

# HSBC Finance Transformation (UK) Limited

**Registration No: 1889590**

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

During the year the Company continued its activity of operating an accounting and finance model for HSBC Holdings plc and its subsidiaries ('HSBC Group').

### Review of the Company's business

The Company has supported the Global finance change programme that has been in existence since 2007. Its assets, most notably, the Finance Transformation Platform ('FTP'), remains a core enabler of Global Finance's objective of providing a strong control environment and improving efficiency.

FTP continues to be the strategic Global Finance platform, it will be implemented more widely across the HSBC Group as well as continuing to be a key enabler in support of delivering efficiencies and standardisation within the finance function. FTP will be leveraged to enable HSBC Finance to respond to challenges driven by the external environment.

The Company's activity is to manage and maintain the core FTP asset. It will receive fee income from those HSBC companies that receive benefit from its usage.

The Company has undergone re-capitalisation and restructuring during the year, subsequent to which it received US\$55,000k (2018: US\$50,000k) on a share capital issuance, passed a special resolution to transfer share premium of US\$155,000k (2018: US\$Nil) to reserves and its existing shareholder HSBC Holdings Plc transferred its entire equity shareholdings along with all rights thereon to HSBC Global Services Limited, which now own the entire shares & rights in the Company. Subsequent to the share transfer HSBC Global Services Limited now is immediate parent undertaking and HSBC Holdings Plc the Ultimate parent undertaking for the Company.

### 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.

### 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. 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.

The Company's net asset at 31 December 2019 stood at US\$13,107k (2018: US\$30,024k)

### Principal risks and uncertainties

Under International Financial Reporting Standards ('IFRSs'), the Company is required to report on its risk exposure to price, credit, market, liquidity and cashflow with regard to its financial statements.

The Company's principal operating risks are credit, liquidity and foreign currency exposures. Liquidity risk is managed through the provision of capital support from its parent company and from a loan facility with another group company. The Company manages its liquidity through daily review of its sterling currency bank balances. Weekly projections are made of balances one week and one month forward using anticipated transactions reviewed by management. Foreign currency risk is managed by monitoring the Company's net exposure to foreign currency assets and liabilities and attempting to minimise it where conditions permit. The Company does not hedge against its net position.

The credit risk is the risk of financial loss if a customer or counterparty of the Company fails to meet a payment obligation under a contract within the overall framework of the HSBC group policy. The Company has an established risk management process encompassing credit approach, the control of exposures, credit policy direction to the business and the monitoring and reporting of exposures. The balances are primarily with other companies within the HSBC Group and has low risk. The Company's exposure to reputational risk is limited as primarily all transactions are with other group companies.

Any development costs are funded by way of capital from the parent. The operating costs are funded by way of debt obtained from HSBC group companies and through the receipt of fee income from other HSBC undertakings.

The UK left the EU on 31 January 2020 and entered 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 it remains unclear what that relationship will look like, potentially leaving firms with little time to adapt to changes, which may enter into force on 1 January 2021.

The Group programme to manage the impact of the UK leaving the EU has now been largely completed. It is based on the assumption of a scenario whereby the UK exits the transition period without the existing passporting or regulatory equivalence framework that supports cross-border business. Our focus has been on four main components: legal entity restructuring; product offering; customer migrations; and employees.

The COVID-19 outbreak has had, and continues to have, a material impact on businesses around the world which is resulting in increased volatility in the economic environments in which they operate. Whilst it cannot be predicted how long the disruption will continue or the full extent of the impact on the Company and its clients, the Directors have considered the impact when carrying out an assessment of the principal risks facing the Company. The COVID-19 outbreak has resulted in increased market volatility, however this is not considered to have a significant impact on the principal risks facing the Company, with operational risks appropriately mitigated through the implementation of business continuity plans.

