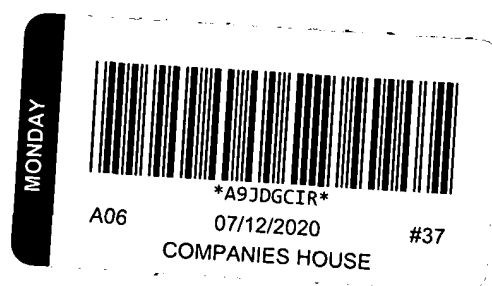


# HSBC Specialist Investments Limited

**Registration No: 3537332**

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



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

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## **Strategic Report**

### **Principal activities**

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

The principal activity of the Company is to act as the holding company of companies engaged in trading and investment activities.

The Company is limited by shares.

### **Review of the Company's business**

During the year the Company continued to carry out its role as the investment holding company of companies investing in funds investing primarily in real estate and infrastructure projects. The Company was responsible for setting the strategic direction and targets of the group subsidiaries, researching and developing new business opportunities, establishing appropriate risk management and performance monitoring procedures and controls, and providing and arranging funding for the group's business and investment initiatives.

The Company is funded by other HSBC group undertakings through equity investments and borrowings.

### **Section 172 statement**

Section 172 of the Companies Act 2006 (the "Act") 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. As part of the Company's deliberations and decision making process, the Board also takes into account the (i) likely consequences of any decision in the long term; (ii) the interests of the Company's employees; (iii) the need to foster the Company's business relationships with suppliers, customers and others; (iv) the impact of the Company's operations on the community and the environment; and (v) the desirability of the Company maintaining a reputation for high standards of business conduct. The Board considers its stakeholders to be the people who work for us, contract with us, own us, regulate us and live in the societies we serve. During 2019, the directors gave careful consideration to the factors set out above in discharging their duties under section 172 of the Act. The Board recognises that building strong relationships with our stakeholders will help deliver the Company's strategy in line with its long-term values, and operate the business in a sustainable way. The Board is committed to effective engagement with its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of the Company's engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decisionmaking.

The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders. During the year, the Board has received management reports and presentations on issues concerning customers, the environment, communities, suppliers, employees, regulators and governments. These are taken into account in the Board's discussions and decision-making process. The majority of decisions made by the Board during the year are deemed to be routine in nature and are taken on a cyclical basis. The Board keeps the Company strategy under regular review and being a material subsidiary of the HSBC Group takes into account the Group strategic priorities, as appropriate. The principal stakeholder of the Company is the Company's parent entity.

### **Performance**

The Company's results for the year under review are as detailed in the income statement shown on page 7 of these financial statements.

The Company has incurred a loss of £26,000 for the year ended 31 December 2019 (2018: loss of £37,000).

### **Key performance indicators**

As the Company is managed as part of the global bank, there are no key performance indicators that are specific to the Company, other than referred to above. 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 comparing actual performance against annually set budgets.

**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 of the Notes on the Financial Statements.

Following the referendum on 23 June 2016, the UK took the decision to leave the European Union ('EU') with the process of the UK leaving the EU commencing on 29 March 2017. The UK left the EU on 31 January 2020 and entered into a transition period until 31 December 2020, during which negotiations will take place on the future relationship between the UK and the EU. At this stage the ultimate economic effect of the UK leaving the EU is uncertain and will depend upon the outcome of negotiations between the UK government, the EU and non-EU countries. In the meantime, this uncertainty is expected to result in market risk volatility in the short to medium term including sterling exchange rates and interest rates. As described in Note 21, foreign exchange and interest rate risks are managed by the Company in the ordinary course of business and so any increased volatility as a result of the UK leaving the EU is not expected to have a material effect on the results and net assets of the Company. Additionally, any general adverse consequences for credit risk at a UK or EU macro-economic level that may arise as a consequence of the UK leaving the EU is not expected to translate into a material increase in credit risk for the Company given the nature of the Company's transactions, its counterparties and available security.

In addition to the above, 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 global 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 their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company.

On behalf of the Board



J P Marlow  
Director  
27 November 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
J P Marlow
C R J Irvin
J Wilkinson

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

No dividends were paid during the year to its parent company (2018: nil).

