018	FVPL $'000	Amortised cost $'000	Total $'000
Assets			
Cash and cash equivalents	–	13,942	13,942
Loans and advances to other group undertakings	–	2,685,005	2,685,005
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	367,016	–	367,016
Prepayments, accrued income and other assets	–	63,311	63,311
Total financial assets	367,016	2,762,258	3,129,274
Total non-financial assets			2,438,430
Total assets			5,567,704
Liabilities			
Loans from other group undertakings	–	3,046,482	3,046,482
Total financial liabilities	–	3,046,482	3,046,482
Total non-financial liabilities			1,108
Total liabilities			3,047,590

11 Fair value of financial instruments not carried at fair value

Fair value hierarchy

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

(a) Level 1 - valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

(b) Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

(c) Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted price	Observable inputs	Significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
At 31 Dec 2019					
Liabilities					
Loans from other group undertakings	**360,000**	**–**	**371,243**	**–**	**371,243**

		Fair values			
			Valuation techniques		
	Carrying amount	Quoted price	Using observable inputs	With significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000	$'000
At 31 Dec 2018					
Assets					
Loans and advances to other group undertakings	2,685,005	–	2,846,151	–	2,846,151
Liabilities					
Loans from other group undertakings	3,046,482	–	3,206,392	–	3,206,392

12 Loans and advances to other group undertakings

	Nominal interest rate	Maturity date	2019	2018
	(%)		$'000	$'000
HSBC Holdings B.V.	LIBOR +2.48	02/03/2027	–	725,000
HSBC Holdings B.V.	LIBOR +2.46	25/09/2026	–	630,000
HSBC Holdings B.V.	LIBOR +2.31	26/09/2023	–	575,000
HSBC Holdings B.V.	LIBOR +1.97	24/09/2021	–	570,000
HSBC Holdings B.V.	LIBOR +2.65	25/11/2025	–	180,000
Accrued interest receivable			–	5,005
At 31 Dec			–	2,685,005

During 2019, all loans and advances to HSBC Holdings B.V. were net cash settled with loans and advances from HSBC Holdings plc (Note 17).

Loans are denominated in US dollars and the effective interest based in LIBOR rates is accrued. The nominal rate is equal to the effective rate of interest, no fees were charged on these loans.

13 Prepayments, accrued income and other assets

	2019	2018
	$'000	$'000
Amounts due from other group undertakings[1]	**82,694**	63,311
At 31 Dec	**82,694**	63,311

1 *'Amounts due from other group undertakings' include accrued interest receivable amounts. The Company changed its recognition of accrued interest receivable during the year from 'Loans and advances to other group undertakings' and 'Financial assets designated and otherwise mandatorily measured at fair value' to 'Prepayments, accrued income and other assets'. Prior periods have not been restated as the change is not considered material.*

Amounts due from other group undertakings are non-interest bearing and the fair value is not significantly different to the carrying value in the balance sheet as they are short term in nature.

Amounts due from other group undertakings are unsecured and non-interest bearing.

14 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	Nominal interest rate	Maturity date	2019	2018
	%		$'000	$'000
HSBC Mexico S.A.[1]	LIBOR +3.65	31/01/2023	**110,000**	110,043
HSBC Private Bank (Suisse) S.A.[1]	LIBOR +1.91	18/12/2032	**261,243**	256,973
At 31 December			**371,243**	367,016

1 *The Company changed its recognition of 'Accrued interest receivable' during the year from 'Financial assets designated and otherwise mandatorily measured at fair value through profit or loss' to 'Prepayments, accrued income and other assets'. See Note 13 for further details.*

The loans are denominated in USD and the effective interest based on US dollar LIBOR rates are accrued. The nominal interest rate is equal to the effective rate of interest as there have been no fees charged on these loans.

The loans are carried at fair value, with any changes from remeasurement to fair value recognised under IFRS 9 in the income statement (Note 2).

Fair values were determined using valuation techniques with observable inputs (Level 2). The fair values of these loans and advances are estimated using pricing inputs including first call date, nominal yield curve, credit spread and coupon information.

15 Investments in subsidiaries

	2019	2018
	$'000	$'000
Cost		
At 1 Jan	**8,841,741**	29,737,810
Additions	—	26,410,303
Disposals	—	(47,306,372)
At 31 Dec	**8,841,741**	8,841,741
Accumulated impairment		
At 1 Jan	**(6,484,508)**	(6,484,508)
Impairment loss	**(185,000)**	—
At 31 Dec	**(6,669,508)**	(6,484,508)
Net book/carrying value at 1st Jan	**2,357,233**	23,253,302
Net book/carrying value at 31st Dec	**2,172,233**	2,357,233

Explanation of addition & disposals

There were no additions or disposals of investments during the year.