## **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. 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, bank 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. 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 decision-making. *The Board acknowledges however, that not every decision it makes will necessarily result in a positive outcome for all stakeholders.*

The Board will sometimes engage directly with certain stakeholders on specific issues, but the size and distribution of our stakeholders and of the HSBC Group means that stakeholder engagement often takes place at an operational level.

The principal decisions taken by the Company during the year related to the transfer of the Company's ownership within the HSBC Group ('the Group'), a capital injection from its parent and the reduction of the Company's share premium account. The directors took into consideration the nature of the Company's business as a service provider to a number of the Group's operating banks and the broader 'operational continuity' requirements of the Group when considering its change of ownership. In respect to the capital injection and reduction of the share premium account the directors had regard for the Company's debt to equity ratio in order to ensure it would remain within risk appetite. The directors further took into account their duties to promote the long term success of the Company, the overall financial position of the Company, its obligations under the Companies Act and the interests of the Group as a whole.

On behalf of the Board



Iain Mackinnon  
Director

3 August 2020

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	Resigned
Ian Simon Jenkins	31 March 2019
Iain Mackinnon	
Mark Peter Winson-Pearce	

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

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019 (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 other 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 and its clients, the COVID-19 outbreak is not considered to have a significant impact on the principal risks facing the Company, and it is considered a non-adjusting post balance sheet event for the purposes of the financial statements.

### 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 impact of 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 15 of the Notes on the financial statements.

### Capital management

The Company defines capital as total shareholders' equity as set out in Note 13 of the Notes on the financial statements. There were no changes to the Company's approach to capital management during the year.

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.

### Independent auditors

PricewaterhouseCoopers LLP ('PwC') are the external auditors to the Company. PwC have expressed their willingness to continue in office and the Board recommends that PwC be re-appointed as the Company's 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 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



Iain Mackinnon  
Director  
3 August 2020

8 Canada Square  
London E14 5HQ  
United Kingdom

# **Independent auditors' report to the members of HSBC Finance Transformation (UK) Limited**

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

### **Opinion**

In our opinion, HSBC Finance Transformation (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its 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 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](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 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.

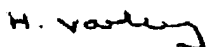
## **Other required reporting**

### **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.



Heather Varley (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
3 August 2020



## Financial statements

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

	<i>Notes</i>	2019 US\$'000	2018 US\$'000
Interest expense to group undertakings	2	<b>(1,741)</b>	(2,115)
Income from group undertakings	3	<b>16,581</b>	14,222
<b>Net operating income from group undertakings</b>		<b>14,840<sup>1</sup></b>	12,107
Other operating income		176	31
<b>Net operating income</b>		<b>15,016</b>	12,138
General and administrative expenses	4	<b>(33,664)</b>	(37,869)
<b>Total operating expenses</b>		<b>(33,664)</b>	(37,869)
<b>Loss before tax</b>		<b>(18,648)</b>	(25,731)
Tax (charge) / credit	7	<b>(53,269)</b>	3,607
<b>Loss for the year</b>		<b>(71,917)</b>	(22,124)

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 Finance Transformation (UK) Limited**

**Balance sheet at 31 December 2019**

**Registration No: 1889590**

	Notes	2019 US\$'000	2018 US\$'000
<b>Assets</b>			
Cash and cash equivalents	10	63,439	51,284
Amounts due from HSBC undertakings		3,655	7,154
Prepayments		200	2,240
Current tax assets	8	1,560	1,913
Intangible assets	12	4,570	21,774
Deferred tax assets	9	—	54,764
<b>Total assets</b>		<b>73,424</b>	<b>139,129</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Amounts due to HSBC undertakings		60,042	108,970
Amounts due to third party undertakings		275	135
<b>Total liabilities</b>		<b>60,317</b>	<b>109,105</b>
<b>Equity</b>			
Called up share capital	13	5,000	5,000
Share premium account		—	100,000
Retained earnings/(accumulated losses)		8,107	(74,976)
<b>Total equity</b>		<b>13,107</b>	<b>30,024</b>
<b>Total liabilities and equity</b>		<b>73,424</b>	<b>139,129</b>