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

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 global 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 their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company.

The COVID-19 outbreak represents a non-adjusting post balance sheet event and therefore it remains appropriate that the measurement of the Company's assets and liabilities as at 31 December 2019 reflects only the conditions that existed at that date.

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

### Future developments

No change in the Company's activities is expected.

### Going concern basis

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Company has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including the COVID-19 outbreak referred to above, together with future projections of profitability, cash flows and capital resources.

### 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 HSBC Group'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

PricewaterhouseCoopers LLP ('PwC') are external independent auditors 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 independent auditors.

## **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 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 P Marlow  
Director  
27 November 2020

Registered office  
8 Canada Square  
London E14 5HQ  
United Kingdom

# **Independent auditors' report to the member of HSBC Specialist Investments Limited**

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

### **Opinion**

In our opinion, HSBC Specialist Investments 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 loss 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; and the notes on the financial statements, which include a description of the significant accounting policies.

### **Basis for opinion**

We conducted our audit in accordance with International Standards of 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 set out on page 4, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditors' responsibilities for the audit of the financial statements**

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

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

### **Use of this report**

This report, including the opinions, has been prepared for and only for the Company's member 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.



Harry Armour (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

27 November 2020



## Financial statements

### Income statement for the year ended 31 December 2019

	<i>Notes</i>	2019 £'000	2018 £'000
Interest income	2	2,623	3,370
Interest expense	3	(2,647)	(3,415)
<b>Net interest expense</b>		<b>(24)</b>	<b>(45)</b>
Other operating income	4	—	1
<b>Net operating expense before loan impairment charges and other credit risk provision</b>		<b>(24)</b>	<b>(44)</b>
<b>Net operating expenses</b>		<b>(24)</b>	<b>(44)</b>
General and administrative expenses	5	(7)	(2)
<b>Total operating expenses</b>		<b>(7)</b>	<b>(2)</b>
<b>Operating loss</b>		<b>(31)</b>	<b>(46)</b>
<b>Loss before tax</b>		<b>(31)</b>	<b>(46)</b>
Tax credit	9	5	9
<b>Loss for the year</b>		<b>(26)</b>	<b>(37)</b>

### 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 loss for the year as shown above (2018: nil).

## HSBC Specialist Investments Limited

### Balance sheet at 31 December 2019

Registration No: 3537332

	Notes	2019 £'000	2018 £'000
<b>Assets</b>			
Cash and cash equivalents	11	102,951	86,939
Loans and advances	14	94,328	94,510
Trade and other receivables	15	2,898	622
Current tax assets		5	9
Investments in subsidiaries	16	5,000	5,000
Deferred tax assets	10	1	1
<b>Total assets</b>		<b>205,183</b>	<b>187,081</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Trade and other payables	17	16,397	10,133
Loans from other group undertakings	18	133,567	121,703
<b>Total liabilities</b>		<b>149,964</b>	<b>131,836</b>
<b>Equity</b>			
Called up share capital	20	42,300	42,300
Retained earnings		12,919	12,945
<b>Total equity</b>		<b>55,219</b>	<b>55,245</b>
<b>Total liabilities and equity</b>		<b>205,183</b>	<b>187,081</b>

The accompanying notes on pages 11 to 18 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27 November 2020 and signed on its behalf by:



J P Marlow  
Director

## HSBC Specialist Investments Limited

### Statement of cash flows for the year ended 31 December 2019

	<i>Notes</i>	2019 £'000	2018 £'000
<b>Cash flows from operating activities</b>			
Loss before tax		(31)	(46)
<b>Adjustments for:</b>			
Change in operating assets	<i>11</i>	(2,276)	(376)
Change in operating liabilities	<i>11</i>	6,264	(21,187)
Tax credit received		9	17
<b>Net cash generated from/(used in) operating activities</b>		<b>3,966</b>	<b>(21,592)</b>
<b>Cash flows from investing activities</b>			
Net loans and advances to/(from) other group undertakings		182	(4,762)
<b>Net cash generated from/(used in) investing activities</b>		<b>182</b>	<b>(4,762)</b>
<b>Cash flows from financing activities</b>			
Movement in inter-company funding		12,169	8,495
<b>Net cash generated from financing activities</b>		<b>12,169</b>	<b>8,495</b>
Net increase/(decrease) in cash and cash equivalents		16,317	(17,859)
Cash and cash equivalents brought forward		86,939	103,622
Effect of exchange rate changes on cash and cash equivalents		(305)	1,176
<b>Cash and cash equivalents carried forward</b>		<b>102,951</b>	<b>86,939</b>