Prior year movements relate to restructuring of HSBC Group's Asia operations to meet resolution and recovery requirements. The Company decreased its investment in HSBC Holdings B.V. by $20,425m following the transfer of the ownership of HSBC Asia Holdings B.V. to the Company, via a distribution in-specie of $26,410m, on a net settlement basis. Subsequently, the investment in HSBC Asia Holdings B.V. was reduced by $26,391m following a $60,515m distribution in-specie from HSBC Asia Holdings B.V. to the Company, on a net settlement basis.

Prior year movements also included the sale of HSBC Insurance (Bermuda) Limited for $400m at carrying value to HSBC Overseas Holdings (UK) Limited, on a net settlement basis and also its investment in HSBC PB Service (Suisse) S.A. to HSBC Global Services Limited for $43.6m, at a $1m loss on sale.

Impairment testing of investment in subsidiaries

Impairment of investments

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

Nominal long-term growth rate: The long-term growth rate is used to extrapolate the cash flows in perpetuity because of the long-term perspective within the Group of business units making up the subsidiaries. In prior years impairment testing, these growth rates reflected GDP and inflation (nominal GDP) for the countries within which the subsidiary of the Company operates or from which it derives revenue. At 31 December 2019 we considered the extent to which growth rates based on nominal GDP data remained appropriate given the uncertainty in the macroeconomic environment around the world. We anticipate that when global growth does stabilise it will be at a slightly lower level than recent years. As a result, we considered it appropriate to base the long-term growth rate assumption on inflation data, moving away from a higher nominal GDP basis; and

Discount rate: The rate used to discount the cash flows is based on the cost of capital assigned to each subsidiary, which is derived using a Capital Asset Pricing Model ('CAPM'). The CAPM depends on a number of inputs reflecting financial and economic variables including the risk-free rate and a premium to reflect the inherent risk of the business being evaluated. These variables are based on the market's assessment of the economic variables and management's judgement. The discount rates for each subsidiary are refined to reflect the rates of inflation for the countries within which the subsidiaries operate. In addition, for the purposes of testing subsidiaries for impairment, management supplements this process by comparing the discount rates derived using the internally generated CAPM with cost of capital rates produced by external sources for businesses operating in similar markets; and

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

When this exercise demonstrates that the expected cash flows of a subsidiary have declined and/or that its cost of capital has increased, the effect is to reduce the subsidiary's estimated recoverable amount. If this is lower than the carrying value of the subsidiary, a charge for impairment will be recognised in the Company income statement for the year. The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In the event of a significant deterioration in economic and credit conditions compared with those reflected by management in the cash flow forecasts for the subsidiaries, a material adjustment to a subsidiary's recoverable amount may occur which may result in the recognition of an impairment charge in the income statement.

HSBC Private Banking Holdings (Suisse) S.A.

HSBC Private Banking Holdings (Suisse) S.A. provides global private banking services in Europe. A comparison of carrying amount of $1.5bn (2018: $1.5bn) to value in use of $1.3bn (2018: $2.3bn), calculated using a discount rate of 8.00% (2018: 8.70%) and a growth rate of 0.51% (2018: 2.47%), resulted in an impairment charge being recognised during the year of $185m (2018: nil). The impairment provision was increased during the year by $185m to $6.7bn (2018: $6.5bn).

The principal subsidiary undertakings of the Company as at 31 December 2019 and 31 December 2018 are set out below.

	Country of incorporation	Interest in equity capital (%)	Share class
HSBC Holdings B.V.	**The Netherlands**	**100**	**Ordinary shares**
HSBC Holdings B.V.	**The Netherlands**	**100**	**Preference shares**
HSBC Asia Holdings B.V.	**The Netherlands**	**100**	**Ordinary shares**
HSBC Asia Holdings B.V.	**The Netherlands**	**100**	**Preference shares**
HSBC Private Banking Holdings (Suisse) S.A.	**Switzerland**	**100**	**Ordinary shares**
HSBC Electronic Data Processing India Private Limited	**India**	**2.72**	**Ordinary shares**

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out in Note 25.

16 Accruals, deferred income and other liabilities

	2019	2018
	$'000	$'000
Amounts owed to other group undertakings[1]	**1,282**	—
At 31 Dec	**1,282**	—

1 'Amounts owed to other group undertakings' include accrued interest payable amounts. The Company changed its recognition of accrued interest payable during the year from 'Loans from other group undertakings' to 'Accruals, deferred income and other liabilities'. Prior periods have not been restated as the change is not considered material.