The financial statements and its accompanying notes on pages 11 to 18 were approved by the Board of Directors on 3 August 2020 and signed on its behalf by:



Iain Mackinnon  
Director

## HSBC Finance Transformation (UK) Limited

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

	Notes	2019 US\$'000	2018 US\$'000
<b>Cash flows from operating activities</b>			
<b>Loss before tax</b>		<b>(18,648)</b>	(25,731)
<b>Adjustments for:</b>			
Adjustments for amortisation of intangible assets	12	<b>17,204</b>	20,791
Cash received in respect of tax losses surrendered to other HSBC Group Companies		<b>1,848</b>	2,497
Changes in amounts owed to HSBC and other group undertakings		<b>5,679</b>	4,229
<b>Net cash generated from operating activities</b>		<b>6,083</b>	1,786
<b>Cash flows from financing activities</b>			
Changes in amounts owed to HSBC and other group undertakings		<b>(48,928)</b>	(4,414)
Proceeds from issue of share capital and premium	13	<b>55,000</b>	50,000
<b>Net cash generated from financing activities</b>		<b>6,072</b>	45,586
Net increase in cash and cash equivalents		<b>12,155</b>	47,372
Cash and cash equivalents brought forward		<b>51,284</b>	3,912
<b>Cash and cash equivalents carried forward</b>		<b>63,439</b>	51,284
		<b>2019</b>	2018
		<b>US\$'000</b>	<b>US\$'000</b>
Interest paid during the year (included within cash flows from financing activities)		<b>2,561</b>	1,529

**HSBC Finance Transformation (UK) Limited**

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

	Called up share capital	Share Premium	Accumulated losses	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 Jan 2019</b>	<b>5,000</b>	<b>100,000</b>	<b>(74,976)</b>	<b>30,024</b>
Profit/(loss) for the year	—	—	(71,917)	(71,917)
<b>Total comprehensive income/(expense) for the year</b>	<b>—</b>	<b>—</b>	<b>(71,917)</b>	<b>(71,917)</b>
New shares issued	—	55,000	—	55,000
Other movements	—	(155,000)	155,000	—
<b>At 31 Dec 2019</b>	<b>5,000</b>	<b>—</b>	<b>8,107</b>	<b>13,107</b>

	Called up share capital	Share Premium	Accumulated losses	Total equity
	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 Jan 2018</b>	<b>5,000</b>	<b>50,000</b>	<b>(52,852)</b>	<b>2,148</b>
Loss for the year	—	—	(22,124)	(22,124)
<b>Total comprehensive (expense) for the year</b>	<b>—</b>	<b>—</b>	<b>(22,124)</b>	<b>(22,124)</b>
New shares issued	—	50,000	—	50,000
Other movements	—	—	—	—
<b>At 31 Dec 2018</b>	<b>5,000</b>	<b>100,000</b>	<b>(74,976)</b>	<b>30,024</b>

In December 2019, the Company effected a capital reduction by cancelling its share premium which stood at US\$155,000k and converting to reserves.

## Notes on the financial statements

### 1 Basis of preparation and significant accounting policies

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

#### 1.1 Basis of preparation

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

The financial statements of the Company have been prepared in accordance with 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').

The financial statements have been prepared under the historical cost convention. All amounts have been rounded to nearest thousand unless otherwise stated.

Standards adopted during the year ended 31 December 2019

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

IFRS 16 'Leases' was effective from 1 January 2019 and had no impact on 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

##### *IFRS 17 'Insurance Contracts'*

There are no new IFRSs published by the IASB which are effective from 1 January 2019 that are expected to 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.

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) 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.