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

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
<b>At 1 Jan 2019</b>	<b>42,300</b>	<b>12,945</b>	<b>55,245</b>
Loss for the year	—	(26)	(26)
<b>Total comprehensive expense for the year</b>	<b>—</b>	<b>(26)</b>	<b>(26)</b>
Dividends to shareholders	—	—	—
<b>At 31 Dec 2019</b>	<b>42,300</b>	<b>12,919</b>	<b>55,219</b>

	Called up share capital	Retained earnings	Total equity
	£'000	£'000	£'000
At 1 Jan 2018	42,300	12,982	55,282
Loss for the year	—	(37)	(37)
Total comprehensive expense for the year	—	(37)	(37)
Dividends to shareholders	—	—	—
At 31 Dec 2018	42,300	12,945	55,245

**Dividends per share**

Dividend per ordinary share for the year was nil (2018: nil)

## 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's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

Standards adopted during the year ended 31 December 2019

##### *IFRS 16 'Leases'*

The Company has adopted the requirements of IFRS 16 'Leases' with effect from 1 January 2019. Adoption has had no impact on the results or net assets 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

There are no new IFRSs published by the IASB which are endorsed by the EU and are effective from 1 January 2020 that are expected to have an impact on the financial statements of the Company.

##### (c) Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost, 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 functional currency of the Company is sterling, which is also the presentational currency of the financial statements of the Company.

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 on the historical cost basis.

##### (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 the COVID-19 outbreak, together with 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.

## HSBC Specialist Investments Limited

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

### **(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

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

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

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 and trade and other receivables.

Loans and advances

Loans and advances 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.

Trade and other receivables

These include trade and other receivables originated by the Company, not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the receivables 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 allowance.

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.

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.

### **(d) Impairment of amortised cost financial assets and liabilities**

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

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 incurred for HSBC group undertakings.

Further details can be found in HSBC Holdings plc Annual Report and Accounts 2019 Note 1.2 (i).

## HSBC Specialist Investments Limited

### (e) Tax

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

Current tax is the tax expected to be payable on the taxable profit for the year and 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.

### (f) 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.

### (g) 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 Interest income

	2019	2018
	£'000	£'000
Interest income from loans and advances	2,623	3,370

## 3 Interest expense

	2019	2018
	£'000	£'000
Interest expense on loans with other group undertakings	2,647	3,415

## 4 Other operating income

	2019	2018
	£'000	£'000
Foreign exchange gain	–	1

## 5 General and administrative expenses

Included in general and administrative expenses are £5,250 (2018: £5,000) of audit fees along with Bank charges and foreign exchange loss/(income).

## 6 Employee compensation and benefits

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

## 7 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.

## 8 Auditors' remuneration

Audit fees incurred during the year £5,250 (2018: £5,000). There were no non-audit fees incurred during the year (2018: nil).

## 9 Tax

### Tax credit

	2019	2018
	£'000	£'000
<b>Current tax</b>		
UK Corporation tax		
- For this year	(5)	(9)
<b>Total current tax</b>	<b>(5)</b>	<b>(9)</b>
<b>Year ended 31 Dec</b>	<b>(5)</b>	<b>(9)</b>

The UK corporation tax rate applying to the Company was 19% (2018: 19%).

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%

## HSBC Specialist Investments Limited

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 asset as at 31 December 2019 were re-measured at 19% it would increase by £64.

### Tax reconciliation

	2019		2018	
	£'000	(%)	£'000	(%)
Loss before tax	(31)		(46)	
Tax at 19.00% (2018: 19.00%)	(6)	19.0	(9)	19.0
Expenses not deductible	1	(2.6)	—	—
<b>Year ended 31 Dec</b>	<b>(5)</b>	<b>16.4</b>	<b>(9)</b>	<b>19.0</b>

### 10 Deferred tax

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

	Property, plant and equipment	
	2019 £'000	2018 £'000
At 1 Jan 2019	1	1
<b>At 31 Dec 2019</b>	<b>1</b>	<b>1</b>

A deferred tax asset of £1,000 (2018: £1,000) is recognised in respect of fixed asset temporary differences.