Amounts due to other group undertakings are non-interest bearing amounts and repayable on demand.

The fair value of the amounts due to other group undertakings is not significantly different to the carrying value in the balance sheet as they are short term in nature.

17 Loans from other group undertakings

	Nominal interest rate	Maturity date	2019	2018
	(%)		$'000	$'000
HSBC Holdings plc	LIBOR +1.66	18/08/2032	**250,000**	250,000
HSBC Holdings plc	LIBOR +1.94	17/01/2023	**110,000**	110,000
HSBC Holdings plc[1]	LIBOR +2.31	26/09/2023	—	575,000
HSBC Holdings plc[1]	LIBOR +1.97	24/09/2021	—	570,000
HSBC Holdings plc[1]	LIBOR +2.48	02/03/2027	—	725,000
HSBC Holdings plc[1]	LIBOR +2.46	25/09/2026	—	630,000
HSBC Holdings plc[1]	LIBOR +2.65	25/11/2025	—	180,000
Accrued interest payable[2]			—	6,482
At 31 Dec			**360,000**	3,046,482

1 Net cash settled during 2019 with loan and advance amounts repaid by HSBC Holdings B.V, (Note 12).
2 The Company changed its recognition of 'Accrued interest payable' during the year from 'Loans from other group undertakings' to 'Accruals, deferred income and other liabilities'. See Note 16 for further details

The loans are denominated in US dollars and the effective interest based on US dollar LIBOR is accrued. The loans are carried at amortised cost. The nominal rate is equal to the effective rate of interest as there have been no fees charged on these loans.

18 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							
Cash and cash equivalents	**9,704**	**–**	**–**	**–**	**–**	**–**	**9,704**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**–**	**–**	**–**	**110,000**	**261,243**	**–**	**371,243**
Prepayments, accrued income and other assets	**–**	**82,694**	**–**	**–**	**–**	**–**	**82,694**
Non-financial assets	**–**	**–**	**–**	**–**	**–**	**2,172,233**	**2,172,233**
At 31 Dec 2019	**9,704**	**82,694**	**–**	**110,000**	**261,243**	**2,172,233**	**2,635,874**
Liabilities and Equity							
Loans from other group undertakings	**–**	**–**	**–**	**110,000**	**250,000**	**–**	**360,000**
Accruals, deferred income and other liabilities	**–**	**1,282**	**–**	**–**	**–**	**–**	**1,282**
Non-financial liabilities	**–**	**–**	**–**	**–**	**1,912**	**–**	**1,912**
Equity	**–**	**–**	**–**	**–**	**–**	**2,272,680**	**2,272,680**
At 31 Dec 2019	**–**	**1,282**	**–**	**110,000**	**251,912**	**2,272,680**	**2,635,874**

	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							
Cash and cash equivalents	13,942	–	–	–	–	–	13,942
Loans and advances to other group undertakings	–	5,005	–	1,145,000	1,535,000	–	2,685,005
Loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value	–	501	–	110,000	256,515	–	367,016
Prepayments, accrued income and other assets	–	63,311	–	–	–	–	63,311
Non-financial assets	–	–	81,197	–	–	2,357,233	2,438,430
At 31 Dec 2018	13,942	68,817	81,197	1,255,000	1,791,515	2,357,233	5,567,704
Liabilities and Equity							
Loans from other group undertakings	–	6,482	–	1,255,000	1,785,000	–	3,046,482
Non-financial liabilities	–	–	–	–	1,108	–	1,108
Equity	–	–	–	–	–	2,520,114	2,520,114
At 31 Dec 2018	–	6,482	–	1,255,000	1,786,108	2,520,114	5,567,704

19 Called up share capital

	Nominal value per share £	Number of Issued and fully paid shares	**2019** Issued share capital	2018 Issued share capital
			$'000	$'000
Class of shares:				
Ordinary shares	1	19	**–**	–
Balance as at 31 Dec		19	**–**	–

Called up share capital is $34 (2018: $36) but has been rounded down to nil in the disclosure above, which displays all balances in $000s.

20 Contingent liabilities, contractual commitments and guarantees

There were no contingent liabilities or financial guarantee contracts as at 31 December 2019 (2018: nil).

21 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. Exposure to these risks is monitored by HSBC Holdings plc's Asset and Liability Committee.

Credit risk management

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

Credit risk is managed within the overall framework of HSBC policy, with an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and portfolio basis. The Directors are responsible for the quality of credit portfolios and follow a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality.

Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products. Credit risk is managed at a group level by business sector, rather than in respect of individual undertakings and it is therefore not considered appropriate to disclose quantitative data about exposure to that risk.

The Company's exposure to credit risk in relation to cash and cash equivalents and loans and advances to HSBC undertakings designated and otherwise mandatorily measured at fair value relates to group undertakings that are wholly-owned subsidiaries of HSBC Holdings plc. 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. Credit risk arising from default on other loans is not expected to have a material impact on the Company's net assets.

Maximum exposure to credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet plus contractual commitments disclosed in Note 20.

	2019	
	Maximum exposure	**Net**
	$'000	**$'000**
Cash and cash equivalents	**9,704**	**9,704**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**371,243**	**371,243**
Prepayments, accrued income and other assets	**82,694**	**82,694**
At 31 Dec	**463,641**	**463,641**

	2018	
	Maximum exposure	Net
	$'000	$'000
Cash and cash equivalents	13,942	13,942
Loans and advances to other group undertakings	2,685,005	2,685,005
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	367,016	367,016
Prepayments, accrued income and other assets	63,311	63,311
At 31 Dec	3,129,274	3,129,274

Liquidity risk management

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

The Company monitors 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.

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining 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**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans from other group undertakings	**—**	**113,139**	**9,003**	**48,016**	**341,697**	**511,855**
At 31 Dec 2019	**—**	**113,139**	**9,003**	**48,016**	**341,697**	**511,855**

	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Loans from other group undertakings	—	38,335	115,004	1,794,565	2,110,598	4,058,502
At 31 Dec 2018	—	38,335	115,004	1,794,565	2,110,598	4,058,502

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.

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 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

The Company held net assets of $9.7m (2018: net assets of $13.9m) that are sensitive to interest rate movements. If all other variables are held constant the effect of a 100 basis points increase/(decrease) in LIBOR on these net assets would be an increase/(decrease) of profit before tax of $0.1m (2018: $0.1m) and after tax of $0.1m (2018: $0.1m).

22 Related party transactions

Transaction with other related parties

Balances with related parties

Balances and transactions with other related parties can be summarised as follows:

	2019		2018	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	$'000	$'000	$'000	$'000
Assets				
Cash and cash equivalents[1]	**309,348**	**9,704**	1,595,241	13,942
Loans and advances to other group undertakings[2]	**2,685,005**	**—**	6,711,974	2,685,005
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss[1,2]	**374,237**	**371,243**	367,016	367,016
Prepayments, accrued income and other assets[1,2]	**63,311**	**82,694**	63,311	63,311
Liabilities				
Accruals, deferred income and other liabilities[3]	**28,006**	**1,282**	725,888	—
Loans from other group undertakings[3]	**3,046,482**	**360,000**	21,185,148	3,046,482

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

	2019	2018
	$'000	$'000
Income statement		
Interest income[1,2]	**64,466**	130,201
Interest expense[3]	**(78,757)**	(578,513)
Dividend income[2]	**781,000**	45,985,558

1 *These balances are with other related parties comprising of other HSBC Group Companies which are not a parent nor subsidiary of the Company.*
2 *These balances are with subsidiaries of the Company.*
3 *These balances are with the parent of the Company.*

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.

23 Parent undertakings

The ultimate and immediate 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 Holdings plc is incorporated in England and Wales.

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

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

24 Events after the balance sheet date

The Company paid a dividend of $85m to HSBC Holdings plc in March 2020.

Since early January 2020, the COVID-19 outbreak has spread across the globe and has 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. An assessment of the potential financial impact of COVID-19 on the Company has been carried out. It was concluded that the Company had sufficient cash resources to meet its obligations as they fall due for a period of at least 12 months from the date of this report considering cash received on investments post the balance sheet date. The Company's investments remain well capitalised and the carrying values are supported by expected cash flows. This will not be impacted by COVID-19 situation. There is no material adverse effect on the Company's financial condition or liquidity, presently, or within future projections based on currently available information. Management will continue to monitor the situation closely, including the potential impact on the Company's financial performance.

Management consider the above events after the balances sheet date to be non-adjusting events for the Company.

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

25 HSBC Finance (Netherlands)'s subsidiaries and associates

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 2019 is disclosed below.