##### (e) Going concern

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

##### (f) Ibor transition

Following the announcement by the FCA in July 2017 that it will no longer persuade or require banks to submit rates for Libor after 2021, the UK market, along with the Bank of England Working Group on Sterling Risk-Free Reference Rates ('RFRWG') has been engaged with facilitating an orderly transition of the relevant Libors to their replacement rates, for example the Sterling Over Night Index Average ('Sonia') for sterling and the Secured Overnight Financing Rate ('SOFR') for US dollars.

We do not anticipate any significant impact on the company.

## 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.

Interest payable on borrowings is recognised in the income statement using the effective interest method.

Non-interest income and expense

#### **Income from group undertakings**

Recharges are invoiced quarterly and the income is recognised on an accrual basis in the period to which it relates. The recharges are the fees charged for the use of FTP based on a predetermined pricing model.

### (b) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received).

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

Trade and other receivables

Trade and other receivables include receivables originated by the Company which are not classified either as held for trading or designated at fair value. Receivables are recognised when cash is advanced to a borrower. They are derecognised when either the borrower repays its obligations 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 cost using the effective interest method, less impairment losses.

Financial liabilities

Financial liabilities including amounts due to HSBC Group undertakings, are recognised when cash is advanced or contractual arrangements are entered into and are normally derecognised when a loan is repaid or a liability is extinguished. 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.

### (d) 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.

Critical accounting estimates and judgements

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The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary difference and ongoing tax planning strategies. In the absence of a history of taxable profits, the most significant judgements relates to expected future profitability and to the applicability of tax planning strategies, including corporate reorganisations.

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### (e) Intangible assets

Intangible assets include software acquired by the Company as well as internally developed software. Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised over their estimated useful lives.

Expenditure on internally developed software is recognised as an asset when the Company can demonstrate its intention to complete the development of the software so that it will be available for use; its ability to use the software in a manner that will generate future economic benefits; and can reliably measure the costs directly attributable to the software during its development. The cost of internally developed software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

## HSBC Finance Transformation (UK) Limited

### Critical accounting estimates and judgements

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount is greater than the recoverable amount. The recoverable amount is the higher of an asset's (or Cash Generating Unit's) fair value less costs to sell and its value in use.

Impairment testing involves significant judgement in determining the value in use, and in particular estimating the present values of future cash flows the Company expects to derive from the asset. The calculation is based on assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The key assumption for both acquired and internally generated software relates to the level of fees that the Company can charge to HSBC Group companies.

Intangible assets are not yet ready for use are tested for impairment annually. The impairment test may be performed at any time during the year, provided it is performed at the same time every year. An intangible asset recognised during the current period is tested before the end of the current year.

Amortisation for both acquired and internally developed software is recognised in the statement of comprehensive income on a straight line basis over five years from the date that the intangible asset is available for use in line with the HSBC Group accounting policy.

#### (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.

Cash and cash equivalents represent balances in current accounts with a fellow HSBC Group subsidiary and are measured at amortised cost.

#### (h) Statement of cash flows

The statement of cash flows has been prepared on the basis that, with the exception of tax related transactions which are classified under 'Operating activities', movements in inter-company transactions are shown under the heading of 'Financing activities'. Such movements arise ultimately from the Company's financing activities, through which the Company will acquire resources intended to generate future income and cash flows.

## 2 Interest expense to group undertakings

	2019	2018
	US\$'000	US\$'000
Interest expense paid to HSBC group undertakings	1,741	2,115

## 3 Income from group undertakings

	2019	2018
	US\$'000	US\$'000
Recharge income from HSBC group undertakings	16,581	14,222

## 4 General and administrative expenses

	2019	2018
	US\$'000	US\$'000
IT charges including software support fees	16,879	15,530
Amortisation of intangible assets	17,204	20,791
Bad debts written off	—	1,686
Auditors remuneration	28	21
Research and Development Expenditure Credit	(447)	(159)
<b>Year ended 31 Dec</b>	<b>33,664</b>	<b>37,869</b>