### 11 Reconciliation of loss before tax to Net cash flow

	2019 £'000	2018 £'000
<b>Change in operating assets</b>		
Change in trade and other receivables	(2,276)	(376)
<b>Change in operating liabilities</b>		
Change in trade and other payables	6,264	(21,187)
<b>Cash and cash equivalents comprise</b>		
Cash at bank with other group undertakings	102,951	86,939
<b>Interest and dividends</b>		
Interest paid	3,195	3,148
Interest received	3,171	3,105

### 12 Analysis of financial assets and liabilities by measurement basis

All financial assets and financial liabilities held by the Company are measured on an ongoing basis at amortised cost.

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

There are no material differences between the carrying value and the fair value of financial assets and liabilities at 31 December 2019 and 31 December 2018.

### 14 Loans and advances

	2019 £'000	2018 £'000
Amounts due from other group undertakings	94,328	94,510

### 15 Trade and other receivables

	2019 £'000	2018 £'000
Accrued interest receivable	344	562
Amounts due from other group undertakings	2,554	60
<b>At 31 Dec</b>	<b>2,898</b>	<b>622</b>



## 16 Investments in subsidiaries

### Movements on investments

	2019 £'000	2018 £'000
<b>Cost</b>		
At 1 Jan	5,000	5,000
At 31 Dec	5,000	5,000
<b>Accumulated impairment</b>		
At 1 Jan	—	—
At 31 Dec	—	—
<b>Net carrying value at 31st Dec</b>	<b>5,000</b>	<b>5,000</b>

### Impairment loss

The Company accounting policy for impairment of assets (other than financial assets) is described in Note 1.2.

The following table sets out the investments in subsidiaries for which detailed impairment tests were undertaken and assumptions used.

	Cost as at 31 December £'000	Net assets at 31 December £'000
<b>2019</b>		
<b>HSBC Property Funds (Holdings) Limited</b>	5,000	46,570
<b>2018</b>		
HSBC Property Funds (Holdings) Limited	5,000	41,977

### Principal subsidiary undertakings

Details of all subsidiaries, as required under section 409 of Companies Act 2006, are set out below

	Country of incorporation	Interest in equity capital (%)	Foot notes
HSBC Infrastructure Limited	United Kingdom	100 (Direct)	1,3
HSBC Property funds (Holdings) Limited	United Kingdom	100 (Direct)	2,3
HSIL Investments Limited	United Kingdom	100	1,3
CL Residential Limited (in liquidation)	United Kingdom	100	1,4

Description of shares	Foot notes
Ordinary shares	1
Ordinary shares and redeemable preference shares	2
<b>Registered offices</b>	
8 Canada Square London E14 5HQ, United Kingdom	3
Hill House 1 Little New Street London EC4A 3TR, United Kingdom	4

## 17 Trade and other payables

	2019 £'000	2018 £'000
Amounts owed to other group undertakings	15,933	9,403
Other creditors	464	730
<b>At 31 Dec</b>	<b>16,397</b>	<b>10,133</b>

## 18 Loans from other group undertakings

	2019 £'000	2018 £'000
Unsecured bank facility with other group undertakings	133,567	121,703

## HSBC Specialist Investments Limited

2019	Year of maturity	Nominal interest rate (%)	Currency	Face value	GBP equivalent
Money Market	2020	(0.14)	EUR	22,000,000	18,676,953
Money Market	2020	(0.09)	EUR	40,000,000	33,958,097
Money Market	2020	2.39	USD	65,000,000	49,164,208
Money Market	2020	2.08	USD	42,000,000	31,767,642

2018	Year of maturity	Nominal interest rate (%)	Currency	Face value	GBP equivalent
Money Market	2019	0.68	EUR	21,000,000	18,836,446
Money Market	2019	0.69	EUR	23,000,000	20,630,393
Money Market	2019	3.88	USD	44,000,000	34,461,153
Money Market	2019	3.52	USD	61,000,000	47,775,689