Subsidiaries	Interest (%)	Footnotes
Cordico Management AG	100.00%	1,14
Corhold Limited	100.00%	1,22
HSBC Asia Holdings B.V.	100.00%	2,11
HSBC Asset Management (India) Private Limited	100.00%	1,8
HSBC Bank Egypt S.A.E	94.54%	1,7
HSBC Electronic Data Processing India Private Limited	100.00%	1,18
HSBC Financial Services (Lebanon) s.a.l.	99.60%	1,15
HSBC Holdings B.V.	100.00%	2,11
HSBC IM Pension Trust Limited	100.00%	1,11
HSBC InvestDirect (India) Limited	54.49%	1,12
HSBC InvestDirect Financial Services (India) Limited	54.49%	1,12
HSBC InvestDirect Sales & Marketing (India) Limited	53.94%	1,9
HSBC InvestDirect Securities (India) Private Limited	61.38%	1,12
HSBC Investment Bank Holdings B.V.	100.00%	1,11
HSBC Investment Company (Egypt) S.A.E (In liquidation)	97.82%	1,6
HSBC Private Bank (Luxembourg) S.A.	100.00%	1,4
The Saudi British Bank	40.00%	1,13

Subsidiaries	Interest (%)	Footnotes
HSBC Private Bank (Monaco) S.A.	100.00%	1,5
HSBC Private Bank (Suisse) S.A.	100.00%	1,21
HSBC Private Banking Holdings (Suisse) S.A.	100.00%	1,21
HSBC Professional Services (India) Private Limited	97.93%	1,9
HSBC Property (UK) Limited	100.00%	1,11
HSBC Securities (Egypt) S.A.E.	92.65%	1,7
HSBC Securities (Philippines) Inc.	100.00%	3,10
HSBC Securities and Capital Markets (India) Private Limited	100.00%	1,9
HSBC Services Japan Limited	100.00%	1,19
HSBC Software Development (India) Private Limited	100.00%	1,17
HSBC Software Development (Malaysia) Sdn Bhd	100.00%	1,24
HSBC Trust Company AG	100.00%	1,14
Sico Limited	100.00%	1,25
Societe Immobiliere Atlas S.A.	100.00%	1,21
Vadep Holding AG	100.00%	1,20
HSBC Saudi Arabia Ltd	51.00%	1,16

Associates	Interest (%)	Footnotes

Reference	Description of Shares
1	Ordinary Shares
2	Ordinary and Preference Shares
3	Nominal

Reference	Registered Office
4	16 Boulevard d'Avranches , Luxembourg, L-1160
5	17, avenue d'Ostende , Monaco, 98000
6	3, Aboul Feda Street, Zamalek, Cairo , Egypt
7	306 Corniche El Nil , Maadi, Egypt, 11728
8	3rd Floor, Merchantile Bank Chamber 16, Veer Nariman Road, Fort, Mumbai, India, 400001
9	52/60 M G Road, Fort, Mumbai, India, 400 001
10	7/F The Enterprise Centre - Tower I, 6766 Ayala Avenue corner Paseo De Roxas, Makati City, Philippines
11	8 Canada Square , London, United Kingdom, E14 5HQ
12	9-11 Floors, NESCO IT Park Building No. 3 Western Express Highway, Goregaon (East), Mumbai, India, 400063
13	Al Amir Abdulaziz Ibn Mossaad Ibn Jalawi Street, Riyadh, Saudi Arabia
14	Bederstrasse 49 , Zurich, Switzerland, CH-8002
15	Centre Ville 1341 Building - 4th Floor Patriarche Howayek Street (facing Beirut Souks), PO Box Riad El Solh, Lebanon, 9597
16	HSBC Building 7267 Olaya - Al Murrooj, Riyadh, Saudi Arabia, 12283 - 2255
17	HSBC Centre River Side, West Avenue, 25B Raheja woods, Kalyaninagar, Pune, India, 411006
18	HSBC House Plot No.8, Survey No.64 (Part), Hightec City Layout Madhapur, Hyderabad, India, 500081
19	MB&H Corporate Services Ltd Mareva House, 4 George Street, Nassau, Bahamas
20	Philippe Kaiser Baarerstrasse 8, Zug, Switzerland, 6300
21	Quai des Bergues 9-17 , Geneva, Switzerland, 1201
22	Rawlinson and Hunter Limited Woodbourne Hall, PO Box 3162, Road Town, Tortola, British Virgin Islands, VG1110
23	Rua Funchal, n° 160, SP Corporate Towers, Torre Norte, 19° andar, cj 191A - Parte, São Paulo, Brazil, 04551-060
24	Suite 1005, 10th Floor, Wisma Hamzah Kwong Hing No. 1, Leboh Ampang, Kuala Lumpur, Malaysia, 50100
25	Woodbourne Hall, Road Town PO Box 3162, Tortola, British Virgin Islands