## 5 Employee compensation and benefits

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

## 6 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.

## HSBC Finance Transformation (UK) Limited

### 7 Tax

#### Tax charge / (credit)

	2019 US\$'000	2018 US\$'000
<b>Current tax</b>		
UK Corporation tax		
- For this year	(1,507)	(2,320)
- Adjustments in respect of prior years	170	30
- Foreign exchange movements	(384)	956
<b>Overseas tax</b>		
- For this year	226	25
<b>Total current tax</b>	<b>(1,495)</b>	<b>(1,309)</b>
<b>Deferred tax</b>		
- Origination and reversals of temporary differences	(85)	(2,603)
- Effects of changes in tax rates	(6,443)	274
- Adjustments in respect of prior years	-	-
- Derecognition of deferred tax	61,292	31
<b>Total deferred tax</b>	<b>54,764</b>	<b>(2,298)</b>
<b>Year ended 31 Dec</b>	<b>53,269</b>	<b>(3,607)</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% will not occur and the UK Corporation Tax Rate will instead remain at 19%.

The company has unrecognised deferred tax assets of \$54,764k in respect of intangible assets and \$308k in respect of the Research and Development Expenditure Credit (RDEC).

#### Tax reconciliation

	2019		2018	
	US\$'000	(%)	US\$'000	(%)
Loss before tax	(18,648)		(25,731)	
Tax at 19% (2018: 19.00%)	(3,543)	19.00	(4,889)	19.00
Adjustment in respect of prior years	85	(0.46)	31	(0.12)
Effects of overseas tax rules	183	(0.98)	20	(0.08)
Foreign exchange on tax balances	(384)	2.06	956	(3.72)
Impact due to changes in tax rates	(6,443)	34.55	274	(1.06)
Non-taxable income and gains	(85)	0.46	(30)	0.12
Deferred tax not recognised	63,456	(340.28)	31	(0.12)
<b>Year ended 31 Dec</b>	<b>53,269</b>	<b>(285.65)</b>	<b>(3,607)</b>	<b>14.02</b>

### 8. Current tax assets

	2019 US\$'000	2018 US\$'000
Corporation tax	-	-
Group relief debtor	1,560	1,913
<b>At 31 Dec</b>	<b>1,560</b>	<b>1,913</b>

### 9 Deferred tax

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

	Other temporary differences	
	2019 US\$'000	2018 US\$'000
At 1 Jan 2019	54,764	52,435
Income statement (charge) / credit	(54,764)	2,329
<b>At 31 Dec 2019</b>	<b>-</b>	<b>54,764</b>

The deferred tax asset arises from the temporary differences (timing) between the carrying amount of the intangible asset in the balance sheet and the amount attributable to it for tax purposes.

The company has unrecognised deferred tax assets of \$54,764k in respect of intangible assets and \$308k in respect of the Research and Development Expenditure Credit (RDEC).



## 10 Cash and cash equivalents

	2019	2018
	US\$'000	US\$'000
Amounts held with other group undertakings	63,439	51,284

## 11 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.

## 12 Intangible assets

	Purchased software	Internally generated software	Total
	US\$'000	US\$'000	US\$'000
<b>Cost</b>			
At 1 Jan 2019	630,865	19,580	650,445
<b>As at 31 Dec 2019</b>	<b>630,865</b>	<b>19,580</b>	<b>650,445</b>
<b>Accumulated amortisation</b>			
At 1 Jan 2019	609,091	19,580	628,671
Charge for the year	17,204	–	17,204
<b>As at 31 Dec 2019</b>	<b>626,295</b>	<b>19,580</b>	<b>645,875</b>
<b>Net book value</b>			
At 31 Dec 2018	21,774	–	21,774
<b>As at 31 Dec 2019</b>	<b>4,570</b>	<b>–</b>	<b>4,570</b>
<b>Cost</b>			
At 1 Jan 2018	630,865	19,580	650,445
As at 31 Dec 2018	630,865	19,580	650,445
<b>Accumulated amortisation</b>			
At 1 Jan 2018	588,300	19,580	607,880
Charge for the year	20,791	–	20,791
As at 31 Dec 2018	609,091	19,580	628,671
<b>Net book value</b>			
At 31 Dec 2017	42,565	–	42,565
As at 31 Dec 2018	21,774	–	21,774

During the year impairment review was not performed on intangible assets as there were no indicators of impairment.