## 19 Maturity analysis of assets and liabilities

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

	On demand £'000	Due within 3 months £'000	Due between 3 - 12 months £'000	Undated £'000	Total £'000
<b>Assets</b>					
Cash and cash equivalents	102,951	—	—	—	102,951
Loans and advances	94,328	—	—	—	94,328
Trade and other receivables	2,554	325	19	—	2,898
Non-financial assets	—	—	—	5,006	5,006
<b>At 31 Dec 2019</b>	<b>199,833</b>	<b>325</b>	<b>19</b>	<b>5,006</b>	<b>205,183</b>
<b>Liabilities and Equity</b>					
Trade and other payables	16,053	325	19	—	16,397
Loans from other group undertakings	—	83,122	50,445	—	133,567
Equity	—	—	—	55,219	55,219
<b>At 31 Dec 2019</b>	<b>16,053</b>	<b>83,447</b>	<b>50,464</b>	<b>55,219</b>	<b>205,183</b>

	On demand £'000	Due within 3 months £'000	Due between 3 - 12 months £'000	Undated £'000	Total £'000
<b>Assets</b>					
Cash and cash equivalents	86,939	—	—	—	86,939
Loans and advances	94,510	—	—	—	94,510
Trade and other receivables	60	517	45	—	622
Non-financial assets	—	—	—	5,010	5,010
<b>At 31 Dec 2018</b>	<b>181,509</b>	<b>517</b>	<b>45</b>	<b>5,010</b>	<b>187,081</b>
<b>Liabilities and Equity</b>					
Trade and other payables	9,571	517	45	—	10,133
Loans from other group undertakings	—	68,405	53,298	—	121,703
Equity	—	—	—	55,245	55,245
<b>At 31 Dec 2018</b>	<b>9,571</b>	<b>68,922</b>	<b>53,343</b>	<b>55,245</b>	<b>187,081</b>

## 20 Called up share capital

	2019		2018	
	Number	£'000	Number	£'000
Issued, allotted and fully paid up				
Ordinary shares of £1 each	50,000	50	50,000	50
0.5% Redeemable preference shares of £1 each	42,250,000	42,250	42,250,000	42,250
<b>As at 1 Jan and 31 Dec</b>	<b>42,300,000</b>	<b>42,300</b>	<b>42,300,000</b>	<b>42,300</b>

The 0.5 percent non-cumulative redeemable preference shares entitle the holder to receive a dividend of 0.5 percent on paid up share capital out of any profits earned during the financial year. The preference shares do not entitle the holder to any further participation in the profits of the Company. Due to the contingent dividend payment, the non-cumulative feature and no defined redemption date, the preference shares are classified as share capital.

## 21 Management of financial risk

The Company has exposure to the following types of risk arising from its use of financial instruments: credit risk, liquidity risk and market risk. Market risk includes interest rate risk, foreign exchange risk and equity risk.

Exposure to credit risk, liquidity risk and market risk arises in the normal course of the Company's business. The Company's risk management policies are consistent with the HSBC Group's risk management policies.

The Company participates in transactions to which other HSBC group companies are also party. HSBC Specialist Investments group ('HSI') has an established risk management process which considers the risk at the outset and on an ongoing basis in relation to each transaction from HSI's perspective - this will consolidate the risks of participating companies and, as such,

## HSBC Specialist Investments Limited

offsetting risks will be eliminated. To the extent there is any residual risk, management will mitigate this by implementing the appropriate instruments and these will reside in the relevant company.

As part of that process, the Company's management will review the monthly management accounts of the Company. There were no changes in the Company's approach to risk management during the year

### 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. It arises principally from amounts owed by other group undertakings.

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

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions. Credit risk is managed as only banks and financial institutions with a minimum rating of 'A' are accepted.

### Liquidity risk management

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

The Company monitors its cash flow requirements on a monthly basis and will compare expected cash flow obligations with expected cash flow receipts to ensure they are appropriately aligned. In light of this the Company will borrow funds as and when required from group undertakings

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

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 £'000	Due within 3 months £'000	Due between 3-12 months £'000	Total £'000
Trade and other payables	14,210	325	19	14,554
Loans from other group undertakings	–	83,122	50,445	133,567
<b>At 31 Dec 2019</b>	<b>14,210</b>	<b>83,447</b>	<b>50,464</b>	<b>148,121</b>

Trade and other payables	9,571	517	45	10,133
Loans from other group undertakings	–	68,405	53,298	121,703
<b>At 31 Dec 2018</b>	<b>9,571</b>	<b>68,922</b>	<b>53,343</b>	<b>131,836</b>

### Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates or equity prices will impact the Company's income.

The objective is to minimise risk through managing and controlling the risk to acceptable parameters, while optimising the return on risk.

The Company uses financial instruments in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks.

### Foreign exchange risk

The Company's currency risks are managed at a group level. Non-sterling investments are economically hedged by funding the investment with debt in the same currency. The non-sterling investments and associated debt are held in HSIL Investments Limited, a wholly owned subsidiary of the Company. The associated debt is drawn from the Company's facility with HSBC Bank plc (Note 18) and is passed down to HSIL Investments Limited on identical terms.

Exposure to foreign currency risk, based on notional amounts is as follows:

<b>At 31 Dec 2019</b>	USD	EURO	GBP equivalent
Cash, loans and other receivables	107,459,472	61,975,765	133,893,859
Loans and advances from other group undertakings	(107,466,852)	(61,988,859)	(133,910,557)
<b>Gross balance sheet exposure</b>	<b>(7,380)</b>	<b>(13,094)</b>	<b>(16,698)</b>

<b>At 31 Dec 2018</b>	USD	EURO	GBP equivalent
Cash, loans and other receivables	105,660,943	44,034,595	122,252,164
Loans from other group undertakings	(105,660,489)	(44,049,360)	(122,265,052)
<b>Gross balance sheet exposure</b>	<b>454</b>	<b>(14,765)</b>	<b>(12,888)</b>

The following significant exchange rates applied during the year:

GBP	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	1.311298	1.266999	1.322100	1.276800
EURO	1.179759	1.113076	1.177922	1.114866

## HSBC Specialist Investments Limited

### Currency sensitivity

The Company has used a sensitivity analysis technique that measures the estimated change to Profit/(loss) and equity of either an instantaneous 10% strengthening or weakening in sterling against euro and US dollar from the rates applicable in the year.

A 10% change of the following currencies against sterling at year end would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the end of the reporting period and had been applied to risk exposures existing at that date.

This analysis also assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for the comparative period.

	10% weakening		10% strengthening	
	2019	2018	2019	2018
	£	£	£	£
USD	(620)	39	507	(32)
EURO	(1,235)	(1,471)	1,011	1,204

### Interest rate risk

The Company places all funds with fellow group companies. The Company manages its interest rate risk by placing deposits only at call or for fixed periods up to 3 months. The Company does not have interest rate risk as all its borrowings are fixed rate. Accordingly a sensitivity analysis has not been performed.

## 22 Related party transactions

### Transactions with other related parties

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

	2019		2018	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Cash and cash equivalents <sup>1</sup>	112,221	102,951	151,888	86,939
Loans and advances <sup>2</sup>	104,405	94,328	105,218	94,510
Trade and other receivables	2,898	2,898	622	622
<b>Liabilities</b>				
Trade and other payables <sup>4</sup>	26,261	14,433	20,804	9,965
Loans from other group undertakings <sup>3</sup>	140,816	133,567	153,000	121,703

<sup>1</sup> All cash balances are held with HSBC Bank plc

<sup>2</sup> Unsecured loans

<sup>3</sup> Money market facility and accrued interest

<sup>4</sup> Amounts owed to HSIL Investments Limited

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

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

Copies of HSBC Holdings plc's and HSBC 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 Bank plc  
8 Canada Square  
London E14 5HQ  
United Kingdom  
www.hsbc.com

## 24 Events after the balance sheet date

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 global 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 their economies. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company.

The COVID-19 outbreak represents a non-adjusting post balance sheet event and therefore it remains appropriate that the measurement of the Company's assets and liabilities as at 31 December 2019 reflects only the conditions that existed at that date.

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