## 13 Called up share capital

	2019		2018	
	Number	US\$'000	Number	US\$'000
Issued, allotted and fully paid up				
Ordinary shares of £1 each	3,295,005	5,000	3,295,004	5,000
<b>As at 31 Dec</b>	<b>3,295,005</b>	<b>5,000</b>	<b>3,295,004</b>	<b>5,000</b>

In line with HSBC Group policy, the Company policy is to maintain a strong capital base to support the development of its business at all times. In 2019, 1 share (2018: 1 share) of £1 par value was issued for total consideration of US\$55,000k in cash (2018: US\$50,000k) with the balance treated as share premium. The Company is not subject to regulatory capital requirements. Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

## 14 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	Financial assets and (liabilities) at amortised cost	Total
	US\$'000	US\$'000
<b>Assets</b>		
Cash and Cash equivalents	63,439	63,439
Trade and Other receivables	3,655	3,655
<b>Total financial assets</b>	<b>67,094</b>	<b>67,094</b>
<b>Liabilities</b>		
Amount owed to other group companies	60,042	60,042
Amount owed to third party undertakings	275	275
<b>Total financial liabilities</b>	<b>60,317</b>	<b>60,317</b>

At 31 Dec 2018	Financial assets and (liabilities) at amortised cost	Total
	US\$'000	US\$'000
<b>Assets</b>		
Cash and Cash equivalents	51,284	51,284
Trade and Other receivables	7,154	7,154
<b>Total financial assets</b>	<b>58,438</b>	<b>58,438</b>
<b>Liabilities</b>		
Amount owed to other group companies	108,970	108,970
Amount owed to third party undertakings	135	135
<b>Total financial liabilities</b>	<b>109,105</b>	<b>109,105</b>

## 15 Management of financial risk

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

### Credit risk management

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

The risk arises from transactions with HSBC undertakings. The management of credit is undertaken in compliance with the Company recharge strategy. The Company operates within this and the credit risk exposures are reviewed and managed by the senior management of the Company and the HSBC Group's Finance Exco. The maximum credit exposure of the Company is limited to the carrying value of the dues from HSBC Group company. Balances are primarily with the HSBC Group and third party and have low credit risk. None of the balances are past due or impaired.

### Liquidity risk management

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

The Company is funded through equity investment from the parent undertaking. The Company manages its liquidity through daily review of its sterling currency bank balances. Monthly projections are made of balances twelve months forward using anticipated transactions reviewed by management.

## HSBC Finance Transformation (UK) Limited

The following is an analysis of undiscounted cash flows payable under various financial liabilities by remaining contractual maturities at the balance sheet date:

	Carrying value	Contractual cash flows	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Amounts due to Ultimate parent	4,244	4,244	–	4,244	–	–	–	4,244
Amounts due to other group undertakings	55,798	55,798	–	167	55,631	–	–	55,798
Amounts due to third party undertakings	275	275	275	–	–	–	–	275
<b>At 31 Dec 2019</b>	<b>60,317</b>	<b>60,317</b>	<b>275</b>	<b>4,411</b>	<b>55,631</b>	<b>–</b>	<b>–</b>	<b>60,317</b>

	Carrying value	Contractual cash flows	On Demand	Due within 3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Amounts due to Parent undertakings	5,375	5,375	–	5,375	–	–	–	5,375
Amounts due to other group undertakings	103,595	103,595	–	42,887	60,708	–	–	103,595
Amounts due from third party undertakings	135	135	135	–	–	–	–	135
<b>At 31 Dec 2018</b>	<b>109,105</b>	<b>109,105</b>	<b>135</b>	<b>48,262</b>	<b>60,708</b>	<b>–</b>	<b>–</b>	<b>109,105</b>

### Market risk management

Market risk is the risk that movements in market factors including interest rates, foreign exchange rates impact the Company's income or the value of its portfolios.

### Foreign exchange risk

The Company is exposed to foreign currency risk on assets and liabilities that are denominated in a currency other than the US dollar. The Company monitors its net exposure and attempts to minimise it where conditions permit. The Company does not hedge against its net position.

The Company maintains cash flow projections both of its US dollar and of its Pound Sterling obligations. It funds in US dollars and Pound Sterling in order to maintain sufficient amounts of each currency to meet its obligations as they fall due.

### Interest rate risk

Interest rate risk is the risk that the value of an asset or liability will change due to a change in the absolute level of interest rates. The Company held US\$55,000k (2018: US\$100,000k) as interest-bearing liabilities at the end of 2019. If all other variables are held constant, the effect of a 100 basis points increase/(decrease) in LIBOR on these liabilities would be an increase/(decrease) of loss before tax of US\$235k (2018: US\$600k) and after tax of US\$190k (2018: US\$500k). The Company has interest-bearing assets of US\$63,439k (2018: US\$51,284k). The impact on loss before tax and after tax of a 100 basis points movement in LIBOR would be minimal.

## 16 Related party transactions

	2019	2018
	Balance at 31 December	Balance at 31 December
	US\$'000	US\$'000
<b>Assets</b>		
Cash and cash equivalents - balances with HSBC undertakings	63,439	51,284
Amounts due from HSBC Undertakings	3,655	7,154
Amounts due from ultimate parent undertaking		
- Trade receivables*	2,229	1,098
<b>Liabilities</b>		
Amounts due to ultimate parent undertaking		
- Trade payables*	6,473	6,473
Amounts due to other HSBC undertakings		
- Interest-bearing loan	55,000	100,000
- Trade and other payables	798	3,595

\* Financial assets and liabilities for the Company's ultimate parent HSBC Holdings plc are settled on a net basis and therefore the net amount is reported in the balance sheet.

Recharge income of US\$16,581k (2018: US\$14,222k) as shown in the income statement comprises fees charged to those companies using the accounting platform.

## HSBC Finance Transformation (UK) Limited

The interest-bearing loan from an HSBC Group subsidiary comprises a number of tranches drawn down during the year at the prevailing market interest rate. Interest expense was US\$1,741k (2018: US\$2,115k) during the year of which US\$631k (2018: US\$1,451k) is included in the outstanding balances.

Details of the tranches of the loan outstanding at 31 December 2019 are as follows:

- US\$20,000k at an interest of 2.96% per annum issued on 22 April 2019 and maturing on 22 April 2020
- US\$25,000k at an interest of 2.18% per annum issued on 27 August 2019 and maturing on 27 August 2020
- US\$10,000k at an interest of 2.09% per annum issued on 26 November 2019 and maturing on 27 November 2020

### 17 Parent undertakings

The immediate parent undertaking is HSBC Global Services Limited, the ultimate parent undertaking is HSBC Holdings plc and the largest group to consolidate these financial statements.

Copies of the 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](http://www.hsbc.com)

### 18 Events after the balance sheet date

Since early 2020, the epidemic of Coronavirus Disease 2019 ('the COVID-19 outbreak') has spread across the world, and it has affected business and economic activities to some extent. The Company considers this COVID-19 outbreak to be a non-adjusting post balance sheet event. The Company currently expects limited financial impact related to COVID-19 outbreak, and will pay close attention to the development of the COVID-19 outbreak and take relevant measures.